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, 2003

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 001-16707

Prudential Financial, Inc.

(Exact Name of Registrant as Specified in its Charter)

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

751 Broad Street
Newark, New Jersey 07102
(973) 802-6000
(Address and Telephone Number of Registrant's Principal Executive Offices)

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

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

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 30, 2003, the aggregate market value of the registrant's Common Stock (par value $0.01) held by non-affiliates of the registrant was $18,405,058,430 and 546,955,674 shares of the Common Stock were outstanding. As of February 27, 2004, 532,851,788 shares of the registrant's Common Stock (par value $0.01) were outstanding. As of June 30, 2003, and February 27, 2004, 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 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 8, 2004, 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, 2003.

TABLE OF CONTENTS

			Page Number
PART I	Item 1.	Business	1
	Item 1A.	Executive Officers	32
	Item 2.	Properties	34
	Item 3.	Legal Proceedings	34
	Item 4.	Submission of Matters to a Vote of Security Holders	38
PART II	Item 5.	Market for Registrant's Common Equity and Related Stockholder Matters	38
	Item 6.	Selected Financial Data	42
	Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	44
	Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	105
	Item 8.	Financial Statements and Supplementary Data	111
	Item 9.	Changes In and Disagreements With Accountants on Accounting and Financial Disclosure	189
	Item 9A.	Controls and Procedures	189
PART III	Item 10.	Directors and Executive Officers of the Registrant	189
	Item 11.	Executive Compensation	189
	Item 12.	Security Ownership of Certain Beneficial Owners and Management	190
	Item 13.	Certain Relationships and Related Transactions	191
	Item 14.	Principal Accountants Fees and Services	191
PART IV	Item 15.	Exhibits, Financial Statement Schedules, and Reports on Form 8-K	191
SIGNATURES			205

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 and interest rate fluctuations; 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 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 and Prudential Financial Capital Trust I, a statutory business trust, co-issued 13.8 million 6.75% equity security units for gross proceeds of $690 million. 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, becoming direct or indirect subsidiaries of Prudential Financial.

The Plan of Reorganization required us to establish and operate a regulatory mechanism known as the "Closed Block." The Closed Block is designed generally to provide for the reasonable expectations of holders of policies included in the Closed Block for future policy dividends after demutualization by allocating assets that will be used for payment of benefits, including policyholder dividends, on these policies. See Note 8 to the Consolidated Financial Statements for more information on the Closed Block.

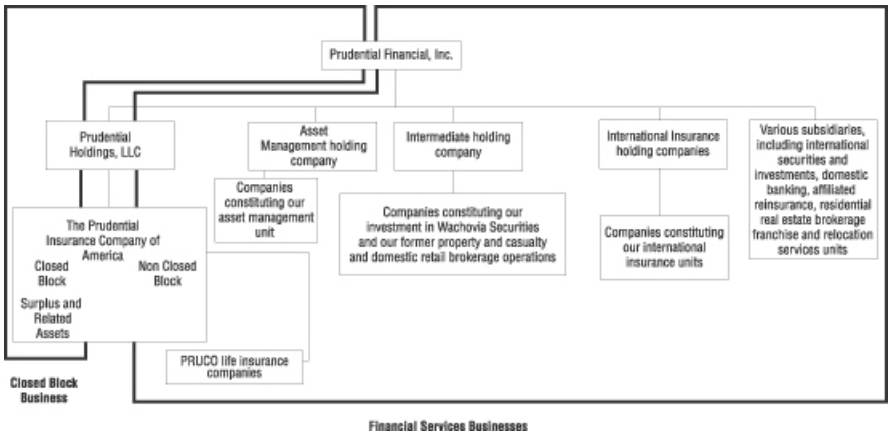
The Plan of Reorganization provided that Prudential Insurance may, with the prior consent of the New Jersey Commissioner of Banking and Insurance, enter into agreements to transfer to a third party all or any part of the risks under the Closed Block policies. As of December 31, 2003, we have begun to put in place the reinsurance contracts necessary to transfer a portion of these risks.

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. 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 relating to a closed block established for Canadian polices

because these amounts are insignificant. 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 eight segments, and our Corporate and Other operations. The Insurance division is comprised of our Individual Life and Annuities segment and our Group Insurance segment. 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 19 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 and Group Insurance segments.

Individual Life and Annuities

Our Individual Life and Annuities segment manufactures and distributes individual variable life, term life, universal life and non-participating whole 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 products are distributed primarily through Prudential Agents and increasingly through third parties. Our annuity products are distributed through a diverse group of independent financial planners, broker-dealers and banks as well as through Prudential Agents.

On May 1, 2003, we acquired Skandia U.S. Inc. ("Skandia U.S."), a wholly owned subsidiary of Skandia Insurance Company Ltd. ("Skandia"), for a total purchase price of $1.184 billion. Beginning May 1, 2003, 100% of the assets acquired and liabilities assumed and the results of operations have been included in our consolidated financial statements. The annuity operations of Skandia U.S. are included as a component of our individual annuity business discussed below. Our acquisition of Skandia U.S. included American Skandia, Inc. ("American Skandia"). American Skandia, through its wholly owned subsidiaries, is one of the largest distributors of variable annuities through independent financial planners in the U. S. American Skandia also operates a mutual fund business, the results of which are included within the Investment Management segment. The acquisition significantly expanded and diversified our third party distribution capabilities in the U.S. and broadened our array of product offerings.

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.

The integration of American Skandia is expected to continue through the first quarter of 2005. Currently, the distribution, marketing and product development functions as well as many administrative, support, and control functions have been combined with Prudential's existing annuities business. Key management from both organizations have been retained, and all major decisions related to the integration have been communicated. In 2004, integration efforts will focus on consolidating systems platforms and operations functions. The integration of American Skandia is proceeding as planned.

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 June 2003.

Universal Life Insurance

We offer universal life insurance products that feature a market rate fixed interest investment account and flexible premiums. In June 2003, we updated our universal life insurance products and began to offer survivorship universal life, which covers two individuals on a single policy and provides for payment of a death benefit upon the death of the second insured individual.

Non-participating Whole Life Insurance

We offer a non-participating whole life insurance product with guaranteed fixed level premiums and guaranteed cash values.

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, term, universal and non-participating whole 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,		
	2003	**2002**	**2001**
Prudential Agents	4,320	4,389	4,387
Field management	411	472	573
Home office and field staff	965	1,053	1,202
Prudential field offices	72	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 Prudential Agents on a commission basis for the products they sell. In addition to commissions, Prudential Agents receive the employee benefits that we provide to other Prudential employees generally, including medical and disability insurance, an employee savings program and qualified retirement plans.

Historically, the Individual Life and Annuities segment has been compensated for property and casualty insurance products sold through its distribution network. Following the sale of the property and casualty insurance operations, Prudential Agents will have continued access to non-proprietary property and casualty products under distribution agreements entered into with the purchasers of these businesses; therefore, the Individual Life and Annuities segment will continue to be compensated for sales of these products, although the extent of these revenues cannot be predicted.

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. Our third party distribution capabilities in the U.S. were significantly expanded when we acquired American Skandia. 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 products offered are generally the same as those available through Prudential Agents. The annuity products offered via the third party channels include both Prudential and American Skandia branded products. We do not currently sell American Skandia branded products 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 asset value of the annuity separate accounts or the amount of guaranteed value. 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, most of our variable and 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.

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, long-term and short-term group disability, long-term care, 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 and voluntary 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 is organized around products and market segments and distributes primarily through employee benefits brokers and consultants. Group Insurance also distributes individual long-term care products through Prudential Agents as well as third party brokers and agents.

Underwriting and Pricing

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 medical 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 typically up until a person reaches normal retirement age and, accordingly, contains the risk that loss experience is affected by circumstances we did not expect when we issued a policy and 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 continuously make pricing adjustments, when contractually permitted, which consider the emerging experience on our group insurance products. While there can be no assurance, we expect these actions, as well as pricing discipline in writing new business, will allow us to maintain or improve our benefits ratios.

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. 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 our disability insurance risks with third party reinsurers. Effective July 1, 2003, we terminated our catastrophic reinsurance coverage on our group life and accidental death and dismemberment products, based on an evaluation of its cost effectiveness given its current pricing.

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 as well as the Insurance division, the International Insurance and Investments division, 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, 2003			
	Equity	Fixed Income(2)	Real Estate	Total
	(in billions)			
Retail customers(1)	$ 42.5	$ 37.7	$ 1.0	$ 81.2
Institutional customers	31.2	50.8	12.8	94.8
General account	2.9	123.8	1.1	127.8
Total	$ 76.6	$ 212.3	$ 14.9	$ 303.8

	December 31, 2002			
	Equity	Fixed Income(2)	Real Estate	Total(3)
	(in billions)			
Retail customers(1)	$ 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	Fixed Income(2)	Real Estate	Total
	(in billions)			
Retail customers(1)	$ 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

(1) 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.

(2) Includes private fixed income assets of institutional customers of $6.3 billion as of December 31, 2003, $4.9 billion as of December 31, 2002, and $4.1 billion as of December 31, 2001, and private fixed income assets in our general account of $47.3 billion, $47.1 billion, and $45.1 billion, as of those dates, respectively. Included in these private fixed income assets are commercial and agricultural mortgages for institutional customers of $2.3 billion as of December 31, 2003, $2.1 billion as of December 31, 2002 and $2.6 billion as of December 31, 2001 and commercial and agricultural mortgages for our general account of $17.2 billion, $17.5 billion and $16.9 billion, as of those dates, respectively.

(3) 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 and our variable annuities and variable life insurance products. These retail assets under management are gathered by the Insurance division, the International Insurance and Investments division and third party networks, including financial advisors associated with our joint venture with Wachovia Corporation (“Wachovia”) discussed under “—Financial Advisory “ below.

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 under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Realized Investments Gains and General Account Investments—General Account Investments."

Mutual Fund Operating Data

The following table sets forth our mutual fund products, including wrap-fee and unit investment trust products, at fair market value as of the dates indicated. We no longer sponsor unit investment trusts and transferred sponsorship of existing trusts to a successor sponsor as of January 1, 2004.

	As of December 31,		
	2003	2002	2001
		(in billions)	
Mutual funds(1)	$ 46.8	$ 49.8	$ 57.8
Wrap-fee products(2)	19.8	15.2	18.0
Unit investment trusts	0.8	0.8	1.2

(1) Mutual funds includes those sold as retail investment products. Also includes balances from funds for which we act as sub-adviser of $3.2 billion, $2.4 billion and $1.5 billion as of December 31, 2003, 2002 and 2001, respectively.

(2) Wrap-fee product assets include $3.4 billion, $2.8 billion and $3.1 billion of proprietary assets as of December 31, 2003, 2002 and 2001, respectively.

Since the 1990s, there has been an industry trend for products such as mutual funds 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 wide range 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 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 has been integrated with the rest of our institutional real estate management activities.

Private Equity and Fixed Income Asset Management

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

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, for our general account, institutional clients, and for government sponsored entities such as Fannie Mae and FHA. Commercial mortgage loans for securitization transactions are included in the Other Asset Management segment, as described below under "—Other Asset Management—Commercial Mortgage Securitization."

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 Prudential Agents and third party financial professionals. We offer a family of retail investment products consisting of 87 mutual funds and four wrap-fee products as of December 31, 2003. 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. On May 1, 2003, we acquired Skandia U.S. which included a mutual fund business. The operations of the acquired mutual fund business have been combined with our existing mutual fund business.

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. Commencing in November 2003, our joint venture with Wachovia ceased offering several Prudential money market funds as investment options, which is the primary driver of the decline in money market assets from December 31, 2002 to December 31, 2003, reflected in the table below.

	Year Ended December 31,		
	2003	2002	2001
	(in millions)		
Equity	$ (1,210)	$ 99	$ 642
Fixed income	(337)	(358)	(66)
Total mutual funds net sales (redemptions) other than money market	(1,547)	(259)	576
Money market	(11,447)	(3,944)	1,363
Total net sales (redemptions)(1)	$ (12,994)	$ (4,203)	$ 1,939

(1) Includes net sales from sub-advised funds of $144 million, $1,332 million and $1,187 million in 2003, 2002 and 2001, respectively.

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,		
	2003	2002	2001
	(in billions)		
Equity	$ 19.1	$ 13.0	$ 17.7
Fixed income	8.0	6.9	7.0
Money market	19.7	29.9	33.1
Total assets under management	$ 46.8	$ 49.8	$ 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 $0.9 billion in 2003, $0.4 billion in 2002 and $1.4 billion in 2001.

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 Prudential Agents and through third party financial intermediaries, including financial advisors associated with our joint venture with Wachovia discussed under "—Financial Advisory" below. Third party intermediary sales represents the fastest growing sales channel on a net basis. Additionally, we work with third party product manufacturers and distributors to include our investment options in their products and platforms.

Our product offerings are positioned to help financial professionals provide investment advice that helps their clients grow and protect their wealth. We provide these professionals with access to proprietary and non-proprietary investment alternatives along with tools and education to support their role as advisor. We call this strategy "advised choice" and believe it helps meet the desire of advisors and their clients to have access to choice of products and asset managers within the context of the consultative process.

Financial Advisory

The Financial Advisory segment consists of our 38% investment in Wachovia Securities and our equity sales, trading and research operations.

Wachovia Securities

On July 1, 2003, we completed the previously announced agreement with Wachovia to combine each company's respective retail securities brokerage and clearing operations into a joint venture, Wachovia Securities Financial Holdings, LLC ("Wachovia Securities"), creating one of the nation's largest retail brokerage and clearing organizations. We have a 38% ownership interest in the joint venture, while Wachovia owns the remaining 62%. We account for our 38% ownership of the joint venture under the equity method of accounting and, beginning on July 1, 2003, report earnings from the joint venture on the equity basis. Periods prior to July 1, 2003 reflect the results of our previously wholly owned securities brokerage and clearing operations on a fully consolidated basis.

Wachovia Securities provides full service securities brokerage and financial advisory services to individuals and businesses. As of December 31, 2003, it had total client assets of $603.1 billion and approximately 11,500 registered representatives.

The segment results reflect transition costs, including transition costs incurred by the joint venture, in connection with the combination as well as expenses relating to obligations retained in connection with the contributed businesses, primarily retained litigation and regulatory matters. We and Wachovia have each agreed to indemnify the other for certain losses, including losses resulting from litigation or regulatory matters relating to events prior to March 31, 2004, arising from the operations of the respective contributed businesses.

At any time after July 1, 2005 and on or prior to July 1, 2008, we may, subject to certain limitations, put our interests in the new organization to Wachovia for a price generally equal to our initial $1.0 billion equity contribution plus our share of transition costs, as adjusted to reflect additional investments made by us. At any time after July 1, 2008, we may, subject to certain limitations, put our interests in the new organization to Wachovia for a price generally equal to our share of the then appraised value of the common equity of the organization, determined as if it were a public company and including a control premium such as would apply in the case of a sale of 100% of its common equity. The agreement between Prudential Financial and Wachovia also gives us put rights, and Wachovia call rights, in certain other specified circumstances, at prices determined in accordance with the agreement.

Equity Sales, Trading and Research Operations

We engage in equity securities sales and trading primarily for our institutional clients, executing transactions on both an agency and a principal basis in listed and NASDAQ equities and equity options. We make a market in more than 900 NASDAQ securities.

Our research analysts produce reports and studies on the economy; the domestic equity markets, industries and specific companies; investment and portfolio strategies; and regulatory, political, legislative and tax issues. We seek to focus our research coverage on companies of greatest interest to our clients, located both in the U.S. and abroad.

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.

On November 17, 2003, we announced that we had entered into a definitive Stock Purchase and Asset Transfer Agreement (the "Stock Purchase Agreement") with CIGNA Corporation ("CIGNA") and certain of its affiliates, pursuant to which we will acquire CIGNA's retirement business. Pursuant to the Stock Purchase Agreement, we will purchase all of the issued and outstanding capital stock of CIGNA Life Insurance Company, a life insurance company domiciled in the State of Connecticut ("CIGNA Life"), Global Portfolio Strategies, Inc., a registered investment adviser, and CIGNA Financial Services, Inc., a registered broker dealer. In addition, CIGNA's thrift subsidiary, CIGNA Bank & Trust Company, F.S.B., will merge into our thrift subsidiary, The Prudential Savings Bank, F.S.B. The total consideration payable in the transaction is a cash purchase price of $2.1 billion, subject to certain adjustments.

Significant portions of the acquisition are being effected through reinsurance transactions between CIGNA Life and Connecticut General Life Insurance Company ("CGLIC"), a life insurance company domiciled in the State of Connecticut and an indirect wholly owned subsidiary of CIGNA and other affiliates of CGLIC. As a result, CGLIC and its affiliates, on the one hand, and CIGNA Life, on the other hand, will each remain liable for the performance of insurance contracts issued by it and subject to such reinsurance transactions. Each has agreed to place assets in amounts sufficient to support the reinsured general account insurance liabilities into trust accounts to secure their respective obligations under these arrangements. CGLIC and its affiliates will retain the underlying assets relating to reinsured separate account contracts. Following the closing of the transaction, the parties will ask CGLIC's customers to agree to novate the existing contracts so that CIGNA Life can assume direct responsibility to the customers for the contracts issued by CGLIC and reduce the extent of the reinsurance arrangements.

Pursuant to the Stock Purchase Agreement, CIGNA will indemnify us for certain losses, including, subject to a basket of $25 million with a $12.5 million deductible and a cap of 75% of the purchase price, for losses related to breaches by CIGNA of its representations and warranties contained in the Stock Purchase Agreement. We have agreed to indemnify CGLIC and CIGNA after the closing for any breach by CIGNA Life of its contractual obligations under the reinsurance and other agreements.

The transaction is subject to various closing conditions, including, among others, state insurance and other regulatory approvals. The transaction is expected to close in the first half of 2004.

The completion of this transaction will position us as one of the U.S.'s leading providers of retirement products and services and will increase the Retirement segment's assets to about $120 billion, based on account values as of the announcement of the transaction. The acquisition will add about $50 billion to our assets under management, and will double both our defined contribution record keeping operation's assets, to about $55 billion, and participant base, to about 2 million based on asset values and participant counts as of the announcement of the transaction. The transaction will also bring additional defined benefit and defined contribution products and services to our total retirement capabilities.

Products and Services

Defined Contribution Products and Services

Our primary defined contribution product, PruArray, offers plan sponsors access to more than 700 mutual funds, approximately 45 of which are sponsored by Prudential, with the balance sponsored by more than 30 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. We also offer defined contribution plan services including participant and plan reporting, plan testing, call center services, voice response and Internet capabilities, participant communication and educational services and record keeping administration.

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. We also offer credit-enhanced GICs, which have a triple-A rating, the highest rating possible, as a result of a guarantee from a financial insurer. In addition, we 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 may be redeemed 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 fixed and variable annuities, under group annuity contracts, to individuals taking lump sum distributions from defined contribution plans.

Structured Settlement Products

We offer structured settlement products backed by our general account (spread 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

Defined contribution plans are sold through the financial advisors associated with our joint venture with Wachovia under a distribution agreement, as well as other third party financial advisors, brokers, consultants, 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. Our distribution network includes over 100 third party distributors including brokers, regional broker-dealers and others. In addition, we have a small direct sales force to develop sales among plans with greater than $50 million in plan assets.

Prior to 2003, we primarily sold GICs and funding agreements. In 2003, we broadened our distribution and established our Funding Agreement Notes Issuance Program through which we sell funding agreements associated with medium-term notes.

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 and other accumulation products are established based on our own actuarial assumptions. We perform a cash flow analysis in conjunction with determining our reserves 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 originate and purchase commercial mortgages that we in turn sell through securitization transactions. We also originate interim loans when we expect the loan will lead to a securitization opportunity. As of December 31, 2003, our warehouse balance of mortgages pending securitization and interim loans totaled approximately $0.9 billion. In general, the assets we securitize are serviced by our Investment Management segment.

Hedge Portfolios

We offer certain fixed income hedge strategies to clients of our Investment Management segment, through a number of fund vehicles. We are currently marketing these funds to institutional investors domestically and internationally. Income on our proprietary capital investment in these funds 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 approximately $360 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, Korea and other foreign markets through Life Planners. In addition, as part of the operations of Gibraltar Life Insurance Company, Ltd. ("Gibraltar Life"), we offer similar products to the broad middle income market across Japan through Life Advisors, a business we operate separately from our Life Planners. We commenced sales in foreign markets using the Life Planner model, 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 from the acquisition date, 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 for 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. In some of our operations we also offer certain health products with fixed benefits. We also offer variable life products in Japan and Korea and offer interest-sensitive life products in Japan, Taiwan and Argentina. 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 and Korea that 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,		
	2003	2002	2001	2003	2002	2001
Number of Life Planners/Life Advisors	2,347	2,119	1,992	4,826	5,155	6,121
Number of field managers	358	325	299	603	620	753
Number of agencies	60	51	46	80	77	66

	All Other Countries			Total		
	As of December 31,			As of December 31,		
	2003	2002	2001	2003	2002	2001
Number of Life Planners/Life Advisors	2,642	2,386	2,112	9,815	9,660	10,225
Number of field managers	543	472	491	1,504	1,417	1,543
Number of agencies	118	101	105	258	229	217

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 we market through the Life Advisors of Gibraltar Life as well. We believe that our selection standards, training, supervision 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, particularly through its

relationships with affinity groups. 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.

Underwriting and Pricing

Our International Insurance segment is subject to substantial local regulation that is generally more restrictive for product offerings, pricing and structure than U.S. insurance regulation. Each International Insurance operation has its own underwriting department that employs variations of 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 similar 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 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, over the past three years, 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, Taiwan and Brazil 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 offers private banking, offshore and onshore proprietary and non-proprietary asset management, investment advice and product choice services to high net worth and mass affluent retail clients and to institutional clients in selected international markets. These services are marketed through our own and third-party distribution networks and encompass the businesses of private wealth management, global derivatives and international investments that are described in more detail below.

In early 2004, we acquired an 80 percent stake in Hyundai Investment and Securities Co., Ltd. ("HITC") and its subsidiary, Hyundai Investment Trust Management Co., Ltd. ("HIMC") for approximately $300 million pursuant to an agreement with the Korean Deposit Insurance Corporation and the Korean Financial Supervisory Commission. Under the agreement, we may acquire the remaining 20 percent within three to six years after the closing. HIMC distributes its products primarily through HITC, as well as third party distributors, and had approximately $12 billion in assets under management as of December 31, 2003. As a result of this transaction, Prudential is expected to become the largest foreign-owned asset manager in Korea in terms of assets under management, according to data as of December 31, 2003 released by the Korean Investment Trust Companies Association.

Our private wealth management business offers local and offshore financial advisory, private banking and portfolio management services primarily for retail investors. This business leverages personalized relationship management, local expertise, investment discipline and a tailored range of products, including private banking, delivered through our investment professionals in Hong Kong, Singapore and Taiwan, as well as in London, Geneva, Monaco and Amsterdam.

Our global derivatives 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 are members of most major futures exchanges. Our client base is primarily institutional. We conduct futures transactions on margin according to the regulations of the different futures exchanges.

Our international investments business includes manufacturing of proprietary products and distribution of both proprietary and non-proprietary products, all tailored to meet client needs in targeted countries. In this business, we invest in asset management and distribution businesses in targeted countries around the world to expand our mass affluent customer base outside the U.S. and to increase our global assets under management. Additionally, this business manages a large portion of the general account investment portfolio of our international insurance operations in Japan.

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 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 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 life insurance 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

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—Other" below. A significant portion of the retained business constitutes paid-up individual life insurance.

Divested Businesses

The following operations are businesses that have been or will be sold or exited that did not qualify for "discontinued operations" accounting treatment under 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.

Property and Casualty Insurance

In the fourth quarter of 2003, we sold our property and casualty insurance companies that operate nationally in 48 states outside of New Jersey, and the District of Columbia, to Liberty Mutual Group ("Liberty Mutual"), as well as our New Jersey property and casualty insurance companies to Palisades Group. These operations were previously reflected in the results of our former Property and Casualty Insurance segment, which was part of our Insurance division. Historically, the companies we sold manufactured and distributed personal lines property and casualty insurance products, principally automobile and homeowners coverages, to the U.S. retail market.

We have reinsured Liberty Mutual for certain losses including: any further adverse loss development on the stop-loss reinsurance agreement with Everest Re Group, Ltd. ("Everest") discussed below; any adverse loss development on losses occurring prior to the sale that arise from insurance contracts generated through certain 'discontinued' distribution channels or due to certain loss events including mold damage or the California wildfires of October 2003; stop-loss protection on losses occurring after the sale and arising from those same distribution channels of up to $95 million, in excess of related premiums and other adjustments; and stop-loss protection on losses occurring prior to the sale and arising from most other business for up to 75% of the first $30 million of adverse loss development recorded through October 31, 2005. The reinsurance covering the losses associated with the discontinued distribution channels will be settled based upon loss experience through December 31, 2008 with a provision that profits on the insurance business from these channels will be shared, with Liberty Mutual receiving up to $20 million of the first $50 million. As of December 31, 2003, we have recorded a liability of $119 million representing our estimate of our obligations under these reinsurance contracts.

The Company has agreed not to compete with the buyers. In New Jersey, the non-compete agreement is effective until the earlier of December 31, 2008, or the termination of our distribution agreement with Palisades Group. Outside of New Jersey, the non-compete agreement is effective until the later of December 31, 2006, or the termination of our distribution agreement with Liberty Mutual.

Certain expenses incurred at the corporate level that previously were allocated to the Property and Casualty Insurance segment have been reclassified to Corporate and Other operations. These expenses, which we will seek to mitigate over time, will continue to be absorbed by Corporate and Other operations in future periods.

Gibraltar Casualty

In September 2000, we sold all of the stock of Gibraltar Casualty Company ("Gibraltar Casualty"), a commercial property and casualty insurer that we had placed in wind-down status in 1985, to Everest. As of the date of sale, Gibraltar Casualty's largest continuing exposures were potential liabilities for asbestos and environmental claims. Upon closing of the sale, a subsidiary of the Company entered into a stop-loss reinsurance agreement with Everest whereby the subsidiary reinsured 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 to Everest. This subsidiary was subsequently sold to Liberty Mutual, as part of the sale discussed above. The $106 million of reserves at the closing date of the sale

to Liberty Mutual related to the reinsurance agreement with Everest remained the direct obligation of this subsidiary, and therefore those reserves are no longer included on our balance sheet. We have reinsured Liberty Mutual with regard to any further adverse loss development on the stop-loss reinsurance agreement with Everest and have recorded a liability for the remaining $54 million of this obligation as of December 31, 2003, which is included as part of our obligations under reinsurance contracts to Liberty Mutual disclosed above.

Prudential Securities Capital Markets

In the fourth quarter of 2000, we announced a restructuring of Prudential Securities' activities to implement a fundamental shift in our business strategy. We subsequently exited the lead-managed equity underwriting for corporate issuers and institutional fixed income businesses. As of December 31, 2003 we had remaining assets amounting to approximately $700 million related to this business's institutional fixed income activities.

Other

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 ("PALIC"), as well as property and casualty insurance through other Canadian operations. 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 PALIC. We have indemnified the purchasers of both the Canadian branch and PALIC for certain liabilities with respect to claims related to sales practices or market conduct issues arising from operations prior to the sale, except for the sale of the property and casualty insurance operations. While we believe that we have adequately reserved in all material respects for these contingent liabilities, we may be required to take additional charges that could be material to our results of operations in any particular quarterly or annual period.

Prior to May 1996, we conducted substantial residential first mortgage banking and related operations through The Prudential Home Mortgage Company, Inc. and its affiliates. During 1996 and 1997 we sold substantially all of the business operations, mortgage loan inventory and loan servicing rights of this business. 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. While we believe that we have adequately reserved in all material respects for the remaining liabilities, we may be required to take additional charges that could be material to our results of operations in any particular quarterly or annual period.

In the fourth quarter of 2002, we decided to divest of certain international securities operations. Certain branches of these operations, formerly reported as discontinued operations, are included in "divested businesses," reflecting a change in the timing of the divestiture process. Also, in the second quarter of 2003, we decided to exit certain Japanese asset management units.

Discontinued Operations

Discontinued operations reflects the results of the following business which qualified for "discontinued operations" accounting treatment under GAAP:

- We sold substantially all of the assets and liabilities of our group managed and indemnity healthcare business to Aetna Inc. ("Aetna") in a transaction that closed on August 6, 1999.
- 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, in the third quarter of 2002.
- We discontinued certain international securities operations in the fourth quarter of 2002.
- We discontinued our retail broker-dealer operations in Tokyo in the fourth quarter of 2002 and subsequently sold these operations in the third quarter of 2003.
- We discontinued our specialty automobile insurance business in the first quarter of 2003 and subsequently sold these operations in the third quarter of 2003.

- We discontinued our existing consumer banking business in the third quarter of 2003, as we decided to exit this business.
- We discontinued our work-place distribution property and casualty insurance operations in the fourth quarter of 2003. We subsequently sold these operations in the first quarter of 2004.

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 and as the in force business of the Closed Block declines. 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."

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.

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. We are permitted under the Plan of Reorganization, with the prior consent of the New Jersey Commissioner of Banking and Insurance, to enter into agreements to transfer to a third party all or any part of the risks under the Closed Block policies. As of December 31, 2003, we have begun to put in place the reinsurance contracts necessary to transfer a portion of these risks. As discussed in Note 8 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. See Note 19 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.

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.

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. The following table summarizes the ratings for Prudential Financial, Inc. and certain of its subsidiaries as of the date of this filing.

	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+	AA-
PRUCO Life Insurance Company of New Jersey	A+	NR*	A+	NR
American Skandia Life Assurance Corporation	A+	NR	A+	AA-
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.:				
Commercial Paper	A-2	P-2	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	A
Prudential Funding, LLC:				
Commercial paper	A-1	P-1	AMB-1	F1
Long-term senior debt	A+	A2	a+	A+
American Skandia Life Assurance Corporation	A+	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 policyholder 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-3" (P-3), which represents an acceptable ability for repayment of such obligations. Issuers rated "Not Prime" do not fall within any of the Prime rating categories.

(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+" rated companies to have a superior 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 Ltd.'s ("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 Funding, LLC, Prudential Insurance and our other insurance and financing subsidiaries reflect current opinions of each rating organization with respect to claims-paying ability, financial strength, operating performance and ability to meet obligations to policyholders or debt holders, as the case may be. These ratings are of concern to policyholders, agents and intermediaries. They are not directed toward 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.

Competition

In each of our businesses we face intense competition from domestic and foreign insurance companies, asset managers 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 varies across our products and the markets we serve.

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. 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.

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

Competition for personnel in all of our businesses is intense, including for Prudential Agents, other captive sales personnel and our investment managers. In the ordinary course of business, we lose personnel from time to time in

whom we have invested significant training. We are directing substantial efforts on refocusing our Prudential Agents, improving recruiting and retention and on increasing the productivity of Prudential Agents. The loss of key investment managers could have a material adverse effect on our Investment Management segment.

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. 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.

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.

The discussion below is of U.S. regulation. Our international operations are subject to similar types of regulation in the jurisdictions in which they operate.

Insurance Operations

State insurance laws regulate all aspects of our domestic insurance businesses, and state insurance departments in the fifty states, the District of Columbia and various U.S. territories and possessions monitor our insurance operations. Prudential Insurance is 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. Generally, our insurance products must be approved by the insurance regulators in the state in which they are sold. Our insurance products are substantially affected by federal, state and non-U.S. tax laws. Products in the U.S. that also constitute "securities", such as variable life insurance and variable annuities, are also subject to federal and state securities laws and regulations. The Securities and Exchange Commission ("SEC"), the National Association of Securities Dealers, Inc. ("NASD"), state securities commissions and non-U.S. authorities for products offered outside the U.S. 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 the Employee Retirement Income Security Act ("ERISA"), and other laws and regulations. The SEC, the NASD, state securities commissions, the Department of Labor and similar non-U.S. authorities, such as 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 a number of 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 Commodity Futures Trading Commission ("CFTC"), state securities authorities, the New York Stock Exchange ("NYSE"), the NASD and similar U.S. and non-U.S. authorities, such as the FSA, are the principal regulators of our securities operations.

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, Connecticut, Delaware, Indiana, Minnesota, New York and others. These laws generally require each insurance company directly or indirectly owned by the holding company to register with the insurance department in the insurance company's state of domicile and to furnish annually financial and other information about the operations of companies within the holding company system. Generally, all transactions affecting the insurers in the holding company system must be fair and arm's length 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, until December 17, 2004, 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 for certain insurance products,
- approving policy forms,
- regulating unfair trade and claims practices,
- establishing reserve requirements and solvency standards,
- fixing maximum interest rates on life insurance policy loans and minimum accumulation or surrender values, and
- regulating the type, amounts and valuations of investments permitted and other matters.

State insurance laws and regulations require our 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 National Association of Insurance Commissioners ("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, 2001, and found no material deficiencies.

Financial Regulation

Dividend Payment Limitations. The New Jersey insurance law and the insurance laws of the other states and countries 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" 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.

Insurance Guaranty Association Assessments

Each state has insurance guaranty association laws under which life and property and casualty insurers doing business in the state are members and may be assessed by state insurance guaranty associations for certain obligations

of insolvent insurance companies to policyholders and claimants. Typically, states assess each member insurer in an amount related to the member insurer's proportionate share of the business written by all member insurers in the state. For the years ended December 31, 2003, 2002, and 2001, we paid approximately $1.2 million, $1.6 million and $2.1 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.

State Securities Regulation

Our mutual funds, and in certain states our variable life insurance and variable annuity products, are securities within the meaning of state securities laws, and therefore are subject to regulation by state securities commissioners. Such regulation may affect investment advice, sales and related activities for these products**.**

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 securities laws, are registered under the Securities Act of 1933 and are subject to regulation by the SEC and the NASD. Federal and some 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 May 2003, the Jobs and Growth Tax Relief Reconciliation Act of 2003 (the "2003 Act") was enacted. Individual taxpayers are the principal beneficiaries of the 2003 Act, which includes an acceleration of certain of the income tax rate reductions enacted originally under the 2001 Act, as well as capital gains and dividend tax rate reductions. Although most of these rate reductions expire after 2008 or later, these reductions have the effect of reducing the benefits of tax deferral on the build-up of value of annuities and life insurance products. These changes may hinder our sales and result in increased surrender of insurance and annuity products.

The Bush Administration has also recently proposed that many of the foregoing rate reductions be made permanent, as well as 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, 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.

Federal and state regulators are devoting substantial attention to the mutual fund and variable annuity businesses. As a result of publicity relating to widespread perceptions of industry abuses, there have been numerous proposals for legislative and regulatory reforms, including mutual fund governance, new disclosure requirements concerning mutual fund share classes, commission breakpoints, revenue sharing, advisory fees, market timing, late trading, portfolio pricing, annuity products, hedge funds and other issues. It is difficult to predict at this time whether changes resulting from new laws and regulations will affect the industries or our asset management businesses, and, if so, to what degree.

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

A number of our subsidiaries and Wachovia Securities, in which we have a 38% ownership interest, are registered as broker-dealers with the SEC and with some or all of the 50 states and the District of Columbia. In addition, a number of our subsidiaries are also registered as investment advisors with the SEC. Our broker-dealer affiliates are members of, and are subject to regulation by "self-regulatory organizations," including 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.

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. A number of our 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, our U.S. registered broker-dealer subsidiaries and Wachovia Securities are subject to the SEC's Uniform Net Capital Rule. The Uniform Net Capital Rule sets the minimum level of net capital a broker-dealer must maintain and also requires that at least a minimum part of a broker-dealer's assets be kept in relatively liquid form. These net capital requirements are designed to measure the financial soundness and liquidity of broker-dealers. Our broker-dealers are also subject to the net capital requirements of the CFTC and the various securities and commodities exchanges of which they are 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.

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 Federal Trade Commission. The federal Real Estate Settlement Procedures Act and state real estate brokerage and unfair trade practice laws regulate payments among participants in the sale or financing of residences or the provision of settlement services such as mortgages, homeowners insurance and title insurance.

Privacy Regulation

Federal and state law and regulation require financial institutions to protect the security and confidentiality of health-related and customer information and to notify customers and other individuals about their policies and practices relating to their collection and disclosure of health-related and customer information and their policies relating to protecting the security and confidentiality of that information. Federal and state laws also regulate disclosures of that information. Congress and state legislatures are expected to consider additional regulation relating to privacy, security and other aspects of personal information. Federal and state laws and regulations regulate financial institutions' abilities to make telemarketing calls and to send unsolicited e-mail messages to consumers and customers, and they may consider additional or more detailed legislative or regulatory requirements regarding these subjects. Similar consumer and employee privacy laws regulate our non-U.S. business operations.

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, 2003, we employed 39,422 employees. We believe our relations with our employees are satisfactory.

In January of 2002, the Office of Professional Employees International Union ("OPEIU"), Local 153 (AFL-CIO), filed petitions with the National Labor Relations Board ("NLRB") seeking to represent those of our Prudential Agents who formerly had been represented by the United Food & Commercial Workers International Union (AFL-CIO). In April of 2002, the NLRB conducted a mail ballot election, the result of which was that a majority of those who voted, voted against OPEIU representation. On February 2, 2004, the NLRB certified the April 2002 election results as final. On February 18, 2004, the OPEIU filed a new petition to represent the same group of Prudential Agents. A hearing is scheduled before the NLRB on March 11, 2004, and it is anticipated that an election date will be set at that time.

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 on 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 with 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 1, 2004, were as follows:

Name	Age	Title	Other Directorships
Arthur F. Ryan	61	Chairman, Chief Executive Officer and President	Regeneron Pharmaceuticals, Inc.
Vivian L. Banta	53	Vice Chairman	None
Mark B. Grier	51	Vice Chairman	None
Rodger A. Lawson	57	Vice Chairman	None
John R. Strangfeld, Jr.	50	Vice Chairman	None
Robert Charles Golden	57	Executive Vice President	None
Richard J. Carbone	56	Senior Vice President and Chief Financial Officer	None
John M. Liftin	60	Senior Vice President and General Counsel	None
Sharon C. Taylor	49	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 1998 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 Head of Prudential Investment Management of Prudential Insurance from October 1998 until March 2002. Mr. Strangfeld was also elected Chairman and CEO of Prudential Securities in October 2000 until July 2003. He is currently the Chairman of the Board of Managers of Wachovia Securities Financial Holdings, LLC, which was formed in July 2003 as part of the merger of the retail brokerage and securities clearing business of Prudential and Wachovia. 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, which comprises approximately 0.7 million square feet. Excluding our headquarters building and properties used by the International Insurance and Investments division, which are discussed below, we own 13 and lease 17 other principal properties throughout the U.S., some of which are used for home office functions. Our domestic operations also lease approximately 375 other locations throughout the U.S.

For our International Insurance operations, we lease nine home offices located in Argentina, Brazil, China, Italy, Japan, The Philippines, Poland and Taiwan and own home offices in Japan and Korea. We also own approximately 270 and lease approximately 300 other properties, primarily field offices, located throughout these same countries. For our International Investments segment, we own one branch office and lease approximately 45 other branch offices throughout Hong Kong, Japan, Korea, Mexico, Singapore, and Taiwan, as well as various countries in Europe.

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 former automobile and homeowners insurance businesses, we are also subject to certain individual and class action lawsuits involving a variety of issues arising out of activities prior to the sale of these businesses. In our investment-related operations, we are subject to litigation involving commercial disputes with counterparties or partners and class action lawsuits and other litigation alleging, among other things, that we made improper or inadequate disclosures in connection with the sale of assets and annuity and investment products or charged excessive or impermissible fees on these products, recommended unsuitable products to customers, mishandled customer accounts or breached fiduciary duties to customers. In our securities operations, we are subject to class action lawsuits, arbitrations and other actions arising out of our former retail securities brokerage, account management, underwriting, former investment banking and other activities, including claims of improper or inadequate disclosure regarding investments or charges, recommending 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

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. In March 2001, the court entered an order granting partial summary judgment to plaintiffs as to liability and permitting us to appeal the order. In January 2003, the New Mexico Court of Appeals reversed the finding of summary judgment in favor of plaintiffs and affirmed the denial of the Company's motion to dismiss all claims on federal pre-emption grounds but dismissed the counts in the complaint for breach of the covenant of good faith and fair dealing and breach of fiduciary duty. The case was remanded to the trial court to determine if the alleged nondisclosures were material to plaintiffs. Hearings on materiality were held in September and November 2003. The trial court has not yet issued a decision.

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" or "PSI") 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. In July 2003, the court denied PSI's motion to set aside or reduce the jury verdict and sustained the judgment in the amount of $269 million, including interest and attorneys fees. PSI has appealed.

In November 1998, purchasers of initial public offering ("IPO") securities 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, including Prudential Securities. This and a number of similar actions naming Prudential Securities and other underwriters 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 District Court dismissed the purchaser cases for lack of antitrust standing, without leave to replead. Plaintiffs appealed that dismissal and, in January 2003, the United States Court of Appeals for the Second Circuit reversed and remanded the action to the District Court. In February 2004, the District Court dismissed the claims for damages on the ground that plaintiffs were indirect purchasers of the IPO securities but did not dismiss the claim for injunctive relief. In July 2001, a consolidated class action complaint was filed by IPO issuers alleging the same violations of the antitrust laws as purchasers, *In re Issuer Plaintiff IPO Antitrust Litigation*, in the same District Court. Defendants' motions to dismiss that complaint were denied.

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 Martin R. 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. 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 appealed to the United States Court of Appeals for the Eighth Circuit which reversed and remanded the case to the trial court. The case is in discovery.

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. In December 2003, Kyocera paid $332 million to certain subsidiaries of Prudential Financial in settlement of the arbitration award rendered against Kyocera.

Other Operations

Mutual Fund Market Timing Practices

The Company has received formal requests for information from regulators and governmental authorities relating to the purchase and sale of mutual fund shares and, in some cases, variable annuities. The regulators and authorities include, among others, the SEC, the NYSE, the NASD, the New Jersey Bureau of Securities, the State of New York Attorney General's Office, the United States Attorney, District of Massachusetts ("USAM") and the Securities Division of Massachusetts (the "MSD"). The Company is cooperating with all such inquiries.

The MSD filed an administrative complaint against three former brokers and two former managers of a branch office in Boston, MA (the "Boston Branch") of the retail brokerage business formerly owned by PSI, alleging violations of state securities laws. The SEC has filed a similar civil action against five former brokers and one former manager of the Boston Branch in Massachusetts federal court. The Company is not a party to these actions. In addition, the Company has received subpoenas from the USAM for documents pertaining to the purchase and sale of mutual fund shares and certain former brokers and their supervisors.

The MSD also filed an administrative complaint against PSI alleging that PSI knew or should have known about alleged deceptive market timing and late trading in mutual funds in the Boston Branch, failed reasonably to supervise the conduct of the brokers in the Boston Branch and failed to implement controls designed to prevent and detect violations of Massachusetts securities law.

These matters could lead to proceedings that result in disgorgement, fines or other sanctions. The Company is unable to estimate its ultimate exposure at this time.

Demutualization

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 2001, certain policyholders, including plaintiffs in the lawsuits described below, filed notices of appeal with the Superior Court of New Jersey, Appellate Division that challenged the Commissioner's approval of the Plan of Reorganization, including its provision for distribution of consideration to non-participating policyholders. In September 2003, in *In the Matter of the Plan of Reorganization of The Prudential Insurance Company of America*, the Appellate Division affirmed the Decision and Order of the New Jersey Commissioner of Banking and Insurance, approving the Plan of Reorganization. In November 2003, the Supreme Court of New Jersey denied appellants' petition for certification and dismissed their appeal of the Appellate Division's affirmance.

As previously reported, other lawsuits challenging the Plan of Reorganization were pending in the Superior Court of Essex County, New Jersey (*Hutcheson v. Prudential Insurance, et al.*, *Denenberg v. Prudential Insurance* and *Scala v. Prudential Insurance)* and in the United States District Court for the District of New Jersey (*Wright, et al. v. Ryan, et al.).* All these cases have been dismissed.

Other

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. In October 2002, plaintiffs' motion for class certification was denied. Since that time, the court has permitted nine additional investors to intervene as plaintiffs.

In November 2003, an action was commenced in the United States Bankruptcy Court for the Southern District of New York, *Enron Corp. v. J.P. Morgan Securities, Inc., et al.,* against approximately 100 defendants, including Prudential Insurance and other Prudential entities, who invested in Enron's commercial paper. The complaint alleges that Enron's October 2001 prepayment of its commercial paper is a voidable preference under the bankruptcy laws and constitutes a fraudulent conveyance. The complaint alleges that the Company received prepayments of approximately $100 million. All defendants have moved to dismiss the complaint.

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. In February 2004, the court denied defendants' motion for summary judgment. The non-jury trial commenced on February 17, 2004, and has not been completed.

Discontinued Operations

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 brought by policyholders and physicians were filed against us in 1999-2000 in several United States District Courts and were consolidated for pre-trial purposes in October 2000, along with lawsuits pending against other managed health care companies, in the United States District Court for the Southern District of Florida, in *In re Managed Care Litigation.* In one of these actions, *Shane v. Humana, et al.,* a purported nationwide class action lawsuit brought on behalf of provider physicians and physician groups, the complaint alleges that Prudential and other health care companies 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. An amended complaint, naming additional plaintiffs, including three state medical associations, and an additional defendant, was filed in March 2001, and 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. 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. The appeal is pending.

The policyholder claims in *In re Managed* Care have been resolved. *Batas and Vogel v. Prudential Insurance* was filed by policyholders in New York County Supreme Court in 1997 and alleges breach of contract, fraud, tortious interference with contractual relations claims and violations of the New York deceptive acts and practices statute relating to the provision of managed care. Plaintiffs' motion to certify a nationwide class of non-ERISA plan policyholders is pending.

Summary

Our litigation is subject to many uncertainties, and given its complexity and scope, its outcome cannot be predicted. It is possible that our results of operations or cash flow in a particular quarterly or annual period could be materially affected by an ultimate unfavorable resolution of pending litigation 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 2003.

PART II

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

General

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
2003:			
Fourth Quarter	$ 42.21	$ 36.00	$ 0.50
Third Quarter	38.26	33.51	—
Second Quarter	34.73	29.28	—
First Quarter	34.48	27.03	—
2002:			
Fourth Quarter	$ 32.10	$ 25.50	$ 0.40
Third Quarter	32.99	27.35	—
Second Quarter	35.75	31.05	—
First Quarter	32.09	30.05	—

On February 27, 2004, there were 3,366,793 registered holders of record for the Common Stock and 532.9 million shares outstanding. The closing price of the Common Stock on the New York Stock Exchange on February 27, 2004, was $46.39.

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 and 2003, Prudential Financial paid an annual dividend of $9.625 per share of Class B Stock. On February 27, 2004, 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 12 to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

On the date of demutualization, Prudential Financial and Prudential Financial Capital Trust I (the "Trust"), a statutory business trust, co-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 shares of Prudential Financial's Common Stock on November 15, 2004, at a price determined by a formula described in the contract) and a redeemable capital security of the Trust 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.

See Item 12 for information about our equity compensation plans.

Common Stock and Class B Stock

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

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

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

Dividends declared and paid on the Common Stock will depend upon the financial performance of the Financial Services Businesses. Dividends declared and paid on the 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 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. The shareholders rights agreement will expire by its terms on December 18, 2011.

Convertibility

The Common Stock is not convertible.

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

In addition, if (1) Prudential Financial sells or otherwise disposes of all or substantially all of the Closed Block Business or (2) a "change of control" of Prudential Financial occurs, Prudential Financial must exchange all outstanding shares of Class B Stock into such number of shares of Common Stock as have an aggregate average market value of 120% of the appraised Fair Market Value of such shares of Class B Stock. For this purpose, "change of control" means the occurrence of any of the following events (whether or not approved by the Board of Directors of Prudential Financial): (a)(i) any person(s) (as defined) (excluding Prudential Financial and specified related entities) is or becomes the beneficial owner (as defined), directly or indirectly, of more than 50% of the total voting power of the then outstanding equity securities of Prudential Financial; or (ii) Prudential Financial merges with, or consolidates with, another person or disposes of all or substantially all of its assets to any person, other than, in the case of either clause (i) or (ii), any transaction where immediately after such transaction the persons that beneficially owned immediately prior to the transaction the then outstanding voting equity securities of Prudential Financial beneficially own more than 50% of the total voting power of the then outstanding voting securities of the surviving person; or (b) during any year or any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of Prudential Financial (together with any new directors whose election by such Board of Directors or whose nomination for election by the shareholders of Prudential Financial was approved by a vote of a majority of the directors of Prudential Financial then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason, other than pursuant to (x) a proposal or request that the Board of Directors be changed as to which the holder of the Class 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 for the years ended December 31, 2003, 2002 and 2001 and the selected consolidated balance sheet data as of December 31, 2003 and 2002 from our Consolidated Financial Statements included elsewhere herein. We derived the selected consolidated income statement data for the years ended December 31, 2000 and 1999 and the selected consolidated balance sheet data as of December 31, 2001, 2000 and 1999 from consolidated financial statements not included herein.

On May 1, 2003 we completed our acquisition of Skandia U.S. Inc., which included American Skandia, Inc. Results for 2003 included results of American Skandia from the date of acquisition.

On July 1, 2003, we completed an agreement with Wachovia to combine each company's respective retail securities brokerage and clearing operations forming Wachovia Securities. We have a 38% ownership interest in the joint venture, while Wachovia owns the remaining 62%. The transaction included our securities brokerage operations but did not include our equity sales, trading and research operations. As part of the transaction we retained certain assets and liabilities related to the contributed businesses, including liabilities for certain litigation and regulatory matters. We account for our 38% ownership of the joint venture under the equity method of accounting; periods prior to July 1, 2003, continue to reflect the results of our previously wholly owned securities brokerage operations on a fully consolidated basis. Accordingly, operating results for 2003 reflect our securities brokerage operations on a consolidated basis for the first six months of 2003 and earnings from the joint venture on the equity basis for the remaining six month period. Results for 2002 and prior years reflect our securities brokerage operations on a consolidated basis.

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, 2003, 2002 and 2001 includes Gibraltar Life assets and liabilities as of November 30 and consolidated income statement data for 2001 includes Gibraltar Life results from April 2, 2001, the date of its reorganization, through November 30, 2001. Consolidated income statement data for 2002 and 2003 includes Gibraltar Life results for the twelve months ended November 30, 2002 and 2003, respectively.

We have made several dispositions that materially affect the comparability of the data presented below. In the fourth quarter of 2003, we completed the sale of our property and casualty insurance companies that operate nationally in 48 states outside of New Jersey, and the District of Columbia, to Liberty Mutual Group ("Liberty Mutual"), as well as our New Jersey property and casualty insurance companies to Palisades Group. Results for 2003 include a pre-tax loss of $491 million related to the disposition of these businesses. In the fourth quarter of 2000, we terminated the capital markets activities of Prudential Securities. This business had pre-tax income of $287 million in 2003 (including the gain from a $332 million settlement of an arbitration award), 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, and pre-tax income of $23 million in 1999. 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. We incurred losses of $81 million in 2003 and $79 million in 2002 under a stop-loss agreement 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, and $72 million in 1999.

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. "Demutualization costs and expenses" amounted to $588 million in 2001, $143 million in 2000, and $75 million in 1999. "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.

	Year Ended December 31,				
	2003	2002	2001	2000	1999
	(in millions, except per share and ratio information)				
Income Statement Data:					
Revenues:					
Premiums	$ 13,233	$ 13,053	$ 11,904	$ 9,966	$ 9,499
Policy charges and fee income	2,001	1,780	2,027	1,639	1,516
Net investment income	8,681	8,819	9,087	9,421	9,300
Realized investment gains (losses), net	270	(1,365)	(674)	(265)	924
Commissions and other income	3,722	4,016	4,334	5,287	5,095
Total revenues	27,907	26,303	26,678	26,048	26,334
Benefits and expenses:					
Policyholders' benefits	13,424	13,378	12,457	10,473	10,203
Interest credited to policyholders' account balances	1,830	1,846	1,804	1,751	1,811
Dividends to policyholders	2,602	2,644	2,722	2,724	2,571
General and administrative expenses	7,602	8,355	9,228	9,788	9,452
Capital markets restructuring	—	—	—	476	—
Loss on disposition of property and casualty insurance operations	491	—	—	—	—
Demutualization costs and expenses	—	—	588	143	75
Total benefits and expenses	25,949	26,223	26,799	25,355	24,112
Income (loss) from continuing operations before income taxes	1,958	80	(121)	693	2,222
Income tax expense (benefit)	650	(189)	(32)	386	1,035
Income (loss) from continuing operations	1,308	269	(89)	307	1,187
Income (loss) from discontinued operations, net of taxes	(44)	(75)	(65)	91	(374)
Net income (loss)	$ 1,264	$ 194	$ (154)	$ 398	$ 813
Basic income from continuing operations per share—Common Stock(1)	$ 2.07	$ 1.38	$ 0.07		
Diluted income from continuing operations per share—Common Stock(1)	$ 2.06	$ 1.38	$ 0.07		
Basic net income per share—Common Stock(1)	$ 1.99	$ 1.25	$ 0.07		
Diluted net income per share—Common Stock(1)	$ 1.98	$ 1.25	$ 0.07		
Basic and diluted net income (loss) per share—Class B Stock(1)	$ 89.50	$ (264.00)	$ 1.50		
Dividends declared per share—Common Stock	$ 0.50	$ 0.40			
Dividends declared per share—Class B Stock	$ 9.63	$ 9.63			
Ratio of earnings to fixed charges(2)	1.79	1.04		1.22	1.79

	As of December 31,				
	2003	2002	2001	2000	1999
	(in millions)				
Balance Sheet Data:					
Total investments excluding policy loans	$ 172,889	$ 174,381	$ 157,400	$ 140,588	$ 151,445
Separate account assets	106,680	70,555	77,158	82,217	82,131
Total assets	321,274	292,616	292,901	272,619	285,073
Future policy benefits, policyholders' account balances and unpaid claims and claim adjustment expenses	146,223	140,168	133,732	104,130	102,928
Separate account liabilities	106,680	70,555	77,158	82,217	82,131
Short-term debt	4,739	3,469	5,405	11,131	10,858
Long-term debt	5,610	4,757	5,304	2,502	5,513
Total liabilities	299,982	270,596	271,758	252,011	265,782
Guaranteed beneficial interest in Trust holding solely debentures of Parent(3)	—	690	690	—	—
Equity	21,292	21,330	20,453	20,608	19,291

(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 $156 million would have been required in 2001 to achieve a ratio of 1:1.
(3) Effective December 31, 2003, the Company adopted the revised guidance under FIN No. 46. As a result, the Trust was deconsolidated and the Prudential Financial debentures are reported as "Long-term debt."

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.

Also on the date of demutualization, Prudential Financial completed an initial public offering of its Common Stock and completed the sale, through a private placement, of its Class B Stock, a separate class 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, which are discussed below.

Financial Services Businesses and 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 and Group 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 have been or will be divested and businesses that we have placed in wind-down status.

We attribute financing costs to each segment based on the amount of financing used by each segment. 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

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, in a regulatory mechanism referred to as the "Closed Block," as required by the Plan of Reorganization. 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 exclusively for payment of benefits, including policyholder dividends, expenses and taxes with respect to these products. See Note 8 to the Consolidated Financial Statements for more information on 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.

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

The Closed Block Business consists principally of the Closed Block, assets 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.

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, which were in excess of the amounts necessary to support the Closed Block Business, to the Financial Services Businesses. Consequently, income from continuing operations before income taxes of the Closed Block Business includes returns on these net assets for periods prior to the demutualization.

Revenues and Expenses

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

Profitability

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

- our ability to manufacture and distribute products and services and to introduce new products that gain market acceptance on a timely basis;
- our ability to price our insurance products at a level that enables us to earn a margin over the cost of providing benefits and the expense of acquiring customers and administering those products;
- our mortality and morbidity experience on individual and group life insurance, annuity and group disability insurance products;
- our persistency experience, which affects our ability to recover the cost of acquiring new business over the lives of the contracts;

- our cost of administering insurance contracts and providing asset management products and services;
- our returns on invested assets, net of the amounts we credit to policyholders' accounts;
- our ability to earn commissions and fees from the distribution 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 performance of our investment in Wachovia Securities;
- the amount of our assets under management and changes in their fair value, which affect the amount of asset management fees we receive; 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. As we have ceased offering domestic participating products, we expect that the proportion of the traditional participating products in our in force business will gradually diminish as these older policies age, and we grow other businesses. However, the relatively lower returns to us on this existing block of business will continue to affect our consolidated results of operations for many years. Our Common Stock reflects the performance of our Financial Services Businesses, but there can be no assurance that the market value of the Common Stock will reflect solely the performance of these businesses.

Executive Summary

Prudential Financial is one of the largest financial services firms in the U.S., offering clients a wide array of financial products and services, including individual life insurance, annuities, group life and disability insurance and pension and retirement services. We also offer mutual funds, asset management, real estate and relocation services and, through our investment in Wachovia Securities, securities brokerage services. We serve individual and institutional customers in over 30 countries through a variety of channels, including one of the largest proprietary distribution forces in the life insurance industry.

The significant developments and events in 2003 reflected our efforts to effectively redeploy capital to seek enhanced returns. These developments included:

- The acquisition of American Skandia, completed May 1, 2003, for a total purchase price of $1.184 billion, the results of which are included in our Individual Life and Annuities segment.
- The combination of our retail securities brokerage and clearing operations with those of Wachovia, forming a joint venture, Wachovia Securities, in which we retained a 38% ownership interest.
- The sale of our property and casualty insurance business.
- The repurchase of 29.1 million shares of Common Stock during the year, at a total cost of $1.0 billion.
- A 25% increase in our Common Stock dividend, to 50 cents per share.

It is our intention to continue strategies to redeploy capital to enhance returns in 2004, with specific focus on the following:

- Completion of the previously announced acquisition of CIGNA's retirement business, expected to close in the first half of 2004.
- Integration of Hyundai Investment and Securities Co., Ltd., a Korean asset management firm of which we acquired 80% in early 2004.
- Continuation of our share repurchase program. In early 2004, Prudential Financial's Board of Directors authorized a new stock repurchase program under which we are authorized to purchase up to $1.5 billion of outstanding Common Stock in 2004.

Our Common Stock (NYSE:PRU) reflects the performance of our Financial Services Businesses, which consist of our Insurance, Investment, and International Insurance and Investments divisions as well as our Corporate and Other operations. Our Class B Stock, which is not traded on any exchange, reflects the performance of our Closed Block Business, which includes our in force participating life insurance and annuity policies and assets that are being used for the payment of benefits and policyholder dividends on these policies, as well as other assets and equity that support these policies.

We analyze performance of the segments of the Financial Services Business using a non-GAAP measure called adjusted operating income. See "—Consolidated Results of Operations" for a definition of adjusted operating income and a discussion of its use as a measure of operating performance.

Shown below are the segments providing the largest contribution to our adjusted operating income in 2003, their comparable contributions in prior years, the adjusted operating income of our remaining segments and a reconciliation of adjusted operating income of our segments to income (loss) from continuing operations before income taxes. See Note 19 to the Consolidated Financial Statements for further information on the presentation of segment results.

	Year ended December 31,		
	2003	2002	2001
	(in millions)		
Adjusted operating income before income taxes for segments of the Financial Services Businesses:			
International Insurance	$ 819	$ 757	$ 611
Individual Life and Annuities	619	390	389
Retirement	192	141	110
Group Insurance	169	155	70
Investment Management	162	139	141
Financial Advisory	(111)	(43)	(140)
Remaining segments and Corporate and Other	122	199	(14)
Items excluded from adjusted operating income:			
Realized investment losses, net, and related charges and adjustments	(199)	(866)	(139)
Divested businesses, sales practices remedies and costs and demutualization costs and expenses	(185)	(35)	(530)
Income from continuing operations before income taxes for Financial Services Businesses	1,588	837	498
Income (loss) from continuing operations before income taxes for Closed Block Business	370	(757)	(619)
Income (loss) from continuing operations before income taxes	$ 1,958	$ 80	$ (121)

Results for 2003 presented above reflect the following:

- Continued strong performance of our international insurance operations, including pretax adjusted operating income of $370 million from our Gibraltar Life operations, and pretax adjusted operating income of $449 million from our international insurance operations other than Gibraltar Life.
- Significantly improved results of our Individual Life and Annuities segment reflecting improved results of our annuities operations, including $167 million in pretax adjusted operating income in 2003 from the American Skandia operations acquired during the year.
- Improved results of our Retirement, Group Insurance and Investment Management segments as we benefited from improved market conditions, lower expenses and improved benefits experience.
- A loss, on a pretax adjusted operating income basis, of $111 million from our Financial Advisory segment. Included in the loss are transition costs of $100 million incurred related to the transaction and costs of $107 million related to obligations we retained in connection with the businesses contributed to Wachovia Securities, primarily retained litigation and regulatory matters. Our share of earnings from our investment in Wachovia Securities, before transition costs, was $88 million, commencing with the formation of the combined company on July 1, 2003.
- Income within Corporate and Other reflects a lower level of income from our own qualified pension plan, offset in part by a lower level of expenses in 2003.
- Realized investment losses, net, and related charges and adjustments for the Financial Services Businesses in 2003 included impairments and credit-related losses of $404 million, down from $1,055 million in 2002.

- Included in the divested businesses results are a pretax loss of $491 million related to the disposition of our property and casualty insurance operations, as well as pretax income from our receipt of $332 million in connection with a favorable settlement related to a former business of Prudential Securities.
- Results of the Closed Block Business for 2003 include realized investment gains of $426 million, as compared to realized investment losses of $587 million in the prior year.

We manage our capital levels consistent with our risk, rating objectives and regulatory requirements. Our ratings targets are "AA/Aa/AA" for Standard & Poor's Ratings Group ("S&P"), Moody's Investors Service ("Moody's") and Fitch Ratings Ltd. ("Fitch"), respectively, and "A+" for A.M. Best Company ("A.M. Best") for our core domestic life insurance companies. Our debt rating targets for Prudential Financial are "A" for S&P, Moody's and Fitch and "a" for A.M. Best. At year-end 2003, we had $21 billion of total capital and $2.6 billion of unused borrowing capacity, which we believe are sufficient to capitalize our existing businesses. Together with anticipated future earnings in 2004, we believe these resources are adequate to cover expected growth in capital requirements, including the acquisition of the CIGNA retirement business, while maintaining balance sheet strength consistent with our ratings objectives. See "—Liquidity and Capital Resources" for additional information.

Accounting Policies & Pronouncements

Application of Critical Accounting Estimates

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

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

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, 2003, 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. Fixed maturities and equity securities classified as available for sale are carried at these fair values and the impact of changes in fair value are recorded as an unrealized gain or loss in "Accumulated other comprehensive income (loss)," a separate component of equity. In addition, fixed maturities and equity securities classified as available for sale or held to maturity are subject to our review to identify when a decline in value is other than temporary. Factors we consider in determining whether a decline in value is other than temporary include: whether the decline is substantial; the duration of the decline, generally greater than six months; the reasons for the decline in value, credit event or interest rate related; our ability and intent to hold the investment for a period of time that will allow for a recovery of value; and the financial condition and near-term prospects of the issuer. When it is determined that a decline in value is other than temporary, the carrying value of the security is reduced to its estimated fair value, with a corresponding charge to earnings. 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, 2003, are carried primarily 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 "—Realized Investment Gains and General Account Investments" for a discussion of our investment portfolio and related results, including policies regarding other than temporary declines in investment value.

Policyholder Liabilities

The liability for "Future policy benefits" is the largest liability included in our statements of financial position, 32% of total liabilities as of December 31, 2003. 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.

Our liability for "Unpaid claims and claim adjustment expenses," which is less than 1% of total liabilities as of December 31, 2003, 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 Group Insurance segment. Consistent with industry accounting practice, we do not establish loss reserves until a loss 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.

Deferred Policy Acquisition Costs

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", which is 2% of total assets as of December 31, 2003. 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.

Expected profitability is a significant element in evaluating deferred policy acquisition costs related to annuity products. Deferred policy 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 that determine the future fees we will earn, the costs we expect to incur associated with minimum death benefit and other contractual guarantees, as well as 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. 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 of 2002 and continuing throughout 2002, 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 10% for all of our variable annuity products for our evaluation of deferred policy acquisition costs as of December 31, 2003. For the average remaining life of our variable annuity contracts in force as of December 31, 2003, our evaluation of deferred policy acquisition costs is based on a 7.7% annual blended rate of return that reflects an

assumed rate of return of 8.9% for equity type assets. Deterioration in market conditions may result in increases in the amortization of deferred policy acquisition costs, while further 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 a reduction in amortization recorded in 2003 reflecting an increase in our estimate of future gross profits on variable annuities and increases in amortization recorded in 2002 and 2001 reflecting our decreases in estimates of future gross profits during those years.

Goodwill

We test goodwill for impairment on an annual basis as of December 31 of each year and more frequently if events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. 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. The determination of a reporting unit's fair value is based on management's best estimate, which generally considers the unit's expected future earnings and market-based earning multiples of peer companies. As of December 31, 2003, we have $435 million of goodwill reflected on our statement of financial position.

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 16 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. 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, is included in the determination of net income, but not for options awarded prior thereto. Accordingly, the amount we include in the determination of net income is 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 issued prior to January 1, 2003 was estimated using a Black-Scholes option-pricing model. For options issued on or after January 1, 2003, the fair value of each option was estimated using a binomial option-pricing model. Both option-pricing models consider the following assumptions in estimating fair value: 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 of the

Financial Services Businesses for the year ended December 31, 2003, would have been reduced by $35 million or, $.06 and $.07 per share of Common Stock on a basic and diluted basis, respectively. The net income of the Closed Block Business for the year ended December 31, 2003, would have been reduced by $1 million with no change in earnings per share of the Class B Stock. For the year ended December 31, 2002, net income would have been reduced by $30 million or $.05 per share of Common Stock on a basic and diluted basis. 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.

Recently Issued Accounting Pronouncements

See Note 2 to the Consolidated Financial Statements for a discussion of recently issued accounting pronouncements, including the adoption of Statement of Position 03-01, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts" ("SOP 03-01"), effective January 1, 2004.

Consolidated Results of Operations

Net Income and Other Data

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

	Year ended December 31,		
	2003	2002	2001
	(in millions)		
Financial Services Businesses by segment:			
Individual Life and Annuities	$ 565	$ 243	$ 293
Group Insurance	117	26	(2)
Total Insurance Division	682	269	291
Investment Management	167	203	133
Financial Advisory	(111)	(43)	(140)
Retirement	196	(235)	24
Other Asset Management	46	45	55
Total Investment Division	298	(30)	72
International Insurance	805	569	554
International Investments	(69)	(6)	(44)
Total International Insurance and Investments Division	736	563	510
Corporate and Other	(128)	35	(375)
Income from continuing operations before income taxes for Financial Services Businesses	1,588	837	498
Income (loss) from continuing operations before income taxes for Closed Block Business	370	(757)	(619)
Income (loss) from continuing operations before income taxes	1,958	80	(121)
Income taxes (benefit)	650	(189)	(32)
Income (loss) from continuing operations	1,308	269	(89)
Loss from discontinued operations, net of taxes	(44)	(75)	(65)
Net income (loss)	$ 1,264	$ 194	$ (154)

In managing our business, we analyze operating performance separately for our Financial Services Businesses and our Closed Block Business. For the Financial Services Businesses, we analyze our segments' operating performance using 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 segments of 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;
- the contribution to income/loss of divested businesses that have been or will be sold or exited that do not qualify for "discontinued operations" accounting treatment under GAAP;
- life insurance sales practices remedies and costs; and
- demutualization costs and expenses.

The contributions to income / loss of 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. Adjusted operating income is not a substitute for net income determined in accordance with GAAP, and our definition of adjusted operating income may differ from that used by other companies. However, we believe that the presentation of adjusted operating income as we measure it for management purposes enhances the understanding of our results of operations by highlighting the results from ongoing operations and the underlying profitability of the Financial Services Businesses. Adjusted operating income excludes net realized investment gains and losses. A significant element of realized losses is impairments and losses from sales of credit-impaired securities, the timing of which depends largely on market credit cycles and can vary considerably across periods. The timing of other sales that would result in gains or losses is largely subject to our discretion and influenced by market opportunities. Trends in the underlying profitability of our businesses can be more clearly identified without the fluctuating effects of these transactions. Adjusted operating income excludes life insurance 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. Adjusted operating income excludes the results of divested business, which are not indicative of our future operating results. Adjusted operating income also excludes demutualization costs and expenses as they are directly related to demutualization and would distort the trends associated with ongoing operations.

Results of Operations for Financial Services Businesses by Segment

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,		
	2003	2002	2001
	(in millions)		
Operating results:			
Revenues:			
Individual Life	$ 1,936	$ 1,952	$ 1,907
Individual Annuities	1,146	744	801
	3,082	2,696	2,708
Benefits and expenses:			
Individual Life	1,579	1,520	1,625
Individual Annuities	884	786	694
	2,463	2,306	2,319
Adjusted operating income:			
Individual Life	357	432	282
Individual Annuities	262	(42)	107
	619	390	389
Realized investment losses, net, and related adjustments(1)	(41)	(162)	(108)
Related charges(2)	(13)	15	12
Income from continuing operations before income taxes	$ 565	$ 243	$ 293

(1) Revenues exclude realized investment gains (losses), net, and related adjustments. For a discussion of these items see "—Realized Investment Gains and General Account Investments—Realized Investment Gains."
(2) Benefits and expenses exclude related charges which represent the unfavorable (favorable) impact of realized investment gains (losses), net, on change in reserves and deferred policy acquisition cost amortization. For a discussion of these items see "—Realized Investment Gains and General Account Investments —Realized Investment Gains."

On May 1, 2003, we completed our acquisition of Skandia U.S. Inc., which included American Skandia for a total purchase price of $1.184 billion. Beginning May 1, 2003, the results of American Skandia have been included in our consolidated results and are included as a component of our annuity business discussed below. See Note 3 to the Consolidated Financial Statements for further discussion of this acquisition and purchase price allocation.

Adjusted Operating Income

2003 to 2002 Annual Comparison. The decrease in adjusted operating income for the segment's individual life insurance business is primarily the result of claims experience, net of reinsurance, less favorable than in the prior year, partially offset by the favorable impact of increases in the market value of variable life insurance assets.

Results of the segment's individual annuity business for 2003 included adjusted operating income of $167 million from the initial eight months of operations of American Skandia, which consisted of revenues of $416 million and total benefits and expenses of $249 million. American Skandia's revenues consisted primarily of policy charges and fee income of $242 million and asset management and service fees of $126 million. Benefits and expenses consisted primarily of general and administrative expenses of $200 million, including $38 million of amortization of the value of business acquired asset ("VOBA") established in purchase accounting, which amounted to $440 million as of the date of acquisition, and guaranteed minimum death benefit payments of $35 million.

Adjusted operating income of the segment's individual annuity business, excluding American Skandia, increased $137 million, from a loss, on an adjusted operating income basis, of $42 million in 2002 to income of $95 million in 2003. Adjusted operating income for 2003 included a $39 million reduction in amortization of deferred policy acquisition costs due to our increased estimate of future gross profits on variable annuities reflecting market value increases in underlying assets. This benefit to adjusted operating income was largely offset by a $36 million charge to strengthen reserves for our periodic income annuities. Results for 2002 included charges totaling $137 million for additional amortization of deferred policy acquisition costs, reflecting our lower estimates of future gross profits resulting from greater expected costs from minimum death benefit guarantees and lower expected fees under individual annuity contracts due to declines in asset values.

2002 to 2001 Annual Comparison. Results for the segment's individual life insurance business 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. Results for 2001 included $25 million of net losses from insurance claims arising out of the September 11, 2001, terrorist attacks on the U.S.

Results of our annuity business in 2002 included charges totaling $137 million for additional amortization of deferred policy acquisition costs discussed above. Results for 2001 included similar charges for additional amortization of deferred policy acquisition costs totaling $30 million. A decline in fee revenues in 2002 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.

Revenues

2003 to 2002 Annual Comparison. The segment's individual life insurance business reported revenues, as shown in the table above under "—Operating Results," of $1.936 billion in 2003 compared to $1.952 billion 2002, a $16 million decrease. Premiums decreased $43 million, from $395 million in 2002 to $352 million in 2003, reflecting approximately $80 million in decreased premiums on term insurance we issued under policy provisions to customers who previously had lapsing variable life insurance policies with us, partially offset by increased sales and growth of our in force block of term insurance products.

Revenues from the segment's individual annuity business increased $402 million, from $744 million in 2002 to $1.146 billion in 2003, which included revenues of $416 million from American Skandia. Revenues of the segment's existing individual annuity business declined $14 million, from $744 million in 2002 to $730 million in 2003, due primarily to an $18 million decrease in policy charges and fees as, despite a year to year increase, the average market value of variable annuity customer accounts declined in 2003 from 2002.

2002 to 2001 Annual Comparison. The segment's individual life insurance business reported revenues of $1.952 billion in 2002, compared to $1.907 billion in 2001, a $45 million increase. Net investment income increased $28 million from $391 million in 2001 to $419 million in 2002, primarily from an increase in the level of invested assets. Commissions and other income increased $12 million, from $112 million in 2001 to $124 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 $57 million, from $801 million in 2001 to $744 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 $22 million, from $440 million in 2001 to $418 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.

Benefits and Expenses

2003 to 2002 Annual Comparison. Benefits and expenses, as shown in the table above under "—Operating Results," of the segment's individual life insurance business increased $59 million from $1.520 billion in 2002 to $1.579 billion in 2003. The increase reflects a $97 million increase in policyholder benefits and related changes in reserves, from $676 million in 2002 to $773 million in 2003, as well as an increase in employee termination and related costs. The increase in policyholder benefits and related changes in reserves came primarily from claims experience, net of reinsurance, less favorable than the prior year, partially offset by decreased policy reserves on term insurance, corresponding to the decreased premiums discussed above. Partially offsetting these increases was a decrease in amortization of deferred policy acquisition costs, due primarily to less favorable claims experience and lower policy surrenders.

Benefits and expenses of the segment's individual annuity business increased $98 million, from $786 million in 2002 to $884 million in 2003, which included $249 million of expenses related to American Skandia. Benefits and expenses of the segment's existing individual annuity business decreased $151 million, from $786 million in 2002 to $635 million in 2003. Amortization of deferred policy acquisition costs declined $178 million from 2002 to 2003, primarily as a result of the changes in our estimated future gross profits as discussed above. Partially offsetting this was a $28 million increase in policyholder benefits and related change in reserves, reflecting the $36 million charge to strengthen reserves for our periodic income annuities discussed above, which resulted from refinements in our calculation of these reserves. Benefits and expenses of our individual annuity business include $69 million of guaranteed minimum death benefits in 2003 of which $35 million is associated with the American Skandia business.

Effective January 1, 2004, we adopted SOP 03-01, which requires the recognition of a liability for a guaranteed minimum death benefit ("GMDB") feature, as well as a change in the valuation and presentation of our liability associated with a market value adjustment ("MVA") feature, both of which are contained in certain of our annuity contracts. We estimate the effect of adopting SOP 03-01 resulting from our annuities business will be a net charge of approximately $26 million after taxes. This charge will be recorded as a cumulative effect of change in accounting principle. The net impact of recognition of a liability for GMDB provisions associated with the American Skandia business and the change in the liability for the MVA feature associated with the American Skandia business will be largely offset by a net decrease in VOBA of approximately $130 million, since the expected cash flows on American Skandia's business in force at the time of the acquisition that correspond to the obligations covered by SOP 03-01 were considered in establishing the initial VOBA.

2002 to 2001 Annual Comparison. Benefits and expenses of our individual life insurance business decreased $105 million, or 6%, from $1.625 billion in 2001 to $1.520 billion in 2002. Operating expenses, including distribution costs that we charge to expense, decreased $150 million, from $557 million in 2001 to $407 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 $786 million in 2002, compared to $694 million in 2001, an increase of $92 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.

Sales Results and Account Values

The following table sets forth the individual life insurance business's sales, as measured by scheduled premiums from new sales on an annualized basis and first year excess premiums and deposits on a cash-received basis and changes in account value for the individual annuity 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 new sales based on the measure described above, as this measures the current sales performance of the business, while revenues primarily reflect the renewal persistency and aging of in force policies written in prior years and net investment income, as well as current sales. 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,		
	2003	2002	2001
		(in millions)	
Life insurance sales(1):			
Excluding corporate-owned life insurance:			
Variable life	$ 99	$ 145	$ 208
Universal life	132	86	21
Term life	110	89	46
Total excluding corporate-owned life insurance	341	320	275
Corporate-owned life insurance	21	122	199
Total	$ 362	$ 442	$ 474
Life Insurance sales by distribution channel(1)(2):			
Prudential Agents	$ 230	$ 238	$ 213
Third party	111	82	62
Total	$ 341	$ 320	$ 275
Variable Annuities(3):			
Beginning total account value	$ 15,338	$ 18,689	$ 21,059
Sales	4,418	1,395	1,271
Surrenders and withdrawals	(3,939)	(2,267)	(2,356)
Change in market value, interest credited and other activity(4)	5,701	(2,479)	(1,285)
Acquisition of American Skandia	22,431	—	—
Ending total account value	$ 43,949	$ 15,338	$ 18,689
Net sales (redemptions)	$ 479	$ (872)	$ (1,085)
Fixed Annuities:			
Beginning total account value	$ 3,396	$ 2,975	$ 2,926
Sales	247	605	120
Surrenders and withdrawals	(200)	(184)	(216)
Interest credited and other activity(4)	71	—	145
Ending total account value	$ 3,514	$ 3,396	$ 2,975
Net sales (redemptions)	$ 47	$ 421	$ (96)

(1) Scheduled premiums from new sales on an annualized basis and first year excess premiums and deposits on a cash-received basis.
(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) Includes maintenance and insurance charges assessed, net bonus payments credited to contract holder accounts, annuity benefits and other adjustments, as well as decreases in policyholder account balances during 2002 of $45 million for variable annuities and $56 million for fixed annuities due to the distribution of policy credits, subsequently paid out in cash, as demutualization consideration in connection with the Company's demutualization. 2001 includes increases to policyholder account values as a result of the issuance of policy credits of $429 million for variable annuities and $157 million for fixed annuities.

2003 to 2002 Annual Comparison. Sales of new life insurance excluding corporate-owned life insurance, measured as described above, increased $21 million from 2002 to 2003. Sales of our universal life and term life

products, both of which were updated as to features and pricing in 2003, increased $46 million and $21 million, respectively. These increases were offset by a decline of $46 million in variable life sales, which were negatively affected by customer response to prolonged volatile equity market conditions. Sales of corporate-owned life insurance, substantially all of which is sold by the third-party distribution channel, declined by $101 million. The decline primarily resulted from a single large sale in 2002.

Sales from Prudential Agents decreased slightly from 2002 to 2003, reflecting a decline in the average number of agents for the period from approximately 4,500 in 2002 to approximately 4,300 in 2003 associated with selective hiring of new agents and closures of several offices to promote the cost effectiveness of the Prudential Agent distribution channel as well as some attrition of agents resulting from the Company's sale of its property and casualty insurance businesses in 2003. Sales by the third party distribution channel, other than corporate-owned life insurance, increased $29 million 2002 to 2003, reflecting increased universal and term life sales through this channel.

Total account values for fixed and variable annuities amounted to $47.5 billion as of December 31, 2003, an increase of $28.7 billion, which included $22.4 billion from the May 1, 2003 acquisition of American Skandia. The remainder of the increase came primarily from increases in the market value of customers' variable annuities as well as net sales of $526 million. Individual variable annuity gross sales increased by $3.0 billion, from $1.4 billion for 2002 to $4.4 billion for 2003, primarily due to $2.5 billion in variable annuity sales contributed by American Skandia from the date of acquisition. Excluding American Skandia, variable annuity gross sales increased by $528 million driven by improving market conditions, product enhancements, and continued expansion in third party distribution. Sales of fixed annuities declined year-over-year by $358 million due primarily to management's decision to lower crediting rates in the current interest rate environment. Surrenders and withdrawals increased $1.7 billion in 2003 from 2002, including $2.1 billion from American Skandia, reflecting the larger base of business.

2002 to 2001 Annual Comparison. Sales of new life insurance excluding corporate-owned life insurance, measured as described above, increased $45 million from 2001 to 2002. Increased sales of our universal life insurance products, which we introduced in late 2001, and our term insurance products, reflecting revised product pricing, more than offset a $63 million decline in variable life sales associated with customer response to equity market conditions. Sales of corporate-owned life insurance products, substantially all of which is sold by the third party distribution channel, decreased $77 million, reflecting several large sales in 2001, as compared to a single large sale in 2002.

Sales from Prudential Agents increased $25 million from 2001 to 2002, an increase in agent productivity, partially offset by a decline in the average number of agents for the period from approximately 5,200 in 2001 to approximately 4,500 in 2002. 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. Sales by the third party distribution channel, other than corporate-owned life insurance, increased $20 million from 2001 to 2002, reflecting increased universal and term life sales through this channel.

Total account values for fixed and variable annuities amounted to $18.7 billion as of December 31, 2002, a decrease of $2.9 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 product and compensation enhancements as well as strengthening of distribution relationships.

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,		
	2003	2002	2001
	(in millions)		
Cash value of surrenders	$ 653	$ 692	$ 637
Cash value of surrenders as a percentage of mean future benefit reserves, policyholders' account balances, and separate account balances	3.8%	4.2%	3.8%

2003 to 2002 Annual Comparison. The total cash value of surrenders decreased $39 million from 2002 to 2003. The level of surrenders as a percentage of mean future policy benefit reserves, policyholders' account balances and separate account balances decreased from 2002 to 2003, reflecting a higher level of lapses in 2002 associated with declines in variable life insurance account values due to adverse equity market conditions.

2002 to 2001 Annual Comparison. The total cash value of surrenders increased $55 million 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.

Group Insurance

Operating Results

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

	Year ended December 31,		
	2003	2002	2001
	(in millions)		
Operating results:			
Revenues	$ 3,690	$ 3,586	$ 3,248
Benefits and expenses	3,521	3,431	3,178
Adjusted operating income	169	155	70
Realized investment losses, net, and related adjustments(1)	(52)	(129)	(72)
Income (loss) from continuing operations before income taxes	$ 117	$ 26	$ (2)

(1) Revenues exclude realized investment gains (losses), net, and related adjustment. For a discussion of these items see "—Realized Investment Gains and General Account Investments—Realized Investment Gains."

Adjusted Operating Income

2003 to 2002 Annual Comparison. Adjusted operating income increased $14 million from 2002 to 2003. Adjusted operating income for 2003 included a net favorable effect of $8 million from refinements in group life reserves for waiver of premium features and estimates of amounts due policyholders on experience rated cases, while the prior year benefited $19 million from refinements in reserves relating to our group long-term disability product. Excluding the $11 million net negative impact of these refinements, adjusted operating income increased $25 million in 2003 from 2002, reflecting more favorable group life benefits experience in 2003 and a greater contribution from investment results.

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 a refinement in our reserve for group life incurred but not reported claims. Adjusted operating income for 2002 benefited $19 million from refinements in reserves relating to our group long-term disability product. Excluding these reserve refinements, adjusted operating income increased $30 million from 2001 due primarily to growth in both group life and disability premiums and a lower benefits ratio on group disability products.

Revenues

2003 to 2002 Annual Comparison. Revenues, as shown in the table above under "—Operating Results," increased by $104 million, or 3%, from 2002 to 2003. Group life insurance premiums increased by $81 million, or 4%, to $2.176 billion primarily due to growth in business in force resulting from new sales and continued strong persistency, which declined slightly from 95% in 2002 to 93% in 2003. Group disability premiums, which include long-term care products, increased by $56 million, or 10%, to $630 million reflecting the growth in business in force resulting from new sales and continued strong persistency, which decreased slightly from 87% in 2002 to 85% in 2003. We expect persistency for both group life and disability to decrease from the current levels as a result of the pricing adjustments we implemented in 2002, as discussed below, and a highly competitive market. These increases in premiums were partially offset by a $9 million increase in our estimate of amounts due policyholders on experience

rated cases, as discussed above. Policy charges and fee income declined by $42 million primarily as a result of a $17 million increase in our estimate of amounts due policyholders on experience rated cases, as discussed above, and lower fees on experience rated contracts sold to employers for funding of employee benefit programs and retirement arrangements. Although net investment income was relatively unchanged in 2003 from 2002, the portion of this income from policyholder loans declined, with a corresponding decline in interest credited to policyholders' account balances, which resulted in a greater contribution from investment results to adjusted operating income in 2003, as the remaining base of invested assets increased.

2002 to 2001 Annual Comparison. Revenues increased by $338 million, or 10%, from 2001 to 2002. Group life insurance premiums increased by $314 million, or 18%, to $2.095 billion primarily due to growth in business in force resulting from new sales and continued strong persistency, which decreased slightly from 97% in 2001 to 95% in 2002, as well as a change in coverage for one large client from group universal life to group basic life. Group disability premiums, which include long-term care products, increased by $67 million, or 13%, to $574 million reflecting the growth in business in force resulting from new sales and continued strong persistency, which decreased slightly from 89% in 2001 to 87% in 2002. The decreases in persistency are primarily a result of the pricing adjustments implemented in 2002, discussed below, and a highly competitive market. Net investment income increased $35 million, or 6%, primarily due to a larger base of invested assets. These increases in revenue were partially offset by an $84 million decrease in policy charges and fee income primarily due to the change, discussed above, in coverage for one large client from group universal life to group basic life.

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,		
	2003	2002	2001
Benefits ratio(1):			
Group life	90.9%	91.7%	92.6%
Group disability	92.4	87.9	95.2
Administrative operating expense ratio(2):			
Group life	9.7	10.0	10.0
Group disability	22.5	22.0	23.6

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

2003 to 2002 Annual Comparison. Benefits and expenses, as shown in the table above under "—Operating Results," increased by $90 million from 2002 to 2003. Current year benefits were reduced $34 million as a result of the refinements in group life reserves for waiver of premium features discussed above, while the prior year benefited $19 million from reduction in benefits due to the refinement in reserves relating to our group long-term disability product. Excluding these items, benefits and expenses increased $105 million. This increase resulted principally from an increase of $94 million in policyholders' benefits, including change in policy reserves, reflecting the growth of business in force.

Beginning in 2002, we refocused group life and disability on improved risk selection and reduced benefits ratios. We continuously make pricing adjustments, when contractually permitted, which consider the emerging experience on our group insurance products. While there can be no assurance, we expect these actions, as well as pricing discipline in writing new business, will allow us to maintain or improve our benefits ratios.

The group life benefits ratio for 2003 improved 0.8 percentage points from 2002 reflecting lower claims incidence. The group disability benefits ratio increased by 4.5 percentage points, of which 3.2 percentage points resulted from the reserve refinement in 2002 discussed above. The remaining 1.3 percentage point increase in the group disability benefits ratio is primarily due to a decrease in net claim resolutions on our long-term disability products, partially offset by favorable morbidity experience on our other disability products. The group life and disability administrative operating expense ratios remained relatively unchanged from 2002 to 2003.

2002 to 2001 Annual Comparison. Benefits and expenses increased by $253 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. 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 $36 million reserve refinement, 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 benefit from the $19 million reserve refinement recorded in 2002 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.

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 because new annualized premiums measure the current sales performance of the business unit, while revenues primarily reflect the renewal persistency and aging of in force policies written in prior years and net investment income in addition to current sales.

	Year ended December 31,		
	2003	2002	2001
	(in millions)		
New annualized premiums(1):			
Group life	$ 225	$ 269	$ 435
Group disability(2)	144	160	139
Total	$ 369	$ 429	$ 574

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

2003 to 2002 Annual Comparison. Total new annualized premiums decreased $60 million, or 14%, from 2002 to 2003. Group life sales decreased in 2003 due primarily to a smaller contribution from large case sales in 2003 as well as the expected slowing of our sales due to the implementation of pricing adjustments in 2002. Group disability sales decreased in 2003 due primarily to one large sale in the fourth quarter of 2002.

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.

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,		
	2003	2002	2001
	(in millions)		
Operating results:			
Revenues	$ 1,259	$ 1,235	$ 1,357
Expenses	1,097	1,096	1,216
Adjusted operating income	162	139	141
Realized investment gains (losses), net(1)	5	64	(8)
Income from continuing operations before income taxes	$ 167	$ 203	$ 133

(1) Revenues exclude realized investment gains (losses), net. For a discussion of these items see "—Realized Investment Gains and General Account Investments—Realized Investment Gains."

Adjusted Operating Income

2003 to 2002 Annual Comparison. Adjusted operating income increased $23 million, from $139 million in 2002 to $162 million in 2003. The increase reflected lower expenses, excluding the impact of recent acquisitions, and higher asset-based fees in our investment management and advisory operations, which were partially offset by a decline in retained fees as a result of the combination of our retail securities brokerage and clearing operations with those of Wachovia. We estimate the decline in retained fees reduced the segment's adjusted operating income for the second half of 2003 by $22 million.

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.

Revenues

The following tables set forth the Investment Management segment's revenues, as shown in the table above under "—Operating Results," by source and assets under management for the periods indicated. In managing our business we analyze assets under management, which do not correspond to GAAP assets, because our primary sources of revenues are fees based on assets under management.

	Year ended December 31,		
	2003	2002	2001
	(in millions)		
Revenues:			
Retail customers(1)	$ 187	$ 184	$ 210
Institutional customers	372	335	383
General account	219	221	227
Sub-total	778	740	820
Mutual fund revenues(2)	481	495	537
Total revenues	$ 1,259	$ 1,235	$ 1,357

(1) Consists of individual mutual funds and both variable annuities and variable life insurance asset management revenues from our separate accounts. This also includes funds invested in proprietary mutual funds through our defined contribution plan products. Revenues from fixed annuities and the fixed rate options of both variable annuities and variable life insurance are included in the general account.
(2) Represents mutual fund revenues other than asset management fees paid to affiliates, which are included in the appropriate categories above.

	December 31, 2003	December 31, 2002
	(in billions)	
Assets Under Management (at fair market value):		
Investment Management Segment—Investment Management & Advisory Services		
Retail customers(1)	$ 81.2	$ 79.9
Institutional customers(2)	94.8	85.2
General account	127.8	122.9
Total Investment Management & Advisory Services	$ 303.8	$ 288.0

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

2003 to 2002 Annual Comparison. Revenues, as shown in the table above under "—Operating Results," increased $24 million, from $1.235 billion in 2002 to $1.259 billion in 2003. The increase came primarily from the management of institutional customer assets inclusive of revenues associated with an international real estate asset manager that we acquired at the end of 2002. A decline in mutual fund revenues from lower average account balances on which our fees are based was partially offset by the inclusion of revenues of the mutual fund business of American Skandia, commencing May 1, 2003.

2002 to 2001 Annual Comparison. Revenues 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.

Expenses

2003 to 2002 Annual Comparison. Expenses, as shown in the table above under "—Operating Results," were essentially unchanged from 2002. Lower employee termination and facility consolidation costs in 2003, and lower asset based and other expenses in our mutual fund operations were offset by the inclusion of expenses associated with the mutual fund business of American Skandia commencing May 1, 2003 and an international real estate asset manager which we acquired at the end of 2002.

2002 to 2001 Annual Comparison. Expenses 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.

Financial Advisory

Operating Results

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

	Year ended December 31,		
	2003	2002	2001
	(in millions)		
Operating results:			
Revenues	$ 1,306	$ 2,421	$ 2,712
Expenses	1,417	2,464	2,852
Adjusted operating income(1)	$ (111)	$ (43)	$ (140)

(1) Results of this segment are the same on both an adjusted operating income basis and a GAAP basis.

On July 1, 2003, we completed the previously announced agreement with Wachovia to combine each company's respective retail securities brokerage and clearing operations forming Wachovia Securities, a joint venture headquartered in Richmond, VA. We have a 38% ownership interest in the joint venture, while Wachovia owns the remaining 62%. The transaction included our securities brokerage operations but did not include our equity sales, trading and research operations. As part of the transaction we retained certain assets and liabilities related to the contributed businesses, including liabilities for certain litigation and regulatory matters. We account for our 38% ownership of the joint venture under the equity method of accounting; periods prior to July 1, 2003, continue to reflect the results of our previously wholly-owned securities brokerage operations on a fully consolidated basis. Accordingly "—Operating Results", as shown above for 2003, reflect our securities brokerage operations on a consolidated basis for 2001, 2002 and the first six months of 2003 and earnings from the joint venture on the equity basis for the remaining six months of 2003. In addition, in the third quarter of 2003 we decided to exit our existing consumer banking business; therefore, the results of our consumer banking operations previously included within the Financial Advisory segment are shown as discontinued operations for all periods presented.

2003 to 2002 Annual Comparison. The Financial Advisory segment reported a loss, on an adjusted operating income basis, of $111 million in 2003. This loss includes a loss of $53 million from our securities brokerage operations prior to combination of these operations with Wachovia on July 1, 2003. The segment's loss for 2003 includes our share of earnings from Wachovia Securities, on a pre-tax basis and excluding transition costs, of $88 million. Offsetting these results were expenses of $107 million relating primarily to obligations for litigation and regulatory matters we retained in connection with the contributed businesses. Full year results from our securities brokerage operations for 2003 include $100 million of transition costs, of which $32 million represents our share of costs incurred by the venture, as well as a pre-tax gain of $22 million recorded on the completion of the combination of the businesses. In addition, results for 2003 include income of $2 million from our equity sales and trading operations that were not contributed to the new entity.

In 2002 the segment reported a loss of $43 million. The loss consisted of an $87 million loss from our securities brokerage operations, which were contributed to the joint venture, partially offset by income of $44 million from our equity sales and trading operations.

2002 to 2001 Annual Comparison. The Financial Advisory segment reported losses, of $43 million for 2002 and $140 million for 2001. The $97 million decline in the segment's loss came primarily from reduced losses in our securities brokerage operations that were contributed to the joint venture, 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, due primarily to cost reduction initiatives and a decrease in costs associated with implementing these initiatives, from $15 million in 2001 to $5 million in 2002.

Retirement

Operating Results

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

	Year ended December 31,		
	2003	**2002**	**2001**
		(in millions)	
Operating results:			
Revenues	$ 2,281	$ 2,375	$ 2,394
Benefits and expenses	2,089	2,234	2,284
Adjusted operating income	192	$ 141	$ 110
Realized investment losses, net, and related adjustments(1)	(1)	(383)	(100)
Related charges(2)	5	7	14
Income (loss) from continuing operations before income taxes	$ 196	$ (235)	$ 24

(1) Revenues exclude realized investment gains (losses), net, and related adjustments. For a discussion of these items see "—Realized Investment Gains and General Account Investments—Realized Investment Gains."
(2) Benefits and expenses exclude related charges which represent the unfavorable (favorable) impact of net realized investment gains (losses), net, on change in reserves and deferred policy acquisition cost amortization. For a discussion of these items see "—Realized Investment Gains and General Account Investments—Realized Investment Gains."

Adjusted Operating Income

2003 to 2002 Annual Comparison. Adjusted operating income increased $51 million, or 36%, in 2003 from 2002. Our guaranteed products business reported adjusted operating income of $193 million in 2003, an increase of $28 million from 2002, reflecting more favorable investment results and lower operating expenses in the current year, partially offset by an $18 million decrease in income from prepayments of investments. As a result of the interest rate and market environment, our results reflect higher than expected income from prepayment activity and favorable market conditions which may not continue at the same pace. The remainder of the increase in adjusted operating income came from the segment's full service defined contribution business, which also benefited from more favorable investment results and lower operating expenses in 2003.

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 single 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 for the guaranteed products business decreased $33 million, or 20%, mostly due to lower investment results in 2002.

Revenues

2003 to 2002 Annual Comparison. Revenues, as shown in the table above under "—Operating Results," decreased $94 million, or 4%, from 2002 to 2003. Net investment income decreased $47 million, from $2.090 billion in 2002 to $2.043 billion in 2003, due primarily to an $18 million decrease in income from prepayments of investments and a decline in yields resulting from the reinvestment of assets in a lower interest rate environment. Premiums decreased $48 million on our guaranteed products business primarily as a result of lower single premium annuity and structured settlement product sales.

2002 to 2001 Annual Comparison. Revenues decreased $19 million from 2001 to 2002. Net investment income decreased $58 million, from $2.148 billion in 2001 to $2.090 billion in 2002, due to a decline in yields on invested assets, partially offset by $30 million of income from a single mortgage loan prepayment in 2002. Policy charges and fee income decreased $9 million from 2002 to 2001 reflecting a decrease associated with our full service defined contribution business. Partially offsetting these lower revenues, were premium increases of $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.

Benefits and Expenses

2003 to 2002 Annual Comparison. Benefits and expenses, as shown in the table above under "—Operating Results," decreased $145 million, or 6%, from 2002 to 2003. Policyholders' benefits, together with the change in policy reserves and interest credited to policyholders, decreased $121 million due to the decrease in premium activity noted above, as well as more favorable investment results in 2003 and lower crediting rates on customer balances. Operating expenses, excluding amortization of deferred acquisition costs and commission expense, decreased $16 million from 2002 to 2003 reflecting cost reduction measures implemented in prior periods.

2002 to 2001 Annual Comparison. Benefits and expenses decreased $50 million, or 2%, 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 as discussed above. These items were partly offset by the increase in premium activity noted above. Operating expenses, excluding amortization of deferred acquisition costs and commission expense, for our defined contribution business decreased $21 million due primarily to cost reduction measures implemented in prior periods.

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. Sales and net sales do not correspond to revenues under GAAP, but are used as a relevant measure of business activity.

	Year ended December 31,		
	2003	2002	2001
		(in millions)	
Defined Contribution:			
Beginning total account value	$ 22,914	$ 24,640	$ 26,046
Sales	5,179	3,858	3,689
Withdrawals	(3,381)	(3,248)	(3,422)
Change in market value, interest credited and other activity(1)	3,946	(2,336)	(1,673)
Ending total account value	$ 28,658	$ 22,914	$ 24,640
Net sales	$ 1,798	$ 610	$ 267
Guaranteed Products(2):			
Beginning total account value	$ 39,058	$ 39,825	$ 41,577
Sales	3,256	1,467	2,299
Withdrawals and benefits	(4,013)	(3,590)	(4,372)
Change in market value and interest income	3,281	2,166	2,198
Other(3)	373	(810)	(1,877)
Ending total account value	$ 41,955	$ 39,058	$ 39,825
Net withdrawals	$ (757)	$ (2,123)	$ (2,073)

(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 15%, 32% and 29% of sales for the years ended December 31, 2003, 2002 and 2001, 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 $9.7 billion, $8.5 billion and $9.1 billion as of December 31, 2003, 2002 and 2001, 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.

2003 to 2002 Annual Comparison. Account values in our full service defined contribution business amounted to $28.7 billion as of December 31, 2003, an increase of $5.7 billion from $22.9 billion as of December 31, 2002. The increase came primarily from increases in the market value of mutual funds and separate accounts as well as net sales of $1.8 billion, primarily as the result of a single large case sale in the third quarter of 2003. Account values for our guaranteed products business amounted to $42.0 billion as of December 31, 2003, an increase of $2.9 billion from December 31, 2002, reflecting an increase in market value and interest income partially offset by net withdrawals of $757 million. Included in net withdrawals are sales of $1.050 billion from the sale of funding agreements issued through our Funding Agreement Notes Issuance Program that was launched in 2003, as well a large sale in the third quarter of 2003 related to same case mentioned above.

2002 to 2001 Annual Comparison. Account values in our full service defined contribution business amounted to $22.9 billion as of December 31, 2002, a decrease of $1.7 billion 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 as of December 31, 2002, a decrease of $767 million from December 31, 2001.

Other Asset Management

Operating Results

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

	Year ended December 31,		
	2003	2002	2001
	(in millions)		
Operating results:			
Revenues	$ 101	$ 90	$ 105
Expenses	55	45	50
Adjusted operating income (1)	$ 46	$ 45	$ 55

(1) Results of this segment are the same on both an adjusted operating income basis and a GAAP basis.

2003 to 2002 Annual Comparison. Adjusted operating income was essentially unchanged in 2003 from 2002, as an increase in earnings from our proprietary investment and syndication activities was offset by a decline in earnings from our hedge portfolios.

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.

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 for the years ended December 31, 2003, 2002, and 2001. The financial results of our International Insurance segment reflect the impact of forward currency transactions and internal hedges, whereby some currency fluctuation exposure, primarily associated with our Japanese insurance operations, including Gibraltar Life, is assumed in our Corporate and Other operations. These hedging transactions decreased adjusted operating income of the International Insurance segment by $46 million in 2003 and increased its adjusted operating income by $32 million in 2002 and $45 million in 2001. An integral element in the management of this exposure is our execution of forward currency transactions with independent counterparties, the results of which are reflected in Corporate and Other operations. Unless otherwise stated, we have translated all information in this section, including the impact of the currency hedging transactions, on the basis of actual exchange rates for the periods indicated. To provide a better understanding of local operating performance, where indicated below, we have analyzed local results both on the basis of actual exchange rates and on the basis of constant exchange rates. When we discuss constant exchange rate information below, it is on the basis of the average exchange rates for the year ended December 31, 2003.

Operating Results

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

	Year ended December 31,		
	2003	2002	2001
	(in millions)		
Operating Results:			
Revenues:			
International Insurance, excluding Gibraltar Life	$ 2,935	$ 2,379	$ 2,120
Gibraltar Life	2,720	2,694	2,026
	5,655	5,073	4,146
Benefits and expenses:			
International Insurance, excluding Gibraltar Life	2,486	2,000	1,771
Gibraltar Life	2,350	2,316	1,764
	4,836	4,316	3,535
Adjusted operating income:			
International Insurance, excluding Gibraltar Life	449	379	349
Gibraltar Life	370	378	262
	819	757	611
Realized investment gains (losses), net(1)	21	(172)	(57)
Related charges(2)	(35)	(16)	—
Income from continuing operations before income taxes	$ 805	$ 569	$ 554

(1) Revenues exclude realized investment gains (losses), net. For a discussion of these items see "—Realized Investment Gains and General Account Investments—Realized Investment Gains."
(2) Benefits and expenses for Gibraltar Life exclude related charges which represent the portion of dividends to policyholders that represents realized investment gains required to be paid as dividends to policyholders. For a discussion of these items see "—Realized Investment Gains and General Account Investments—Realized Investment Gains."

Adjusted Operating Income

2003 to 2002 Annual Comparison. The decrease in Gibraltar Life's adjusted operating income reflected a $21 million negative impact of currency fluctuations. Excluding the impact of currency fluctuations, adjusted operating income of Gibraltar Life increased $13 million in 2003 from 2002. This increase reflected improved investment results in 2003 and the negative impact in 2002 of refinements in estimates, primarily related to amounts due to policyholders. This increase was partially offset by a reduction in the amount of Gibraltar Life's business in force as expected during the period following its restructuring and a less favorable level of policy benefits and expenses in 2003 than the year-ago period.

Adjusted operating income from our international insurance operations, other than Gibraltar Life, increased $70 million, from $379 million in 2002 to $449 million in 2003. Adjusted operating income of our operations in countries other than Japan increased $56 million, from $37 million in 2002 to $93 million in 2003, including a $17 million favorable impact of currency fluctuations. The $56 million increase came primarily from our operation in Korea, reflecting strong sales and continued favorable persistency. The contribution from continued growth of our Japanese insurance operation other than Gibraltar Life and the more favorable level of policyholder benefits in 2003 was partially offset by a less favorable level of expenses which include costs of relocating to a new home office in Tokyo during the first quarter of 2003 and an $18 million negative impact of currency fluctuations.

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, excluding the impact of currency hedging, adjusted operating income, including results of Gibraltar Life, increased 11%.

2002 to 2001 Annual Comparison. 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 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 included expenses of approximately $25 million related to the refinements of estimates which considered Gibraltar Life's first full year of operations following its reorganization, favorable mortality and improved investment results reflecting the transition from short-term investments to longer-term investments consistent with our asset-liability management strategies. 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 because of the deviation of policy surrenders from our initial assumptions.

Adjusted operating income, excluding Gibraltar Life, increased $30 million from $349 million in 2001 to $379 million in 2002. 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 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 $175 million.

Revenues

2003 to 2002 Annual Comparison. Revenues, as shown in the table above under "—Operating Results," increased $582 million from 2002 to 2003, which include a net favorable impact of $291 million relating to currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $291 million, from $5.436 billion in 2002 to $5.727 billion in 2003. Revenues on this basis from our international insurance operations, other than Gibraltar Life, increased $419 million, or 17%. This increase in revenues came primarily from an increase in premiums and policy charges and fee income of $373 million, or 16%, from $2.343 billion in 2002 to $2.716 billion in 2003. Premiums and policy charges and fee income from our Japanese operation other than Gibraltar Life increased $210 million, from $1.734 billion in 2002 to $1.944 billion in 2003 and premiums from our Korean operation increased $120 million, from $459 million in 2002 to $579 million in 2003. The increase in premium and policy charges and fee income in both operations was primarily the result of new sales and strong persistency. Premiums in all other countries increased modestly from 2002 to 2003.

Revenues for Gibraltar Life excluding the impact of the currency fluctuations, decreased $128 million, from $2.898 billion in 2002 to $2.770 billion in 2003. Gibraltar Life's decrease of $128 million is primarily due to a $114 million decline in premium revenue. The decline in premium revenue reflects a reduction in the in force business resulting from a higher than normal level of policy surrenders associated with the periods following Gibraltar Life's restructuring.

2002 to 2001 Annual Comparison. Revenues increased $927 million from $4.146 billion in 2001 to $5.073 billion in 2002, including a net unfavorable effect of $191 million related to currency fluctuations. Revenues on a constant exchange rate basis increased $1.118 billion, $765 million from Gibraltar Life and $353 million from our international insurance operations other than Gibraltar Life. The $353 million increase in revenues from our international insurance operations other than Gibraltar Life came primarily from an increase in premium revenue of $301 million, or 16%, from $1.925 billion in 2001 to $2.226 billion in 2002. Premiums, on this same basis, from our Korean operation increased $150 million, from $309 million in 2001 to $459 million in 2002, and premiums in our Japanese operation other than Gibraltar Life increased $125 million primarily the result of strong persistency and new sales. Premium revenue in all other countries increased $26 million from 2001 to 2002.

Benefits and Expenses

2003 to 2002 Annual Comparison. Benefits and expenses, as shown in the table above under "—Operating Results," increased $520 million, from $4.316 billion in 2002 to $4.836 billion in 2003, which include a negative impact of $316 million relating currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $204 million reflecting a $347 million increase in our international insurance operations, other than Gibraltar Life, partially offset by a $143 million decrease from Gibraltar Life. The $347 million increase in our international insurance operations, other than Gibraltar Life, reflects an increase in policyholders' benefits, including changes in reserves, and an increase in amortization of deferred policy acquisition costs resulting from the aging of business in force and a greater volume of business in force in our Japanese and Korean operations, which was driven by new sales and continued strong persistency.

Gibraltar Life's benefits and expenses increased $34 million, from $2.316 billion in 2002 to $2.350 billion in 2003, which include an increase of $177 million relating to year over year fluctuations in currency exchange rates. Excluding the impact of the currency fluctuations, benefits and expenses decreased $143 million, from $2.518 billion in 2002 to $2.375 billion in 2003. The $143 million decrease is primarily due to a decrease in policyholder benefits, including changes in reserves, as a result of a continued reduction of the in force business resulting from a higher than normal level of policy surrenders associated with the periods following Gibraltar Life's restructuring.

2002 to 2001 Annual Comparison. Benefits and expenses 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 the aging of business in force in markets where our operations are more mature, new sales, and continued strong persistency, partially offset by the impact of currency fluctuations. On a constant exchange rate basis, total segment benefits and expenses increased $944 million.

Sales Results

In managing our international insurance business, we analyze new annualized premiums, which do not correspond to revenues under GAAP, as well as revenues, because new annualized premiums measure the current sales performance of the segment, 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. New annualized premiums on an actual and constant exchange rate basis are as follows for the periods indicated.

	Year ended December 31,		
	2003	2002	2001
		(in millions)	
New annualized premiums:			
On an actual exchange rate basis:			
International Insurance, excluding Gibraltar Life	$ 608	$ 510	$ 582
Gibraltar Life	296	233	110
Total	$ 904	$ 743	$ 692
On a constant exchange rate basis:			
International Insurance, excluding Gibraltar Life	$ 608	$ 540	$ 608
Gibraltar Life	299	253	116
Total	$ 907	$ 793	$ 724

2003 to 2002 Annual Comparison. On a constant exchange rate basis, new annualized premiums increased $114 million, or 14%, from 2002 to 2003, reflecting a $46 million increase from Gibraltar Life. On the same basis, new annualized premiums from our Japanese insurance operation other than Gibraltar Life increased $66 million, or 20%, to $398 million in 2003, which benefited from the conclusion of an agent conference qualification period. There was no similar benefit to 2002. An increase in the Life Planner count also contributed to the growth in sales. Sales in all other countries, also on a constant exchange rate basis were essentially unchanged, primarily as a result of the benefit to sales in 2002 in our operation in Korea, from sales activity in anticipation of a premium rate increase in April 2002.

2002 to 2001 Annual Comparison. On a constant exchange rate basis, new annualized premiums increased $69 million from 2001 to 2002, including an increase of $137 million from Gibraltar Life. On that basis, new annualized premiums from our operations in Japan were $584 million in 2002, including $253 million from Gibraltar Life, compared to $505 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 other than Gibraltar Life 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 $11 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.

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 in Japan 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 for much of this business 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 continued to have a negative impact on adjusted operating income from our Japanese insurance operation other than Gibraltar Life in 2003, 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 and 2003, 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 many of our products sold in Japan when the new rates were implemented, in April 2001, October 2001, and August 2003 for some products. Additionally, interest rates on our guaranteed products sold in Korea are regulated by Korean authorities, who approved, in April 2001, January 2002, April 2002, and January 2003, reductions in the required interest rates credited 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, morbidity 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 2003, 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. In the second quarter of 2003 we decided to exit certain operations of two Japanese asset management units, and all periods presented below exclude the results of these operations, as they have been included within divested businesses.

	Year ended December 31,		
	2003	2002	2001
	(in millions)		
Operating results:			
Revenues	$ 356	$ 325	$ 296
Expenses	373	331	340
Adjusted operating income	(17)	(6)	(44)
Realized investment losses, net(1)	(52)	—	—
Income (loss) from continuing operations before income taxes	$ (69)	$ (6)	$ (44)

(1) Revenues exclude realized investment gains (losses), net. For a discussion of these items see "—Realized Investment Gains and General Account Investments—Realized Investment Gains."

2003 to 2002 Annual Comparison. Our International Investments segment reported a loss, on an adjusted operating income basis, of $17 million for 2003, compared to a loss of $6 million in 2002, as 2003 included a charge of $34 million to write off a receivable related to an investment in Korea. Excluding this charge, adjusted operating income increased $23 million. The improved results reflect the benefit of recently acquired units and a lower level of expenses related to our existing businesses, as well as higher earnings from our global derivatives businesses.

2002 to 2001 Annual Comparison. Our International Investments segment reported a loss, on an adjusted operating income basis, of $6 million for 2002 compared to a loss of $44 million in 2001. The $38 million reduction in the loss reflected earnings from recently acquired units and lower expenses resulting from our earlier actions to reduce the cost structure.

Corporate and Other Operations

Corporate and Other operations include corporate-level activities that we do not allocate to our business segments, real estate and relocation services, and international ventures and businesses that we have placed in wind-down status but have not divested, which, collectively, we refer to as "Other Businesses."

Corporate-level activities consist primarily of corporate-level income and expenses not allocated to any of our business segments, costs for company-wide initiatives in years prior to 2003, income from our qualified pension plans and 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 liquidated in 2002, as well as the impact of transactions with other segments. Corporate-level activities also include certain retained obligations relating to policyholders with whom we had previously agreed to provide insurance for reduced or no premium in accordance with contractual settlements related to prior individual life sales practices remediation.

	Year ended December 31,		
	2003	2002	2001
	(in millions)		
Operating Results:			
Corporate-level activities(1)	$ 42	$ 121	$ 1
Other businesses:			
Real Estate and Relocation Services	63	46	(11)
Other	(12)	(7)	(15)
Adjusted operating income	93	160	(25)
Realized investment gains (losses), net, and related adjustments(2)	(36)	(90)	180
Divested businesses(3)	(185)	(15)	58
Sales practices remedies and costs(4)	—	(20)	—
Demutualization(5)	—	—	(588)
Income (loss) from continuing operations before income taxes	$ (128)	$ 35	$ (375)

(1) Includes consolidating adjustments.
(2) See "—Realized Investment Gains and General Account Investments—Realized Investment Gains." for a discussion of these items.
(3) See "—Divested Businesses" for a discussion of the results of our divested businesses.
(4) See "—Sales Practices Remedies and Costs" for a discussion of our life insurance sales practices remedies and costs.
(5) See "—Demutualization Costs and Expenses" for a discussion of our demutualization costs and expenses.

2003 to 2002 Annual Comparison. Corporate and Other operations resulted in adjusted operating income of $93 million in 2003 and $160 million in 2002, a decline of $67 million. Adjusted operating income from corporate-level activities decreased $79 million, from $121 million in 2002 to $42 million in 2003. Income from our qualified pension plan declined $130 million, from $502 million in 2002 to $372 million in 2003, reflecting a decline in the expected rate of return on plan assets from 9.50% to 8.75% and a reduction in the discount rate from 7.25% to 6.50%. For purposes of calculating pension income from our own qualified pension plan for the year ended December 31, 2004, we will apply a discount rate of 5.75%, compared to 6.50% in 2003, and we will continue to apply an expected return on plan assets of 8.75% and a 4.50% rate of increase in compensation levels. We determined our expected return on plan assets based upon the arithmetic average of prospective returns, which is based upon a risk free rate as of the measurement date adjusted by a risk premium that considers historical statistics and expected investment manager performance, for equity, debt and real estate markets applied on a weighted average basis to our pension asset portfolio. Giving effect to the foregoing assumptions, we expect that income from our own qualified pension plan will continue to contribute to

adjusted operating income in 2004, but at a level of about $20 million to $30 million below that of the year 2003. In 2004, pension service costs related to active employees will be allocated to our business segments. The increase in allocated expenses to our business segments will be partially offset by a reduction in the allocation of other benefit costs related to non-active employees which will be retained in Corporate-level activities. Investment income, net of interest expense, declined by $57 million, reflecting the funding of the acquisition of American Skandia and share repurchases. Corporate-level general and administrative expenses were $551 million in 2003, before qualified pension income, compared to $626 million in 2002, a decrease of $75 million. General and administrative expenses for 2003 included $37 million of costs related to a structured financing transaction. General and administrative expenses, other than this cost, decreased by $112 million primarily due to reduced costs pertaining to certain company-wide initiatives, as well as our outsourcing of certain human resource support functions to a third party.

Corporate-level activities included $23 million of costs in 2003 from retained obligations relating to policyholders with whom we had previously agreed to provide insurance for reduced or no premium in accordance with contractual settlements related to prior individual life sales practices remediation, as compared to $96 million in 2002. The lower costs in 2003 were primarily attributable to improved equity market conditions in 2003. The costs in 2002 were partially offset by a $26 million reduction 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 had occurred, due to a change in our estimate.

Other businesses included in Corporate and Other operations resulted in adjusted operating income of $51 million in 2003 compared to $39 million in 2002. The improvement relates to our real estate and relocation business, which benefited from decreased expenses in the current period.

2002 to 2001 Annual Comparison. Corporate and Other operations resulted in adjusted operating income of $160 million in 2002 and a loss of $25 million in 2001, an increase of $185 million. Corporate-level activities resulted in adjusted operating income of $121 million in 2002 and $1 million in 2001. The increase was primarily due to higher investment income, net of interest expense, of $44 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. 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 $626 million in 2002, before qualified pension income, compared to $727 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%.

Corporate-level activities in 2002 included 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 individual life sales practices remediation. 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 had 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 was 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.

Divested Businesses

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

	Year ended December 31,		
	2003	2002	2001
	(in millions)		
Property and casualty insurance	$ (347)	$ 71	$ 200
Prudential Securities capital markets	287	(36)	(159)
Gibraltar Casualty	(81)	(79)	—
Other divested businesses	(41)	16	11
Total income (loss) from continuing operations before income taxes	(182)	(28)	52
Less: Realized investment gains (losses), net	3	(13)	(6)
Divested businesses excluding realized gain (losses), net	$ (185)	$ (15)	$ 58

Property and Casualty Insurance

In the fourth quarter of 2003, we completed our previously announced agreements to sell our property and casualty insurance companies that operate nationally in 48 states outside of New Jersey, and the District of Columbia, to Liberty Mutual Group ("Liberty Mutual"), as well as our New Jersey property and casualty insurance companies to Palisades Group. Results of the property and casualty insurance operations have been reclassified as a divested business for all periods presented.

Historically, the Individual Life and Annuities segment has been compensated for property and casualty insurance products sold through its distribution network. Following the sale of the property and casualty insurance operations, Prudential Agents will have continued access to non-proprietary property and casualty products under distribution agreements entered into with the purchasers of these businesses, and therefore, the Individual Life and Annuities segment will 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 that previously were allocated to the Property and Casualty Insurance segment have been reclassified to Corporate and Other operations, for all periods presented. These expenses, which we will seek to mitigate over time, will continue to be absorbed by Corporate and Other operations in future periods.

In addition, in 2003 we sold our specialty automobile insurance business and entered into an agreement to sell our work-place distribution property and casualty insurance operations, which closed in the first quarter of 2004. The results of operations for these businesses are included in "Loss from discontinued operations" for all periods presented.

Operating Results

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

	Year ended December 31,		
	2003	2002	2001
	(in millions)		
GAAP results:			
Revenues	$ 1,569	$ 1,815	$ 1,707
Benefits and expenses	1,916	1,744	1,507
Income (loss) from continuing operations before income taxes	$ (347)	$ 71	$ 200

Income From Continuing Operations Before Income Taxes

2003 to 2002 Annual Comparison. Income from continuing operations before income taxes decreased $418 million, from income of $71 million in 2002 to a loss of $347 million in 2003. The loss in 2003 includes a charge of $491 million, which primarily reflects the write-down of the assets to be sold to fair value and management's best

estimate of the cost of retained liabilities. The retained liabilities include pre-closing litigation and obligations under reinsurance contracts provided in connection with potential adverse loss development on the business sold to Liberty Mutual. Excluding the $491 million charge recorded in the 2003 period, income from continuing operations increased by $73 million, primarily reflecting improved underwriting results.

2002 to 2001 Annual Comparison. Income from continuing operations before income taxes decreased $129 million, from $200 million in 2001 to $71 million in 2002. Results for 2002 reflected a $102 million lower net benefit from prior accident-year development and a $39 million lower benefit from stop-loss reinsurance recoveries.

Other Divested Businesses

The results for the Prudential Securities capital markets businesses in 2003 include the gain from a $332 million settlement of an arbitration award. Partly offsetting this gain in 2003, are losses related to the residual investment portfolio of the business that continues to be liquidated. The losses in 2002 and 2001 also reflect the liquidation of the residual investment portfolio, as well as costs related to the wind-down of the business.

The results for the Gibraltar Casualty Company, a commercial property and casualty insurer that we sold in September 2000 to Everest Re Group, Ltd. ("Everest"), reflect losses of $81 million in 2003 and $79 million in 2002 from a stop-loss reinsurance agreement we entered into pursuant to the sale, 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. As of December 31, 2003, we are fully reserved for future payments under this agreement.

Also reflected in other divested businesses are the results of the Prudential Home Mortgage business and certain international securities operations, as well as the operations of certain Japanese asset management units.

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 individual life sales practices costs including related administrative costs, litigation costs and settlements, which is reflected in our Corporate and Other operations.

Demutualization Costs and Expenses

We incurred costs and expenses related to demutualization totaling $588 million for the year ended December 31, 2001, which are reflected in our Corporate and Other operations. Demutualization costs in 2001 included $340 million of demutualization consideration paid to our former Canadian branch policyholders. 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.

Results of Operations of Closed Block Business

We established the Closed Block Business effective at the date of demutualization. The Closed Block Business 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 no longer offer these traditional participating policies. See "—Overview—Financial Services Businesses and Closed Block Business" for additional details.

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 investment gains over a number of years, mortality experience and other factors. As required by GAAP, 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 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 expense to recognize a policyholder dividend obligation for the excess of actual cumulative earnings in any given period over the cumulative earnings we expect. However, net unrealized investment gains 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 Closed Block policyholders of $2.443 billion recorded as of December 31, 2003.

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 GAAP results for the periods indicated.

	Year ended December 31,		
	2003	2002	2001
		(in millions)	
GAAP results:			
Revenues	$ 7,982	$ 7,121	$ 7,728
Benefits and expenses	7,612	7,878	8,347
Income (loss) from continuing operations before income taxes	$ 370	$ (757)	$ (619)

Income from Continuing Operations Before Income Taxes

2003 to 2002 Annual Comparison. Income from continuing operations before income taxes increased $1.127 billion to $370 million in 2003, from a loss of $757 million in 2002. The increase in income from continuing operations before income taxes reflects an increase in realized investment gains (losses), net, of $1.013 billion in 2003 from 2002. In addition, dividends to policyholders decreased by $54 million, reflecting reductions in the dividend scale for 2003, and a decline in operating expenses of $49 million. For a discussion of Closed Block Business realized investment gains (losses), net, see "—Realized Investment Gains and General Account Investments—Realized Investment Gains."

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 that 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 had occurred. Lastly, we benefited from our expense reduction efforts, for which the Closed Block Business incurred $48 million of implementation costs in 2001.

Revenues

2003 to 2002 Annual Comparison. Revenues, as shown in the table above under "—Operating Results," increased $861 million, or 12%, in 2003 from 2002. Realized investment gains (losses), net, increased $1.013 billion, from net realized investment losses of $587 million in 2002 to net realized investment gains of $426 million in 2003. Premiums decreased $162 million from $4.022 billion in 2002 to $3.860 billion in 2003. We expect the decline in premiums for this business to continue as the policies in force mature or terminate in this closed block of traditional participating insurance.

2002 to 2001 Annual Comparison. Revenues 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. Realized investment losses, net of gains, increased $44 million, from $543 million in 2001 to $587 million in 2002.

Benefits and Expenses

2003 to 2002 Annual Comparison. Benefits and expenses, as shown in the table above under "—Operating Results," decreased $266 million, or 3%, in 2003 from 2002. Policyholder benefits and related changes in reserves, including interest credited to policyholders' accounts, decreased $131 million, from $4.444 billion in 2002 to $4.313 billion in 2003, consistent with the discontinuation of sales of traditional products, as discussed above. Dividends to policyholders amounted to $2.452 billion in 2003, a decrease of $54 million, from $2.506 billion in 2002, reflecting reductions in the dividend scale for 2003 based on evaluations of the experience underlying the dividend scale. Operating expenses, including distribution costs that we charge to expense, decreased $49 million in 2003 from 2002, reflecting lower distribution costs as we have discontinued sales of traditional products as well as our continued efforts to reduce operating cost levels.

2002 to 2001 Annual Comparison. Benefits and expenses 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 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.

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. 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,		
	2003	2002	2001
		(in millions)	
Cash value of surrenders	$ 1,364	$ 1,234	$ 1,246
Cash value of surrenders as a percentage of mean future policy benefit reserves	2.9%	2.6%	2.7%

2003 to 2002 Annual Comparison. The total cash value of surrenders increased $130 million in 2003 from 2002. The level of surrenders as a percentage of mean future policy benefit reserves increased to 2.9% in 2003 from 2.6% in 2002. The increase reflects the surrender of a few large cash value policies during 2003.

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.

Income Taxes

Shown below is our income tax provision (benefit) for the years ended December 31, 2003, 2002 and 2001, 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.

	Year Ended December 31,		
	2003	2002	2001
	(in millions)		
Tax provision (benefit)	$ 650	$ (189)	$ (32)
Impact of:			
Effect of change in repatriation assumption for certain international operations	(120)	—	—
Disposition of subsidiaries	78	183	—
Adjustments to mutual life insurance company tax estimated liability	—	—	200
Tax provision (benefit) excluding these items	$ 608	$ (6)	$ 168
Tax provision (benefit) at statutory rate	$ 685	$ 28	$ (42)

For the year ended December 31, 2003, the difference between taxes excluding the items shown above and taxes that would have resulted from the application of the statutory rate is attributable, in part, to nontaxable investment income, reductions in foreign tax rates and an increase in tax credits, partially offset by an increase in state taxes.

For the year ended December 31, 2001, the difference between taxes 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

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

	Year ended December 31,		
	2003	2002	2001
	(in millions)		
Property and casualty operations	$ (28)	$ (32)	$ (21)
International securities operations	(76)	(69)	(40)
Web-based workplace distribution of voluntary benefits	—	(58)	(20)
Healthcare operations	11	71	25
Other	(13)	3	(25)
Loss from discontinued operations before income taxes	(106)	(85)	(81)
Income tax benefit	(62)	(10)	(16)
Loss from discontinued operations, net of taxes	$ (44)	$ (75)	$ (65)

Realized Investment Gains and General Account Investments

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 and record an impairment charge when we determine that a decline in value is other than temporary. 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. 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. Derivative contracts also include forward purchases and sales of to-be-announced mortgage-backed securities primarily related to our mortgage dollar roll program. 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 are not applicable 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. 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, is 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.

The following tables set forth realized investment gains (losses), net, by investment type for the Financial Services Businesses and Closed Block Business, as well as related charges and adjustments associated with the Financial Services Businesses, for the years ended December 31, 2003, 2002, and 2001, respectively. For a discussion of our investment portfolio and related results, including overall income yield and investment income, as well our policies regarding other than temporary declines in investment value, see "— General Account Investments" below.

	Year ended December 31,		
	2003	2002	2001
Realized investment gains (losses), net:			
Financial Services Businesses	$ (156)	$ (778)	$ (131)
Closed Block Business	426	(587)	(543)
Consolidated realized investment gains (losses), net	$ 270	$ (1,365)	$ (674)

	Year ended December 31,		
	2003	2002	2001
Financial Services Businesses:			
Realized investment gains (losses), net			
Fixed maturity investments	$ (93)	$ (508)	$ (345)
Equity securities	23	(149)	(59)
Derivative instruments	(231)	(226)	236
Other	145	105	37
Total	(156)	(778)	(131)
Related adjustment for derivative (gains) losses included in adjusted operating income	—	(94)	(34)
Realized investment gains (losses), net, excluded from adjusted operating income	$ (156)	$ (872)	$ (165)
Related charges	$ (43)	$ 6	$ 26

	Year ended December 31,		
	2003	2002	2001
Closed Block Business:			
Realized investment gains (losses), net			
Fixed maturity investments	$ 331	$ (212)	$ (372)
Equity securities	(33)	(186)	(177)
Derivative instruments	64	(174)	(10)
Other	64	(15)	16
Total	$ 426	$ (587)	$ (543)

2003 to 2002 Annual Comparison. The Financial Services Businesses' net realized investment losses in 2003 were $156 million compared to $778 million in 2002. Realized losses in 2003 included fixed maturity impairments of $266 million and credit-related losses of $22 million compared with $385 million and $470 million for 2002, respectively. Impairments in 2003 were concentrated in the manufacturing, finance, services and transportation sectors and were primarily driven by downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers. Impairments in 2002 were concentrated in the transportation, technology, services, finance and manufacturing sectors and were primarily driven by downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers. Realized losses in 2003 and 2002 on fixed maturity securities were offset, in part, by realized gains driven largely by sales of fixed maturity securities in a declining rate environment, along with gains on private bond prepayment premiums. We realized net gains on equity securities of $23 million in 2003 compared to net losses of $149 million in 2002. We recognized $101 million and $164 million of impairments on equity securities in 2003 and 2002, respectively, primarily related to our Gibraltar Life operations. The equity securities impairments in both periods were primarily the result of market declines over a prolonged period. Impairments on equity securities in 2003 were more than offset by equity trading gains, primarily in Gibraltar Life, as it shifted its portfolio to a passive index strategy. Realized losses in 2003 include net derivative losses of $231 million, compared to net derivative losses of $226 million in 2002. The losses in 2003 included negative mark-to-market adjustments of $161 million on forward currency contracts used to hedge the future income of non-U.S. businesses, driven by the weakening of the U.S. dollar. 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, as well as 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.

For the Closed Block Business, net realized investment gains in 2003 were $426 million compared to losses of $587 million in 2002. Realized gains in 2003 reflected net realized gains on sales of fixed maturity securities in a declining rate environment and private bond prepayment premiums, partially offset by fixed maturity impairments of $123 million and credit-related losses of $46 million. Impairments in 2003 were concentrated in the manufacturing, finance, and services sectors and were primarily driven by downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers. Realized losses in 2002 included $302 million of fixed maturity impairments and $420 million of credit-related losses, which were partially offset by realized gains on sales of fixed maturity securities in a declining rate environment and private bond prepayment gains. Impairments in 2002 were concentrated in the transportation, services, technology, and finance sectors and were primarily driven by downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers. We realized net losses on equity securities of $33 million in 2003, including $59 million of impairments, compared to losses of $186 million in 2002, which included $145 million of impairments. The equity security impairments in both periods were primarily the result of market declines over a prolonged period. Net gains on derivatives were $64 million in 2003 compared to losses of $174 million in 2002. The derivative losses in 2002 were largely attributable to losses on equity futures contracts and currency hedges of non-U.S. dollar investments. Realized investment gains in 2003 also include $41 million of gains in connection with the partial divestiture of an equity investment in a real estate operating company.

2002 to 2001 Annual Comparison. The Financial Services Businesses' net realized investment losses for 2002 were $778 million compared to $131 million for 2001. Realized losses in 2002 included fixed maturity impairments of $385 million and credit related losses of $470 million for 2002 compared with $392 million and $225 million for 2001, respectively. 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. We realized net losses on equity securities of $149 million in 2002, including $164 million of impairments, compared to losses of $59 million in 2001, which included $153 million of impairments. Realized losses for 2002 include derivative losses of $226 million, compared to derivative gains of $236 million for 2001. 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, as well as 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. Realized losses in 2002 include fixed maturity impairments of $302 million and credit related losses of $420 million, which were offset in part by realized gains on sales of fixed income securities and prepayment premiums. Realized losses in 2001 included fixed maturity impairments of $385 million and credit related losses of $184 million, which were offset in part by realized gains on sales of fixed income securities and prepayment premiums. We realized net losses on equity securities of $186 million in 2002, including $145 million of impairments, compared to losses of $177 million in 2001, which included $86 million of impairments. 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.

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.

The General Account portfolio is managed pursuant to the distinct objectives of the Financial Services Businesses and the Closed Block Business. The primary investment objectives of the Financial Services Businesses include:

- matching the liability characteristics of the major products and other obligations of the Company; and
- maximizing the portfolio book yield within risk constraints.

The primary investment objectives of the Closed Block Business include:

- providing for the reasonable dividend expectations of the participating policyholders within the Closed Block Business and the Class B shareholders; and

- maximizing total return and preserving principal, within risk constraints, while matching the liability characteristics of the major products in the Closed Block Business.

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 works with our business units to develop investment objectives, performance factors and measures and asset allocation ranges.

The Asset Liability and Risk Management Group also 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. Most of our products can be categorized in to the following three classes:

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

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

Portfolio Composition

Our investment portfolio consists primarily of public and private fixed maturity securities, 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 $174.9 billion and $169.2 billion as of December 31, 2003 and 2002, respectively, which are segregated between the Financial Services Businesses and the Closed Block Business. Total general account investments attributable to the Financial Services Businesses were $110.9 billion and $105.1 billion as of December 31, 2003 and 2002, respectively, while total general account investments attributable to the Closed Block Business were $64.0 billion and $64.1 billion as of December 31, 2003 and 2002, respectively. The following table sets forth the composition of the investments of our general account as of the dates indicated.

	As of December 31, 2003			
	Financial Services Businesses	Closed Block Business	Total	% of Total
	($ in millions)			
Fixed Maturities:				
Public, available for sale, at fair value	$ 66,430	$ 29,538	$ 95,968	54.9%
Public, held to maturity, at amortized cost	3,010	—	3,010	1.7
Private, available for sale, at fair value	17,921	15,052	32,973	18.9
Private, held to maturity, at amortized cost	58	—	58	—
Trading account assets, at fair value	226	—	226	0.1
Equity securities, at fair value	1,101	2,282	3,383	1.9
Commercial loans, at book value	11,774	7,006	18,780	10.7
Other long term investments(1)	3,702	1,041	4,743	2.7
Policy loans, at outstanding balance	2,609	5,543	8,152	4.7
Short-term investments	4,052	3,581	7,633	4.4
Total general account investments	110,883	64,043	174,926	100.0%
Invested assets of other entities and operations(2)	6,115	—	6,115	
Total investments	$ 116,998	$ 64,043	$ 181,041	

	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	11,720	6,987	18,707	11.0
Other long term investments(1)	3,877	1,075	4,952	3.0
Policy loans, at outstanding balance	3,146	5,681	8,827	5.2
Short-term investments	3,158	2,579	5,737	3.4
Total general account investments	105,096	64,076	169,172	100.0%
Invested assets of other entities and operations(2)	14,036	—	14,036	
Total investments	$ 119,132	$ 64,076	$ 183,208	

(1) Other long-term investments consist of real estate and non-real estate related investments in joint ventures (other than our equity investment in Wachovia Securities) 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, 2003, our general account investment portfolio attributable to the Financial Services Businesses consisted primarily of $87.4 billion of fixed maturity securities (79% of the total portfolio in 2003 and 78% in 2002), $11.8 billion of commercial loans (11% of the total portfolio in 2003 and 11% in 2002), $1.1 billion of equity securities (1% of the total portfolio in 2003 and 1% in 2002) and $10.6 billion of other investments (9% of the total portfolio in 2003 and 10% in 2002). Portfolio growth in 2003 was due primarily to the reinvestment of net investment income.

As of December 31, 2003, our general account investment portfolio attributable to the Closed Block Business consisted primarily of $44.6 billion of fixed maturity securities (70% of the total portfolio in 2003 and 72% in 2002), $7.0 billion of commercial loans (11% of the total portfolio in 2003 and 11% in 2002), $2.3 billion of equity securities (3% of the total portfolio in 2003 and 2% in 2002) and $10.1 billion of other investments (16% of the total portfolio in 2003 and 15% in 2002). The portfolio size was relatively the same as of December 31, 2003 and 2002 as the reinvestment of net investment income was largely offset by net operating outflows.

Investment Results

The overall income yield on our general account investments after investment expenses, excluding realized investment gains (losses), was 5.51% and 5.73% for the years ended December 31, 2003 and 2002, respectively. The decline in yield on the portfolio in 2003 from 2002 is primarily attributable to reinvestment activities over the last two years in a declining interest rate environment.

The net investment income yield attributable to the Financial Services Businesses was 4.96% for the year ended December 31, 2003 compared to 5.16% for the year ended December 31, 2002. The change in yield between periods was primarily due to declines in fixed maturities and commercial loan yields primarily attributable to reinvestment activities in a declining interest rate environment and lower mortgage prepayment fees in 2003, partially offset by more favorable results from limited partnerships within other investments. The yield on the Financial Services Businesses reflects the income yield on the investment portfolio of our Japanese insurance operations, which was 2.02% for the year ended December 31, 2003 compared to 1.93% for the year ended December 31, 2002. The increase in yield on the Japanese insurance portfolio in 2003 from 2002 is primarily attributable to the redeployment of excess cash and investment in U.S. mortgage-backed bonds during 2002.

The net investment income yield attributable to the Closed Block Business was 6.49% for the year ended December 31, 2003 compared to 6.75% for the year ended December 31, 2002. The change in yield between periods was primarily due to declines in fixed maturities primarily attributable to reinvestment activities in a declining interest rate environment, partially offset by more favorable results from limited partnerships within other investments.

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,” which is the difference between the yield on our investments and the amounts that we are required to pay our customers related to these products and which could 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, 2003					
	Financial Services Businesses		Closed Block Business		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
			($ in millions)			
Fixed maturities	4.82%	$ 3,708	6.81%	$ 2,703	5.49%	$ 6,411
Equity securities	1.50	16	2.21	39	1.95	55
Commercial loans	7.15	803	8.39	564	7.61	1,367
Policy loans	5.35	150	6.40	347	6.04	497
Short-term investments and cash equivalents	1.82	104	2.17	78	1.93	182
Other investments	8.97	372	9.92	101	9.16	473
Gross investment income before investment expenses	5.12	5,153	6.73	3,832	5.70	8,985
Investment expenses	(.16)	(224)	(.24)	(200)	(.19)	(424)
Investment income after investment expenses	4.96%	4,929	6.49%	3,632	5.51%	8,561
Investment results of other entities and operations(2)		120				120
Total investment income		$ 5,049		$ 3,632		$ 8,681

	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	5.20%	$ 3,596	7.33%	$ 2,828	5.96%	$ 6,424
Equity securities	2.54	42	2.48	30	2.52	72
Commercial loans	7.44	888	8.37	528	7.77	1,416
Policy loans	5.85	169	6.50	360	6.28	529
Short-term investments and cash equivalents	2.18	200	3.56	112	2.39	312
Other investments	7.01	310	(0.88)	(4)	5.31	306
Gross investment income before investment expenses	5.31	5,205	7.00	3,854	5.92	9,059
Investment expenses	(.15)	(225)	(.25)	(236)	(.19)	(461)
Investment income after investment expenses	5.16%	4,980	6.75%	3,618	5.73%	8,598
Investment results of other entities and operations(2)		221		—		221
Total investment income		$ 5,201		$ 3,618		$ 8,819

(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 2002 are presented on a basis consistent with our current reporting practices.

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

Fixed Maturity Securities

Investment Mix

Our fixed maturity securities portfolio consists of publicly traded and private placed debt securities across an array of industry categories. Our international portfolios 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 portfolios, 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. Over the last several years, our investment staff has directly originated more than half of our annual private placement originations. 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.

Investments in fixed maturity securities attributable to the Financial Services Businesses were $83.0 billion at amortized cost with an estimated fair value of $87.4 billion as of December 31, 2003 versus $77.3 billion at amortized cost with an estimated fair value of $81.9 billion as of December 31, 2002.

Investments in fixed maturity securities attributable to the Closed Block Business were $41.3 billion at amortized cost with an estimated fair value of $44.6 billion as of December 31, 2003 versus $43.2 billion at amortized cost with an estimated fair value of $46.2 billion as of December 31, 2002.

Fixed Maturity Securities by Contractual Maturity Date

The following tables set forth the breakdown of our fixed maturity securities portfolio in total by contractual maturity as of December 31, 2003.

	As of December 31, 2003			
	Financial Services Businesses		Closed Block Business	
	Amortized Cost	% of Total	Amortized Cost	% of Total
	($ in millions)			
Maturing in 2004	$ 3,961	4.8%	$ 2,319	5.6%
Maturing in 2005	6,068	7.3	2,627	6.4
Maturing in 2006	5,819	7.0	2,247	5.4
Maturing in 2007	5,317	6.4	2,512	6.1
Maturing in 2008	6,475	7.8	2,712	6.6
Maturing in 2009	5,267	6.3	2,241	5.4
Maturing in 2010	5,960	7.2	2,194	5.3
Maturing in 2011	6,283	7.6	2,459	6.0
Maturing in 2012	4,613	5.6	2,293	5.6
Maturing in 2013 and beyond	33,203	40.0	19,689	47.6
Total Fixed Maturities	$ 82,966	100.0%	$ 41,293	100.0%

Fixed Maturity Securities and Unrealized Gains and Losses by Industry Category

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

	As of December 31, 2003				As of December 31, 2002			
Industry(1)	Amortized Cost	Gross Unrealized Gains(2)	Gross Unrealized Losses(2)	Fair Value	Amortized Cost	Gross Unrealized Gains(2)	Gross Unrealized Losses(2)	Fair Value
	(in millions)							
Corporate Securities:								
Manufacturing	$ 13,115	$ 996	$ 61	$ 14,050	$ 12,505	$ 886	$ 86	$ 13,305
Finance	10,839	569	57	11,351	8,594	538	34	9,098
Services	6,646	570	26	7,190	4,775	349	46	5,078
Utilities	6,467	630	28	7,069	6,115	527	83	6,559
Energy	2,829	289	10	3,108	3,590	353	25	3,918
Retail and Wholesale	2,402	147	24	2,525	2,533	199	30	2,702
Transportation	1,800	166	4	1,962	1,996	128	10	2,114
Other	646	31	14	663	446	22	2	466
Total Corporate Securities	44,744	3,398	224	47,918	40,554	3,002	316	43,240
Foreign Government	23,075	892	91	23,876	20,375	1,184	1	21,558
Asset-Backed Securities	6,189	121	19	6,291	5,732	142	30	5,844
Mortgage Backed	4,966	94	28	5,032	4,751	203	3	4,951
U.S. Government	3,992	333	7	4,318	5,863	437	1	6,299
Total	$ 82,966	$ 4,838	$ 369	$ 87,435	$ 77,275	$ 4,968	$ 351	$ 81,892

(1) Investment data has been classified based on Lehman industry categorizations for domestic public holdings and similar classifications by industry for all other holdings.
(2) Includes $42 million of gross unrealized gains and $26 million of gross unrealized losses as of December 31, 2003 compared to $67 million of gross unrealized gains and $7 million of gross unrealized losses as of December 31, 2002 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, 2003, consist primarily of 28% foreign government sector, 16% manufacturing sector, 13% finance sector, 8% services sector, and 8% utilities sector compared to 26% foreign government sector, 16% manufacturing sector, 11% finance sector, 8% utilities sector, and 8% U.S. government sector as of December 31, 2002. As of December 31, 2003, 92% of the mortgage-backed securities in the Financial Services Businesses were publicly traded agency pass-through securities related to residential mortgage loans. Collateralized mortgage obligations represented the remaining 8% of mortgage-backed securities, and less than 1% 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, 2003, compared to $0.4 billion as of December 31, 2002. The gross unrealized losses in 2003 were concentrated primarily in the foreign government, manufacturing and finance sectors while gross unrealized losses in 2002 were concentrated in the manufacturing, utilities, and services sectors. Non-investment grade securities represented 13% of the gross unrealized losses attributable to the Financial Services Businesses in 2003 versus 51% of gross unrealized losses in 2002.

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

	As of December 31, 2003				As of December 31, 2002			
Industry(1)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)							
Corporate Securities:								
Manufacturing	$ 9,412	$ 770	$ 33	$ 10,149	$ 8,993	$ 675	$ 83	$ 9,585
Finance	5,587	368	5	5,950	5,322	400	13	5,709
Utilities	5,398	584	24	5,958	4,921	454	72	5,303
Services	5,088	554	10	5,632	4,332	370	40	4,662
Energy	2,280	267	3	2,544	2,318	261	7	2,572
Retail and Wholesale	1,990	200	1	2,189	2,613	265	21	2,857
Transportation	1,196	112	4	1,304	1,210	82	16	1,276
Other	29	5	—	34	273	20	3	290
Total Corporate Securities	30,980	2,860	80	33,760	29,982	2,527	255	32,254
U.S. Government	4,844	284	31	5,097	4,422	446	6	4,862
Mortgage Backed	1,372	50	2	1,420	5,055	143	3	5,195
Asset-Backed Securities	2,842	45	8	2,879	2,851	62	12	2,901
Foreign Government	1,255	182	3	1,434	887	136	2	1,021
Total	$ 41,293	$ 3,421	$ 124	$ 44,590	$ 43,197	$ 3,314	$ 278	$ 46,233

(1) Investment data has been classified based on Lehman industry categorizations for domestic public holdings and similar classifications by industry for all other holdings.

As a percentage of amortized cost, fixed maturity investments attributable to the Closed Block Business as of December 31, 2003, consist primarily of 23% manufacturing sector, 14% finance sector, 13% utilities sector, 12% services sector, and 12% U.S. Government compared to 21% manufacturing sector, 12% finance sector, 12% mortgage backed securities, 11% utilities sector and 10% services sector as of December 31, 2002. As of December 31, 2003, 73% of the mortgage-backed securities in the Closed Block Business were publicly traded agency pass-through securities related to residential mortgage loans. Collateralized mortgage obligations represented the remaining 27% of mortgage-backed securities, and less than 1% of fixed maturities.

The gross unrealized losses related to our fixed maturity portfolio attributable to the Closed Block Business were $0.1 billion as of December 31, 2003, compared to $0.3 billion as of December 31, 2002. The gross unrealized losses as of December 31, 2003, were concentrated primarily in the manufacturing, U.S. Government and utilities sectors while gross unrealized losses in 2002 were concentrated in manufacturing, utilities, and services sectors. Non-investment grade securities represented 40% of the gross unrealized losses attributable to the Closed Block Business as of December 31, 2003, versus 63% of gross unrealized losses as of December 31, 2002.

Fixed Maturity Securities Credit Quality

The Securities Valuation Office ("SVO") of the NAIC evaluates the investments of insurers for regulatory reporting purposes and assigns fixed maturity securities to one of six categories called "NAIC Designations." NAIC designations of "1" or "2" include fixed maturities considered investment grade, which include securities rated Baa3 or higher by Moody's or BBB- or higher by 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. As a result of time lags between the funding of investments, the finalization of legal documents and the completion of the SVO filing process, the fixed maturity portfolio generally includes securities that have not yet been rated by the SVO as of each balance sheet date. Pending receipt of SVO ratings, the categorization of these securities by NAIC designation is based on the expected ratings indicated by internal analysis.

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 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 $5.7 billion, or 7%, of the total fixed maturities as of December 31, 2003, compared to $6.1 billion, or 8%, of total fixed maturities as of December 31, 2002. The decrease in the amount of below-investment grade fixed maturities as of December 31, 2003, from a year earlier was primarily driven by SVO ratings upgrades, principally on private bonds, as well as the maturity or prepayment of some below investment grade bonds.

The amortized cost of our public and private below-investment grade fixed maturities attributable to the Closed Block Business totaled $5.9 billion, or 14%, of the total fixed maturities as of December 31, 2003, compared to $6.0 billion, or 14%, of total fixed maturities as of December 31, 2002.

Public Fixed Maturities—Credit Quality

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

(1)(2) NAIC Designation	Rating Agency Equivalent	As of December 31, 2003 Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value	As of December 31, 2002 Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value
		(in millions)							
1	Aaa, Aa, A	$ 50,133	$ 2,247	$ 210	$ 52,170	$ 47,430	$ 2,968	$ 35	$ 50,363
2	Baa	13,767	900	91	14,576	11,281	671	110	11,842
	Subtotal Investment Grade	63,900	3,147	301	66,746	58,711	3,639	145	62,205
3	Ba	1,580	167	11	1,736	1,730	68	56	1,742
4	B	757	89	3	843	519	20	23	516
5	C and lower	67	30	2	95	94	5	17	82
6	In or near default	34	3	1	36	50	3	1	52
	Subtotal Below Investment Grade	2,438	289	17	2,710	2,393	96	97	2,392
	Total Public Fixed Maturities	$ 66,338	$ 3,436	$ 318	$ 69,456	$ 61,104	$ 3,735	$ 242	$ 64,597

(1) Reflects equivalent ratings for investments of the international insurance operations that are not rated by U.S. insurance regulatory authorities.
(2) Includes, as of December 31, 2003 and December 31, 2002, respectively, 27 securities with amortized cost of $149 million (fair value, $151 million) and 65 securities with amortized cost of $307 million (fair value, $306 million) that have been categorized based on expected NAIC designations pending receipt of SVO ratings.
(3) Includes $41 million of gross unrealized gains and $25 million of gross unrealized losses as of December 31, 2003 compared to $66 million of gross unrealized gains and $7 million of gross unrealized losses as of December 31, 2002 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 (1)	Rating Agency Equivalent	As of December 31, 2003 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	As of December 31, 2002 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
					(in millions)				
1	Aaa, Aa, A	$ 17,277	$ 1,071	$ 48	$ 18,300	$ 20,110	$ 1,435	$ 14	$ 21,531
2	Baa	7,052	551	16	7,587	6,137	440	51	6,526
	Subtotal Investment Grade	24,329	1,622	64	25,887	26,247	1,875	65	28,057
3	Ba	1,954	190	2	2,142	1,896	82	55	1,923
4	B	1,283	109	5	1,387	880	33	42	871
5	C and lower	91	17	1	107	146	5	27	124
6	In or near default	12	3	0	15	17	—	1	16
	Subtotal Below Investment Grade	3,340	319	8	3,651	2,939	120	125	2,934
	Total Public Fixed Maturities	$ 27,669	$ 1,941	$ 72	$ 29,538	$ 29,186	$ 1,995	$ 190	$ 30,991

(1) Includes, as of December 31, 2003 and December 31, 2002, respectively, 65 securities with amortized cost of $204 million (fair value, $211 million) and 30 securities with amortized cost of $193 million (fair value, $193 million) that have been categorized based on expected NAIC designations pending receipt of SVO ratings.

Private Fixed Maturities—Credit Quality

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

NAIC Designation (1)(2)	Rating Agency Equivalent	As of December 31, 2003 Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value	As of December 31, 2002 Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value
					(in millions)				
1	Aaa, Aa, A	$ 4,647	$ 400	$ 7	$ 5,040	$ 4,945	$ 457	$ 5	$ 5,397
2	Baa	8,749	749	13	9,485	7,519	632	23	8,128
	Subtotal Investment Grade	13,396	1,149	20	14,525	12,464	1,089	28	13,525
3	Ba	2,004	146	13	2,137	2,275	99	41	2,333
4	B	508	38	3	543	597	21	13	605
5	C and lower	552	62	12	602	700	20	24	696
6	In or near default	168	7	3	172	135	4	3	136
	Subtotal Below Investment Grade	3,232	253	31	3,454	3,707	144	81	3,770
	Total Private Fixed Maturities	$ 16,628	$ 1,402	$ 51	$ 17,979	$ 16,171	$ 1,233	$ 109	$ 17,295

(1) Reflects equivalent ratings for investments of the international insurance operations that are not rated by U.S. insurance regulatory authorities.
(2) Includes, as of December 31, 2003 and December 31, 2002, respectively, 196 securities with amortized cost of $2,803 million (fair value, $2,876 million) and 280 securities with amortized cost of $2,376 million (fair value, $2,421 million) that have been categorized based on expected NAIC designations pending receipt of SVO ratings.
(3) Includes $1 million of gross unrealized gains and $1 million of gross unrealized losses as of December 31, 2003 compared to $1 million of gross unrealized gains as of December 31, 2002 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.

NAIC Designation (1)	Rating Agency Equivalent	As of December 31, 2003 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	As of December 31, 2002 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
					(in millions)				
1	Aaa, Aa, A	$ 2,862	$ 336	$ 2	$ 3,196	$ 3,440	$ 399	$ 7	$ 3,832
2	Baa	8,205	950	9	9,146	7,499	769	32	8,236
	Subtotal Investment Grade	11,067	1,286	11	12,342	10,939	1,168	39	12,068
3	Ba	1,615	139	9	1,745	1,886	123	16	1,993
4	B	440	31	3	468	563	18	15	566
5	C and lower	362	20	6	376	485	9	13	481
6	In or near default	140	4	23	121	138	1	5	134
	Subtotal Below Investment Grade	2,557	194	41	2,710	3,072	151	49	3,174
	Total Private Fixed Maturities	$ 13,624	$ 1,480	$ 52	$ 15,052	$ 14,011	$ 1,319	$ 88	$ 15,242

(1) Includes, as of December 31, 2003 and December 31, 2002, respectively, 110 securities with amortized cost of $1,157 million (fair value, $1,188 million) and 184 securities with amortized cost of $1,708 million (fair value, $1,766 million) that have been categorized based on expected NAIC designations pending receipt of SVO ratings.

Unrealized Losses from Fixed Maturity Securities

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

	As of December 31, 2003 Amortized Cost	Gross Unrealized Losses	As of December 31, 2002 Amortized Cost	Gross Unrealized Losses
		(in millions)		
Less than six months	$ 51	$ 13	$ 242	$ 72
Six months or greater but less than nine months	—	—	4	1
Nine months or greater but less than twelve months	7	2	—	—
Twelve months and greater	—	—	—	—
Total	$ 58	$ 15	$ 246	$ 73

The gross unrealized losses in 2003 were primarily concentrated in the manufacturing and asset-backed securities sectors, as well as other corporate securities, while the gross unrealized losses in 2002 were concentrated in the utilities, retail and wholesale, and manufacturing 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, 2003 Amortized Cost	Gross Unrealized Losses	As of December 31, 2002 Amortized Cost	Gross Unrealized Losses
		(in millions)		
Less than six months	$ 74	$ 24	$ 285	$ 84
Six months or greater but less than nine months	—	—	1	—
Nine months or greater but less than twelve months	—	—	—	—
Twelve months and greater	—	—	—	—
Total	$ 74	$ 24	$ 286	$ 84

The gross unrealized losses in 2003 were primarily concentrated in the manufacturing, utilities, and transportation sectors while the gross unrealized losses in 2002 were concentrated in the manufacturing, utilities and finance sectors.

Impairments of Fixed Maturity Securities

We maintain separate monitoring processes for public and private fixed maturities and create watch lists to highlight securities that require special scrutiny and management. Our public fixed maturity asset managers formally review all public fixed maturity holdings on a quarterly basis and more frequently when necessary to identify potential credit deterioration whether due to ratings downgrades, unexpected price variances, and/or 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.

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

Our private fixed maturity asset managers 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 of the decline (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 write down 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 $266 million in 2003 and $385 million in 2002. Impairments of fixed maturity securities attributable to the Closed Block Business totaled $123 million in 2003 and $302 million in 2002. For a further discussion of impairments, see "—Realized Investment Gains" above.

Commercial Loans

Investment Mix

We originate domestic commercial mortgages using dedicated investment staff and a network of independent companies through our various regional offices across the country. All loans are underwritten consistently to Company standards using our proprietary quality rating system that has been developed from 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.

Ongoing surveillance of the portfolio is performed and loans are placed on watch list status based on a predefined set of criteria. We place loans on early warning status in cases where we detect that the physical condition of the property, the financial situation of the borrower or tenant or other market factors could lead to a loss of principal or interest. We classify loans as closely monitored when there is a collateral deficiency or other credit events that will lead to a potential loss of principal or interest. Loans not in good standing are those loans where there is a high probability of loss of principal, such as when the loan is in the process of foreclosure or the borrower is in bankruptcy. In our domestic operations, our workout and special servicing professionals manage the loans on the watch list. 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 both December 31, 2003 and 2002, we held approximately 11% of our general account investments in commercial loans. These percentages are gross of a $0.4 billion allowance for losses as of both December 31, 2003 and 2002.

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, 2003				As of December 31, 2002			
	Financial Services Businesses		Closed Block Business		Financial Services Businesses		Closed Block Business	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
	($ in millions)							
Commercial loans by region:								
U.S. Regions:								
Pacific	$ 2,694	22.1%	$ 2,607	36.9%	$ 2,595	21.4%	$ 2,671	37.8%
South Atlantic	1,654	13.5	1,392	19.7	1,650	13.6	1,397	19.8
Middle Atlantic	1,780	14.6	1,161	16.4	1,564	12.9	1,123	15.9
East North Central	849	7.0	513	7.3	853	7.0	442	6.3
Mountain	478	3.9	420	5.9	460	3.8	436	6.2
West South Central	558	4.6	308	4.4	574	4.7	322	4.6
West North Central	410	3.4	254	3.6	414	3.4	259	3.7
New England	323	2.6	280	4.0	321	2.6	281	3.9
East South Central	202	1.6	124	1.8	204	1.7	130	1.8
Subtotal—U.S.	8,948	73.3	7,059	100.0	8,635	71.1	7,061	100.0
Asia	3,020	24.7	—	—	3,121	25.7	—	—
Other	242	2.0	—	—	384	3.2	—	—
Total Commercial Loans	$ 12,210	100.0%	$ 7,059	100.0%	$ 12,140	100.0%	$ 7,061	100.0%

	As of December 31, 2003				As of December 31, 2002			
	Financial Services Businesses		Closed Block Business		Financial Services Businesses		Closed Block Business	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
	($ in millions)							
Commercial loans by property type:								
Apartment complexes	$ 2,909	23.8%	$ 1,733	24.5%	$ 2,736	22.5%	$ 1,677	23.8%
Office buildings	1,770	14.5	1,585	22.4	1,745	14.4	1,589	22.5
Retail stores	906	7.4	833	11.9	1,086	8.9	906	12.8
Industrial buildings	1,805	14.8	1,574	22.3	1,587	13.1	1,512	21.4
Residential properties	1,360	11.1	6	0.1	1,431	11.8	10	—
Agricultural properties	1,010	8.3	854	12.1	992	8.2	872	12.4
Other	290	2.4	474	6.7	305	2.5	495	7.1
Subtotal of collateralized loans	10,050	82.3	7,059	100.0	9,882	81.4	7,061	100.0
Uncollateralized loans	2,160	17.7	—	—	2,258	18.6	—	—
Total Commercial Loans	$ 12,210	100.0%	$ 7,059	100.0%	$ 12,140	100.0%	$ 7,061	100.0%

Commercial Loans by Contractual Maturity Date

The following tables set forth the breakdown of our commercial loan portfolio by contractual maturity as of December 31, 2003.

	As of December 31, 2003			
	Financial Services Businesses		Closed Block Business	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
	($ in millions)			
Maturing in 2004	$ 1,643	13.4%	$ 511	7.2%
Maturing in 2005	1,144	9.4	332	4.7
Maturing in 2006	1,003	8.2	343	4.9
Maturing in 2007	1,241	10.2	565	8.0
Maturing in 2008	1,280	10.5	546	7.7
Maturing in 2009	1,578	12.9	779	11.0
Maturing in 2010	694	5.7	565	8.0
Maturing in 2011	372	3.0	590	8.4
Maturing in 2012	366	3.0	690	9.8
Maturing in 2013 and beyond	2,889	23.7	2,138	30.3
Total Commercial Loans	$ 12,210	100.0%	$ 7,059	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 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. 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, 2003		As of December 31, 2002	
	Financial Services Businesses	Closed Block Business	Financial Services Businesses	Closed Block Business
	(in millions)			
Performing	$ 11,709	$ 7,029	$ 11,693	$ 7,031
Delinquent, not in foreclosure	391	1	339	—
Delinquent, in foreclosure	23	5	13	5
Restructured	87	24	95	25
Total Commercial Loans	$ 12,210	$ 7,059	$ 12,140	$ 7,061

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

	2003		2002	
	Financial Services Businesses	Closed Block Business	Financial Services Businesses	Closed Block Business
	(in millions)			
Allowance, beginning of year	$ 420	$ 74	$ 472	$ 75
Additions (release) of allowance for losses	(15)	(20)	(30)	(1)
Charge-offs, net of recoveries	(6)	(1)	(40)	—
Change in foreign exchange	37	—	18	—
Allowance, end of year	$ 436	$ 53	$ 420	$ 74

Equity Securities

Investment Mix

Our equity securities consist principally of investments in common stock of publicly traded companies, and to a lesser extent privately held companies.

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

	As of December 31, 2003				As of December 31, 2002			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)							
Public equity	$ 984	$ 97	$ 38	$ 1,043	$ 1,167	$ 54	$ 96	$ 1,125
Private equity	44	15	1	58	128	15	1	142
Total Equity	$ 1,028	$ 112	$ 39	$ 1,101	$ 1,295	$ 69	$ 97	$ 1,267

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

	As of December 31, 2003				As of December 31, 2002			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)							
Public equity	$ 1,748	$ 574	$ 50	$ 2,272	$ 1,530	$ 117	$ 133	$ 1,514
Private equity	6	4	—	10	7	—	—	7
Total Equity	$ 1,754	$ 578	$ 50	$ 2,282	$ 1,537	$ 117	$ 133	$ 1,521

Unrealized Losses from Equity Securities

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

	As of December 31,			
	2003		2002	
	Cost	Gross Unrealized Losses	Cost	Gross Unrealized Losses
	(in millions)			
Less than six months	$ 11	$ 3	$ 33	$ 10
Six months or greater but less than nine months	—	—	5	2
Nine months or greater but less than twelve months	—	—	2	1
Twelve months and greater	3	1	—	—
Total	$ 14	$ 4	$ 40	$ 13

The gross unrealized losses in 2003 were primarily concentrated in the manufacturing and transportation sectors while the gross unrealized losses in 2002 were concentrated in the manufacturing, finance, 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,			
	2003		2002	
	Cost	Gross Unrealized Losses	Cost	Gross Unrealized Losses
	(in millions)			
Less than six months	$ 13	$ 4	$ 85	$ 27
Six months or greater but less than nine months	—	—	10	5
Nine months or greater but less than twelve months	—	—	—	—
Twelve months and greater	—	—	—	—
Total	$ 13	$ 4	$ 95	$ 32

The gross unrealized losses in 2003 were primarily concentrated in the retail and wholesale, manufacturing, and services sectors while the gross unrealized losses in 2002 were concentrated in the manufacturing, services, and finance 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 of the decline (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 write down 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 $101 million in 2003 and $164 million in 2002. Impairments of equity securities attributable to the Closed Block Business totaled $59 million in 2003 and $145 million in 2002. For a further discussion of impairments, see "—Realized Investment Gains" above.

Other Long-Term Investments

"Other long-term investments" are comprised as follows:

	As of December 31, 2003		As of December 31, 2002	
	Financial Services Businesses	Closed Block Business	Financial Services Businesses	Closed Block Business
	(in millions)			
Joint ventures and limited partnerships:				
Real estate related	$ 84	$ 284	$ 363	$ 322
Non real estate related	482	758	471	647
Real estate held through direct ownership	1,160	21	1,124	28
Separate accounts	1,273	—	1,051	—
Other	703	(22)	868	78
Total other long-term investments	$ 3,702	$ 1,041	$ 3,877	$ 1,075

Liquidity and Capital Resources

Prudential Financial Liquidity

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, returns of capital and interest income from its subsidiaries. These sources of funds are complemented by Prudential Financial's capital markets access. We believe that cash flows from these sources are sufficient to satisfy the liquidity requirements of Prudential Financial. As of December 31, 2003, Prudential Financial had cash and short-term investments of approximately $1.7 billion, a decrease of $59 million, or 3%, from December 31, 2002. Principal sources and uses of cash and short-term investments at Prudential Financial for the year ended December 31, 2003 were as follows:

	December 31, 2003
	(in millions)
Sources:	
Dividends and returns of capital from subsidiaries(1)	$ 1,752
Proceeds from long- and short-term debt issuances(2)	1,907
Other	177
Total sources	3,836
Uses:	
Capital contributions to subsidiaries(3)	(1,833)
Share repurchases	(1,009)
Demutualization consideration(4)	(442)
Shareholder dividends	(275)
Other	(336)
Total uses	(3,895)
Net decrease in cash and short-term investments	$ (59)

(1) Includes approximately $0.9 billion returned to Prudential Financial associated with the sale of our property and casualty insurance businesses and dividends/returns of capital of approximately $250 million from the Insurance division, approximately $375 million from the Investment division, and approximately $220 million from Corporate and other operations.
(2) For a discussion of this activity see "—Financing Activities."
(3) Includes the acquisition of American Skandia for approximately $1.2 billion and capital contributions of approximately $50 million for the Insurance division, approximately $460 million for the Investment division and $140 million for the International Insurance and Investments division.
(4) Includes demutualization consideration paid to eligible policyholders and payments related to policy credit notes issued to Prudential Insurance. See "—Uses of Capital—Demutualization Consideration" for a discussion of this activity.

Prudential Financial Capital Adequacy – Financial Services Businesses

Prudential Financial seeks to capitalize its businesses consistent with its risk, ratings objectives and regulatory requirements, all of which are considered when determining the aggregate capital requirements for the Company. Our ratings targets are "AA/Aa/AA" for S&P, Moody's and Fitch, respectively, and "A+" for A.M. Best for our core domestic life insurance companies. Our debt rating targets are "A" for S&P, Moody's and Fitch and "a" for A.M. Best for Prudential Financial.

The primary components of capitalization for the Financial Services Businesses consist of the equity we attribute to the Financial Services Businesses, excluding unrealized gains and losses on investments, the contractual obligations of holders of our Equity Security Units to purchase Prudential Financial, Inc. Common Stock in November, 2004 and outstanding borrowings of the Financial Services Businesses that are ascribed to "general corporate purposes" as discussed below under "—Financing Activities". Based on these components, the capital position of the Financial Services Businesses as of December 31, 2003, was as follows:

	December 31, 2003
	(in millions)
Attributed equity (excluding unrealized gains and losses on investments)	$ 18,440
Equity Security Units	690
Debt used for general corporate purposes	1,966
Total capital	$ 21,096

As shown in the table above, as of December 31, 2003, the Financial Services Businesses had approximately $21 billion in capital, all of which was available to support the aggregate capital requirements of the businesses in its three divisions and its Corporate and Other operations. Based on our assessment of these businesses and operations, we believe that the capital of the Financial Services Businesses as of December 31, 2003, exceeds the amount required to support its business risks. In addition, we believe this capital position, combined with our borrowing capacity, gives us substantial financial flexibility.

The Risk Based Capital ("RBC") ratio is the primary measure by which we evaluate the capital adequacy of Prudential Insurance, which encompasses businesses of both the Financial Services Businesses and the Closed Block Business. We manage Prudential Insurance's RBC ratio to a level consistent with our ratings targets for it. RBC is determined by statutory formulas that consider risks related to the type and quality of the invested assets, insurance-related risks associated with Prudential Insurance's products, interest rate risks and general business risks. The RBC ratio calculations are intended to assist insurance regulators in measuring the adequacy of Prudential Insurance's statutory capitalization. As of December 31, 2003, Prudential Insurance's RBC ratio was above the level that we believe is required to meet our ratings targets.

Prudential Insurance's statutory capital as of December 31, 2003, included approximately $2.0 billion associated with the insurance policies in the Closed Block Business that we believe will not be necessary to cover the risk of the Closed Block Business. We have commenced a process of entering into reinsurance arrangements that will enable us to redeploy this capital. In addition, its statutory capital included $500 million to $750 million relating to our on-going domestic life insurance business that we believe is not necessary to cover its risks due to changes to statutory minimum reserve requirements and reinsurance arrangements with respect to such business entered into in the second half of 2003. We expect to use $2.1 billion of this capital ($2.5 billion to $2.75 billion) to support the acquisition of CIGNA's retirement business. This will leave between $400 million and $650 million of capital beyond that which we believe is consistent with maintaining or improving our ratings.

Similarly, we believe that our international insurance subsidiaries have capital of $500 million to $750 million in excess of the amounts needed to maintain or improve their ratings and that such capital (which generally is not distributable to Prudential Financial without regulatory approval) can be deployed in the growth of our businesses. We used a portion of the $500 million to $750 million to fund the acquisition of Hyundai.

We also consider additional borrowing capacity in evaluating the capital position of the Financial Services Businesses. We measure this additional borrowing capacity by calculating the amount of additional borrowings the Financial Services Businesses could incur for general corporate purposes before we reach our Corporate Debt to Capital Ratio limit, which is currently 20%. We believe that a ratio of 20% or less is currently consistent with our ratings targets. As of December 31, 2003, this ratio was 10.0%, indicating that the Financial Services Businesses could have incurred $2.6 billion of additional borrowings for general corporate purposes as of that date without exceeding the limit. As of December 31, 2003, the overall outstanding borrowings of the Financial Services Businesses included approximately $1 billion the proceeds of which were temporarily invested in cash and short-term investments or loans to affiliates. A reallocation of these proceeds to general corporate purposes would be considered in calculating the ratio of corporate debt to total capital and would reduce the $2.6 billion of additional borrowings available for general corporate purposes.

Uses of Capital

CIGNA Retirement Acquisition. As noted above, we plan to use $2.1 billion of the $2.5 billion to $2.75 billion of the capital described above to fund the acquisition of CIGNA's retirement business, which is expected to close during the first half of 2004.

Share Repurchases. During the fourth quarter of 2003, the Company acquired 6.5 million shares of its Common Stock at a total cost of approximately $252 million. For the year ended December 31, 2003, we repurchased 29.1 million shares of Common Stock at a total cost of approximately $1.0 billion.

On February 10, 2004, Prudential Financial's Board of Directors authorized a new stock repurchase program under which Prudential Financial is authorized to purchase up to $1.5 billion of its outstanding Common Stock in 2004. 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. This stock repurchase program supersedes all previous repurchase programs.

Demutualization Consideration. During 2003, Prudential Financial paid out $142 million in demutualization consideration to eligible policyholders whom we have located since the time of demutualization and to governmental authorities in respect of other eligible policyholders we continue to be unable to locate. We remain obligated to disburse additional payments of $812 million to governmental authorities to the extent we are still unable to locate remaining eligible policyholders within a prescribed period of time specified by state escheat laws. These laws historically required remittance to the states in periods that typically ranged from three to seven years, but many states have enacted new legislation that reduces the escheatment time period and a number of other states are pursuing similar legislation. Liabilities relating to demutualization consideration payments were established at the time of demutualization in 2001. For an estimate of expected payments by period see "—Contractual Obligations." In addition, at the time of demutualization, Prudential Financial made a contribution of $1.050 billion to Prudential Insurance to cover demutualization consideration for eligible policyholders who received policy credits as a part of our demutualization. The contribution was financed with proceeds from the purchase by Prudential Insurance of a series of notes issued by Prudential Financial with market rates of interest and maturities ranging from nineteen months to three years. During 2003, notes totaling $300 million matured. Of the remaining notes, $600 million matures in 2004 and $150 million matures in 2005.

Restrictions on Dividends and Returns of Capital from Subsidiaries

Our insurance and various other companies are subject to regulatory limitations on the payment of dividends and 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. As of December 31, 2003 and December 31, 2002, Prudential Insurance's unassigned surplus (deficit) was $1,557 million and $(420) million, respectively. There were applicable adjustments for unrealized investment gains of $624 million as of December 31, 2003 and no adjustments as of December 31, 2002. There was no revaluation of assets for purposes of the law referred to above regarding dividends and distributions in either year. 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 and losses). In addition to these regulatory limitations, the terms of the IHC debt contain restrictions potentially limiting dividends by Prudential Insurance applicable to the Financial Services Businesses in the event the Closed Block Business is in financial distress and other circumstances. Prudential Insurance provided no dividends to Prudential Financial in 2003.

The laws regulating dividends of the other states and foreign jurisdictions where our other insurance companies are domiciled are similar, but not identical, to New Jersey's. Pursuant to Gibraltar Life's reorganization, in addition to regulatory restrictions, there are certain restrictions on Gibraltar Life's ability to pay dividends to Prudential Financial. There are regulatory restrictions on the payment of dividends by Prudential Life Insurance Company Ltd ("Prudential of Japan"). We anticipate that it will be several years before these restrictions will allow Gibraltar and Prudential of Japan to pay dividends. The ability of our asset management subsidiaries, and the majority of our other operating subsidiaries, to pay dividends is unrestricted.

Liquidity of Subsidiaries

Domestic Insurance Subsidiaries

General Liquidity

Liquidity refers to a company's ability to generate sufficient cash flows to meet the needs of its operations. We manage the liquidity of our domestic insurance operations to ensure stable, reliable and cost-effective sources of cash flows to meet all of our obligations. Liquidity is provided by a variety of sources, as described more fully below, including portfolios of liquid assets. The investment portfolios of our domestic and foreign insurance operations are integral to the overall liquidity of those operations. We segment our investment portfolios and employ an asset/liability management approach specific to the requirements of our product lines. This enhances the discipline applied in managing the liquidity, as well as the interest and credit risk profiles, of each portfolio in a manner consistent with the unique characteristics of the product liabilities.

Liquidity is monitored through the use of internally developed benchmarks, which take into account the characteristics of the asset portfolio. The results are affected substantially by the overall quality of our investments.

Our domestic insurance companies' flexibility and liquidity are enhanced through access to a variety of instruments available for funding and/or to manage short-term cash flow mismatches, including securities lending and repurchase agreements, commercial paper (issued through Prudential Funding, LLC, discussed below), medium- and long-term debt, common stock and other capital securities. Although our domestic insurance companies generate adequate cash flow to meet the needs of their normal operations, they may incur indebtedness from time to time to fund expansion, investment opportunities, temporary cash flow timing mismatches and the retirement of debt.

Cash Flow from Operations

The principal sources of liquidity of Prudential Insurance and our other domestic insurance subsidiaries are premiums and annuity considerations, investment and fee income and investment maturities and sales associated with our insurance, annuities and guaranteed products operations. Principal uses of liquidity relate to benefits, claims, dividends paid to policyholders, and payments to policyholders and contract holders in connection with surrenders, withdrawals and net policy loan activity. Uses of liquidity also include commissions, general and administrative expenses, purchases of investments, and repayments in connection with financing activities.

In managing the liquidity of our domestic insurance operations, we consider the risk of policyholder and contractholder withdrawals of funds earlier than our assumptions in selecting assets to support these contractual obligations. We use surrender charges and other contract provisions to mitigate the extent, timing and profitability impact of withdrawals of funds by customers from annuity contracts and deposit liabilities. The following table sets forth withdrawal characteristics of our general account annuity reserves and deposit liabilities (based on statutory liability values) as of the dates indicated.

	December 31, 2003		December 31, 2002	
	Amount	% of Total	Amount	% of Total
	($ in millions)			
Not subject to discretionary withdrawal provisions	$ 18,869	43%	$ 17,589	42%
Subject to discretionary withdrawal, with adjustment:				
With market value adjustment	5,603	12%	5,282	13%
At market value	919	2%	692	2%
At contract value, less surrender charge of 5% or more	2,535	6%	2,066	5%
Subtotal	27,926	63%	25,629	62%
Subject to discretionary withdrawal at contract value with no surrender charge or surrender charge of less than 5%	16,202	37%	15,748	38%
Total annuity reserves and deposit liabilities	44,128	100%	$ 41,377	100%

Gross account withdrawals for our domestic insurance operations' products amounted to $7.8 billion and $6.1 billion for the years ending December 31, 2003 and 2002, respectively. These withdrawals include contractually scheduled maturities of general account guaranteed investment contracts of $1,274 million and $1,064 million for the years ended December 31, 2003 and 2002, respectively. 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.

Individual life insurance policies are less susceptible to withdrawal than our annuity reserves and deposit liabilities because policyholders may incur surrender charges and undergo a new underwriting process in order to obtain a new insurance policy. Annuity benefits under group annuity contracts are generally not subject to early withdrawal. Included in the table above are approximately 43% of annuity reserves and deposit fund liabilities that are not subject to early withdrawal as of December 31, 2003.

The domestic insurance operations' cash flows from investment activities result from repayments of principal, proceeds from maturities and sales of invested assets and investment income, net of amounts reinvested. The primary liquidity risks with respect to these flows are the risk of default by debtors, our counterparties' willingness to extend repurchase and/or securities lending arrangements, and market volatility. We closely monitor and manage these risks through the credit risk management process and regular monitoring of our liquidity position.

We believe that cash flows from 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.

Liquid Assets

Liquid assets include cash, cash-equivalents, short-term investments, marketable fixed maturities and public equity securities. As of December 31, 2003, and 2002, the domestic insurance operations had $108.2 billion and $104.3 billion in liquid assets, respectively. As of December 31, 2003, $82.8 billion, or 87% of the fixed maturity securities held in our domestic insurance company General Account portfolios were rated investment grade. The remaining $12.3 billion, or 13% of fixed maturity investments were rated non-investment grade. We consider attributes of the various categories of liquid assets (for example, type of asset and credit quality) in calculating internal liquidity benchmark results in order to evaluate the adequacy of our domestic insurance operations' liquidity under a variety of stress scenarios. We believe that the liquidity profile of our assets is sufficient to satisfy liquidity requirements of reasonably foreseeable stress scenarios. For additional discussion of our investment portfolios, see "—Realized Investment Gains and General Account Investments—General Account Investments."

Prudential Funding, LLC

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 other subsidiaries of Prudential Financial. 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 other subsidiaries of Prudential Financial 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 subsidiaries will borrow directly from third parties and from Prudential Financial, as well as from Prudential Funding from time to time. The impact of Prudential Funding on liquidity is considered in the internal liquidity benchmarks of the domestic insurance operations.

As of December 31, 2003, Prudential Financial, Prudential Insurance and Prudential Funding had unsecured committed lines of credit totaling $2.6 billion. Currently, Prudential Insurance and Prudential Funding have access to $1.6 billion of the lines and there were no outstanding borrowings under these facilities as of December 31, 2003 or December 31, 2002. For a further discussion on lines of credit, see "—Financing Activity—Lines of Credit and Other Credit Facilities."

International Insurance Subsidiaries

In our international insurance operations, liquidity is provided through ongoing operations as well as portfolios of liquid assets. In managing the liquidity and the interest and credit risk profiles of our international insurance portfolios, we employ a discipline similar to the discipline employed for our domestic insurance subsidiaries. Liquidity is monitored through the use of internal liquidity benchmarks taking into account the liquidity of the asset portfolios.

Similar to our domestic operations, in managing the liquidity of these operations we consider the risk of policyholder and contractholder withdrawals of funds earlier than our assumptions in selecting assets to support these contractual obligations. As of December 31, 2003, and December 31, 2002, our international insurance subsidiaries had total insurance related liabilities (other than dividends payable to policyholders) of $38.3 billion and $33.2 billion, respectively. Of that amount, $28.8 billion and $26.1 billion are associated with Gibraltar Life, our largest international insurance subsidiary. Concurrent with our acquisition of Gibraltar Life in April 2001, substantially all of its insurance liabilities were restructured, under a reorganization, to include special surrender penalties on existing policies. These charges mitigate the extent, timing, and profitability impact of withdrawals of funds by customers and apply to $25.8 billion and $24.6 billion of Gibraltar Life's insurance related reserves as of December 31, 2003 and December 31, 2002, respectively. The following table sets forth the schedule (for each year ending March 31) of special surrender charges on policies that were in force at the time of the acquisition:

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

Policies issued by Gibraltar Life post acquisition are not subject to the above restructured policy surrender charge schedule. Policies issued post acquisition are subject to discretionary withdrawal at contract value, less applicable surrender charges, currently 5% or more.

Prudential of Japan, with $7.8 and $6.0 billion of insurance related liabilities as of December 31, 2003 and December 31, 2002, respectively, is our second largest international insurance subsidiary. Prudential of Japan did not

have a material amount of general account annuity reserves and deposit liabilities subject to discretionary withdrawal as of December 31, 2003 or December 31, 2002. Additionally, we believe that the individual life insurance policies sold by Prudential of Japan do not have significant withdrawal risk because policyholders may incur surrender charges and must undergo a new underwriting process in order to obtain a new insurance policy.

As of December 31, 2003 and December 31, 2002, our international insurance subsidiaries had cash and short-term investments of approximately $1.6 billion and $1.8 billion, respectively, and fixed maturity investments classified as "available for sale" with fair values of $30.2 billion and $26.7 billion, respectively. We believe that ongoing operations and the liquidity profile of our international insurance assets provide sufficient liquidity in reasonably foreseeable stress scenarios.

Prudential Securities Group Liquidity

Prudential Securities Group's assets totaled $7.5 billion and $20.3 billion as of December 31, 2003 and 2002, respectively. On July 1, 2003, we completed the combination of our retail brokerage business with Wachovia. As a result, we contributed $16.3 billion of assets and corresponding liabilities and equity in return for our investment in Wachovia Securities. Prudential Securities Group continues to own our investment in Wachovia Securities as well as the retained wholly owned businesses. The wholly owned businesses remaining in Prudential Securities Group continue to maintain sufficiently liquid balance sheets consisting mostly of cash and cash equivalents, segregated client assets, short-term collateralized receivables from clients and broker-dealers, and collateralized loans to clients. Prudential Securities Group's total capitalization, including equity, subordinated debt and long-term debt, was $2.4 billion and $3.6 billion as December 31, 2003 and December 31, 2002, 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, 2003, Prudential Securities Group had remaining assets amounting to approximately $700 million related to its institutional fixed income activities, compared to $900 million as of December 31, 2002.

Financing Activities

As of December 31, 2003 and December 31, 2002, total short- and long-term debt of the Company were $10.349 billion and $8.226 billion, respectively, including debt associated with the Financial Services Businesses and the Closed Block Business. Outstanding short- and long-term debt of the parent company amounted to $2.615 billion as of December 31, 2003, which amount is included in the total consolidated outstanding short- and long-term debt of the Company above. Prudential Financial had no short- and long-term debt as of December 31, 2002.

Prudential Financial is authorized to borrow funds from various sources to meet its capital needs, as well as the capital needs of its subsidiaries. The following table sets forth the outstanding short- and long-term debt of Prudential Financial, including that related to the Equity Security Units, as of the dates indicated:

	December 31, 2003	December 31, 2002
	(in millions)	
Borrowings:		
General obligation short-term debt	$ 412	$ —
General obligation long-term debt:		
Senior debt	1,492	—
Debt related to Equity Security Units(1)	711	—
Total general obligations	$ 2,615	$ —

(1) Long-term debt as of December 31, 2003, includes debt related to the Prudential Financial's equity security units, previously included in "Guaranteed beneficial interest in Trust holding solely debentures of parent" as of December 31, 2002. The $711 million includes $690 million corresponding to contractual obligations of Equity Security Units to purchase Prudential Financial Common Stock in November 2004.

Prudential Financial's short-term debt includes commercial paper borrowings of $412 million. The weighted average interest rate on the commercial paper borrowings under this program was 1.21% for the full year ended December 31, 2003.

To enhance financial flexibility, Prudential Financial filed a $5 billion shelf registration statement, effective April 25, 2003, with the Securities and Exchange Commission, which permits the issuance of public debt, equity and hybrid

securities. The total principal amount of debt outstanding under this shelf program as of December 31, 2003 was $1.5 billion. In addition, upon the adoption of the revised guidance under FIN 46, $711 million in borrowings associated with our equity security units are now included in long-term debt of Prudential Financial. The weighted average interest rate on Prudential Financial's long-term debt, including the effect of interest rate hedging activity, was 3.76% for the year ended December 31, 2003.

Effective April 25, 2003, we formally allocated $1.0 billion of an unsecured committed line of credit expiring in October 2006 to Prudential Financial. There were no outstanding borrowings under this facility as of December 31, 2003 or December 31, 2002. For a discussion of our lines of credit, see "—Lines of Credit and Other Facilities" below.

Current capital markets activities principally consist of unsecured short-term and long-term debt borrowings issued at Prudential Funding and Prudential Financial and asset-based or secured forms of financing. The 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, primarily within Prudential Insurance.

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

	December 31, 2003	December 31, 2002
	(in millions)	
Borrowings:		
General obligation short-term debt	$ 4,738	$ 3,468
General obligation long-term debt:		
Senior debt	2,400	1,744
Surplus notes	691	690
Debt related to Equity Security Units(1)	711	—
Total general obligation long-term debt	3,802	2,434
Total general obligations	8,540	5,902
Limited and non-recourse borrowing:		
Limited and non-recourse short-term debt	1	1
Limited and non-recourse long-term debt(2)	1,808	2,323
Total limited and non-recourse borrowing	1,809	2,324
Total borrowings(3)	10,349	8,226
Total asset-based financing(4)	17,037	29,127
Total borrowings and asset-based financings	$ 27,386	$ 37,353

(1) Long-term debt as of December 31, 2003, includes debt related to the Prudential Financial's equity security units, previously included in "Guaranteed beneficial interest in Trust holding solely debentures of parent" as of December 31, 2002. The $711 million includes $690 million corresponding to contractual obligations of Equity Security Units to purchase Prudential Financial Common Stock in November 2004.
(2) As of December 31, 2003 and December 31, 2002, $1.75 billion of limited and non-recourse debt is within the Closed Block Business.
(3) Includes $ 0.5 billion and $1.3 billion related to Prudential Securities Group as of December 31, 2003 and December 31, 2002, respectively. Does not include $1.1 billion of medium-term notes of consolidated trust entities secured by funding agreements purchased with the proceeds of such notes, which are included in "Policyholders' account balances".
(4) Includes $0.7 billion and $8.9 billion related to Prudential Securities Group as of December 31, 2003 and December 31, 2002, respectively.

Total general debt obligations increased by $2.6 billion, or 45%, from December 31, 2002, reflecting a $1.3 billion net increase in long-term debt and a $1.3 billion net increase in short-term debt. The increase in long-term debt was driven primarily by the issuance of $1.5 billion of long-term debt at Prudential Financial. In addition, upon the adoption of FIN 46, borrowings associated with our equity security units are now included in long-term debt. These increases were partially offset by $400 million in a mortgage repayment and another $400 million in long-term notes becoming current at Prudential Funding. The net increase in short-term debt was driven by increased commercial paper issuance of $1.6 billion at Prudential Funding and $412 million at Prudential Financial. These increases were partially offset by long-term debt maturities of approximately $300 million at Prudential Funding and a $300 million surplus note maturity at Prudential Insurance. In addition, direct third party borrowings of subsidiaries declined by $539 million, primarily due to reduced bank borrowings of $374 million at Prudential Securities Group.

Total long-term limited and non-recourse debt declined by $515 million. This change was due to a decline of approximately $400 million resulting from the deconsolidation of certain entities upon adoption of FIN 46 and another $112 million decline related to the sale of warehoused investments whose debt previously was included in our consolidated financial position.

Asset-based financing declined by $12.1 billion primarily due to an $8.2 billion decline at Prudential Securities Group. This was due to the combination of our retail brokerage operations with Wachovia. The decrease was also driven by the Company's adoption of SFAS 149, under which assets and liabilities associated with dollar roll activity are netted. This resulted in a decrease of approximately $2.0 billion in asset-based financing outstanding at year end. In addition, asset-based financing also declined by approximately $1.5 billion at Prudential Insurance.

Prudential Funding's commercial paper borrowings as of December 31, 2003 and December 31, 2002, were $2.8 billion and $1.3 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 this program were 1.13%, 1.26%, and 4.22% for the years ended December 31, 2003, 2002, and 2001 respectively.

The total principal amount of debt outstanding under Prudential Funding's medium-term note programs as of December 31, 2003 and December 31, 2002, was $1.2 billion and $1.4 billion, respectively. The weighted average interest rates on Prudential Funding's long-term debt, including the effect of interest rate hedging activity, were 1.87%, 3.21%, and 4.58% for the years ended December 31, 2003, 2002, and 2001, respectively.

We had outstanding surplus notes totaling $691 million and $990 million as of December 31, 2003 and December 31, 2002, respectively. These debt securities, which are included as surplus of Prudential Insurance on a statutory accounting basis, are subordinate to other Prudential Insurance borrowings and to policyholder obligations and are subject to regulatory approvals for principal and interest payments.

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, Prudential Financial's investments in equity and debt securities of subsidiaries and 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 our discontinued consumer banking business, the individual annuity business, real estate franchises and relocation services. Borrowings under which either the holder is entitled to collect only against the assets pledged to the debt as collateral, or has only very limited rights to collect against other assets, have been classified as limited and non-recourse debt. Consolidated borrowings as of December 31, 2003 and 2002 include $1.75 billion of limited and non-recourse debt within the Closed Block Business.

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

	December 31, 2003	December 31, 2002
	(in millions)	
General obligations:		
General corporate purposes	$ 1,966	$ 1,596
Investment related	1,542	899
Securities business related	2,909	2,614
Specified other businesses	1,412	793
Equity Security Units(1)	711	—
Total general obligations	8,540	5,902
Limited and non-recourse debt	1,809	2,324
Total borrowings	$ 10,349	$ 8,226
Long-term debt	$ 5,610	$ 4,757
Short-term debt	4,739	3,469
Total borrowings	$ 10,349	$ 8,226
Borrowings of Financial Services Businesses	$ 8,599	$ 6,476
Borrowings of Closed Block Business	1,750	1,750
Total borrowings	$ 10,349	$ 8,226

(1) Long-term debt as of December 31, 2003, includes debt related to the Prudential Financial's equity security units, previously included in "Guaranteed beneficial interest in Trust holding solely debentures of parent" as of December 31, 2002. The $711 million includes $690 million corresponding to contractual obligations of Equity Security Units to purchase Prudential Financial Common Stock in November 2004.

Lines of Credit and Other Credit Facilities

As of December 31, 2003, Prudential Financial, Prudential Insurance and Prudential Funding had unsecured committed lines of credit totaling $2.6 billion. Of this amount, $1.0 billion is under a facility that expires in May 2004, $0.1 billion is under a 364-day facility that expires in October 2004, and $1.5 billion is under a facility that expires in October 2006. Borrowings under the outstanding facilities will 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. 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, 2003 or December 31, 2002. Effective April 25, 2003, we formally allocated $1.0 billion of the October 2006 facility to Prudential Financial. As a result, Prudential Insurance and Prudential Funding now have access to the remaining $1.5 billion in unsecured committed credit lines.

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, 2003 and December 31, 2002, was $10.9 billion and $9.1 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 generally accepted accounting principles. Prudential Financial's consolidated net worth totaled $21.3 billion and $21.3 billion as of December 31, 2003 and December 31, 2002, respectively. In addition, we have a credit facility expiring in December 2004 utilizing a third party-sponsored, asset-backed commercial paper conduit, under which we can borrow up to $500 million. This facility is supported in its entirety 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. We also use uncommitted lines of credit from banks and other financial institutions.

Contractual Obligations

The following table summarizes the payments due for the specific contractual obligations outlined below as of December 31, 2003.

	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
			(in millions)		
Short-term and long-term debt(1)	$ 10,349	$ 4,739	$ 832	$ 1,371	$ 3,407
Operating leases(2)	1,127	215	352	240	320
Policyholders' account balances with contractual maturities(3)	9,254	3,218	2,657	1,294	2,085
Undistributed demutualization consideration(4)	812	271	494	47	—
Total, excluding pension and post-retirement contributions	21,542	8,443	$ 4,335	$ 2,952	$ 5,812
Pension and other post-retirement contributions(5)	39	39			
Total	$ 21,581	$ 8,482			

(1) See Footnote 10 to the Consolidated Financial Statements for additional information.
(2) See Footnote 20 to the Consolidated Financial Statements for additional information.
(3) We offer various investment-type products with contractually scheduled maturities through which customers deposit funds with us that typically provide for a rate of interest on the amount invested through the maturity of the contract. These obligations are backed by our general account assets, and we bear all of the investment and asset/liability management risk on these contracts. Examples of these types of products include GICs, funding agreements, and annuities without life contingencies. These liabilities are reflected within "Policyholders' account balances" on our consolidated statements of financial position and amount to $7.717 billion as of December 31, 2003. The difference between our recorded liability and the total payment amount reflects $1.537 billion of future interest to be credited.
(4) Prudential Financial remains obligated to disburse demutualization consideration for eligible policyholders that we have been unable to locate. To the extent we continue to be 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. Many states have enacted new legislation that reduces the escheatment time period and a number of other states are pursuing similar legislation. The amounts reflected in the table above are reflective of state escheat laws as of December 31, 2003. These liabilities are reflected within "Other liabilities" on our consolidated statements of financial position.
(5) This amount represents our best estimate as of the date of this filing of our aggregated expected contributions to our non-qualified pension and post-retirement plans for 2004. We do not currently expect to make any contributions in 2004 to our qualified plans. We have not included any amounts subsequent to 2004, as these amounts are not readily determinable at this time. See Footnote 15 to the Consolidated Financial Statements for additional information regarding the estimated 2004 contribution.

We enter into agreements to purchase goods and services in the normal course of business; however, these agreements are not material to our consolidated results of operations or financial position.

Contractual Commitments

In connection with our commercial mortgage banking business, we originate commercial mortgage loans. As of December 31, 2003, we had outstanding commercial mortgage loan commitments with borrowers of $1.282 billion. In certain of these transactions, we prearrange that we will sell the loan to an investor after we fund the loan. As of December 31, 2003, $559 million of our commitments to originate commercial mortgage loans are subject to such arrangements.

In connection with our discontinued consumer banking business, we have commitments under home equity lines of credit and other lines of credit 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 $1.859 billion, of which $818 million remains available as of December 31, 2003.

We also have other commitments, which primarily include commitments to fund investments. These commitments amounted to $2.964 billion as of December 31, 2003.

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 GAAP, we do not accrue contingent consideration obligations prior to the attainment of the objectives. As of December 31, 2003, maximum potential future consideration pursuant to such arrangements, to be resolved over the following six years, is $269 million. Any such payments would result in increases in intangible assets, including goodwill.

See "—Off-Balance Sheet Arrangements—Guarantees" below for a discussion of financial guarantees.

The following table summarizes the expirations of the contractual commitments discussed above as of December 31, 2003.

		Expirations by Period			
	Total	Less than 1 Year	1 – 3 Years	4 – 5 Years	More than 5 Years
			(in millions)		
Commitments to originate commercial mortgage loans	$ 1,282	$ 941	$ 122	$ 219	$ —
Commitments for home equity and other lines of credit	818	40	173	14	591
Other commitments	2,964	1,453	1,068	335	108
Contingent consideration	269	—	142	89	38
Financial guarantees	916	196	222	90	408
Total	$ 6,249	$ 2,630	$ 1,727	$ 747	$ 1,145

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 $7.8 billion and $7.0 billion as of December 31, 2003 and 2002, respectively. As of December 31, 2003, approximately 49% of our total DAC relates to our Individual Life and Annuities segment, approximately 35% relates to our International Insurance 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. An accelerated write-off of DAC would negatively affect our reported earnings and level of capital under generally accepted accounting principles.

Off-Balance Sheet Arrangements

Guarantees

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.

A number of guarantees provided by the Company relate to real estate investments, in which the unconsolidated investor has borrowed funds, and we have guaranteed their obligation to their lender. In some cases, the investor is an affiliate, and in other cases an unaffiliated investor purchases the real estate investment from us. We provide these guarantees to assist them in obtaining financing for the transaction on more beneficial terms. Our maximum potential exposure under these guarantees was $880 million as of December 31, 2003. Any payments that may become required of us under these guarantees would either first be reduced by proceeds received by the creditor on a sale of the assets, or would provide us with rights to obtain the assets. As of December 31, 2003 no amounts were accrued as a result of our assessment that it is unlikely that payments will be required.

We are subject to other financial guarantees and indemnity arrangements, including those related to business that have been sold. Some of these guarantees may extend far into the future and are subject to caps aggregating to $36 million. In other limited cases, the amount that can be claimed from us or the time in which these claims may be presented to us are not limited. As of December 31, 2003, we have accrued liabilities of $11 million associated with all other financial guarantees and indemnity arrangements, which does not include liabilities we retained associated with sold businesses.

Other Off-Balance Sheet Arrangements

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

"Management's Discussion and Analysis of Financial Condition and Results of Operations—Result of Operations for Financial Services Businesses by Segment—Insurance Division—Individual Life and Annuities" for payments made under the guaranteed minimum death benefit provision of certain individual annuity contracts, which we do not believe 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 equity and futures operations, as well as, historically, in our former domestic retail securities brokerage business. 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, 2003 and 2002, 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 and the potential impact of any guaranteed minimum interest rates. 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 primarily fixed maturity securities, commercial loans and policy loans. In the aggregate, the carrying value of these assets represented 74% of our consolidated assets, other than assets that we held in separate accounts, as of December 31, 2003 and 70% as of December 31, 2002.

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 as of December 31, 2003 and 2002, 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.

	As of December 31, 2003			
	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		$ 128,943	$ 120,886	$ (8,057)
Held to maturity		3,084	2,980	(104)
Commercial loans		21,037	20,140	(897)
Mortgage securitization inventory		1,058	1,049	(9)
Policy loans		9,706	9,123	(583)
Derivatives:				
Swaps	$ 11,231	(379)	(349)	30
Futures	2,148	1	(68)	(69)
Options	278	11	3	(8)
Forwards	12,791	(13)	(116)	(103)
Financial liabilities with interest rate risk:				
Short-term and long-term debt(1)		(10,844)	(10,421)	423
Investment contracts		(41,450)	(40,865)	585
Net estimated potential loss				$ (8,792)

	As of 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		21,335	20,214	(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(1)		(755)	(730)	25
Net estimated potential loss				$ (8,194)

(1) As of December 31, 2003, "Short-term and long-term debt" includes long-term debt related to our equity security units. As of December 31, 2002, our equity security units were included in "Guaranteed beneficial interest in Trust holding solely debentures of Parent."

The tables above do not include approximately $104 billion of insurance reserve and deposit liabilities as of December 31, 2003 and $99 billion as of December 31, 2002. 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 $598 million increase in the total estimated potential loss as of December 31, 2003 from December 31, 2002 resulted primarily from the increase in our portfolio of fixed maturities available for sale during 2003.

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 as of December 31, 2003 was $340 million, representing a hypothetical decline in fair market value of equity securities we held at that date from $3.401 billion to $3.061 billion. Our estimated equity price risk using this methodology as of 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. 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 and Korea, 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 VaR 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 VaR estimates of exposure to loss from volatility in foreign currency exchange rates for one-month time periods. Our estimated VaR as of December 31, 2003 for foreign currency assets not hedged to U.S. dollars, measured at the 95% confidence level and using a one-month time horizon, was $24 million, representing a hypothetical decline in fair market value of these foreign currency assets from $811 million to $787 million. Our estimated VaR as of 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. 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 $59 million as of December 31, 2003 and $110 million as of December 31, 2002.

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 $18 million during 2003 and $15 million during 2002.

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 18 to the Consolidated Financial Statements for a description of our derivative activities as of December 31, 2003 and 2002. 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 futures operations for trading purposes.

Trading Activities

We engage in trading activities primarily in connection with our equity and futures operations, as well as, historically, in our former domestic retail securities brokerage business. We maintain trading inventories in various equity, 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 as of December 31, 2003 and $2 million as of December 31, 2002. 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 $2 million during 2003 and $4 million during 2002. The following table sets forth a breakdown of this VaR by risk component as follows:

	As of December 31, 2003	Average for 2003	As of December 31, 2002	Average for 2002
			(in millions)	
Interest rate risk	$ 1	$ 2	$ 2	$ 4
Equity risk	—	—	—	—
Commodities risk	1	—	—	—
Total(1)	$ 2	$ 2	$ 2	$ 4

(1) As of December 31, 2003 and 2002, and during the years then ended, VaR from foreign currency exchange rate 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 Auditors	112
Consolidated Statements of Financial Position as of December 31, 2003 and 2002	113
Consolidated Statements of Operations for the years ended December 31, 2003, 2002 and 2001	114
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2003, 2002 and 2001	115
Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001	116
Notes to Consolidated Financial Statements	117
Supplemental Combining Financial Information:	
Supplemental Combining Statements of Financial Position as of December 31, 2003 and 2002	186
Supplemental Combining Statements of Operations for the years ended December 31, 2003 and 2002	187
Notes to Supplemental Combining Financial Information	188

REPORT OF INDEPENDENT AUDITORS

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, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, 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, 6 and 14, the Company adopted Financial Accounting Standards Board revised Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities" as of December 31, 2003, the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" as of January 1, 2003, Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" as of January 1, 2002, 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 10, 2004

PRUDENTIAL FINANCIAL, INC.

Consolidated Statements of Financial Position
December 31, 2003 and 2002 (in millions, except share amounts)

	2003	2002
ASSETS		
Fixed maturities:		
Available for sale, at fair value (amortized cost: 2003—$121,193; 2002—$117,869)	$ 128,943	$ 125,463
Held to maturity, at amortized cost (fair value: 2003—$3,084; 2002—$2,673)	3,068	2,612
Trading account assets, at fair value	3,302	3,449
Equity securities, available for sale, at fair value (cost: 2003—$2,799; 2002—$2,849)	3,401	2,807
Commercial loans	19,469	19,401
Policy loans	8,152	8,827
Securities purchased under agreements to resell	1,464	4,844
Cash collateral for borrowed securities	—	4,660
Other long-term investments	5,609	5,408
Short-term investments	7,633	5,737
Total investments	181,041	183,208
Cash and cash equivalents	7,949	9,898
Accrued investment income	1,797	1,790
Broker-dealer related receivables	1,098	5,631
Deferred policy acquisition costs	7,826	7,031
Other assets	14,883	14,503
Separate account assets	106,680	70,555
TOTAL ASSETS	$ 321,274	$ 292,616
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Future policy benefits	$ 94,845	$ 90,460
Policyholders' account balances	49,691	46,280
Unpaid claims and claim adjustment expenses	1,687	3,428
Policyholders' dividends	4,688	3,675
Securities sold under agreements to repurchase	9,654	14,902
Cash collateral for loaned securities	5,786	10,231
Income taxes payable	2,282	1,933
Broker-dealer related payables	2,364	4,838
Securities sold but not yet purchased	1,598	1,996
Short-term debt	4,739	3,469
Long-term debt	5,610	4,757
Other liabilities	10,358	14,072
Separate account liabilities	106,680	70,555
Total liabilities	299,982	270,596
Guaranteed beneficial interest in Trust holding solely debentures of Parent	—	690
COMMITMENTS AND CONTINGENCIES (See Note 20)		
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; 584,590,320 and 584,511,144 shares issued at December 31, 2003 and 2002, respectively)	6	6
Class B Stock ($.01 par value; 10,000,000 shares authorized; 2,000,000 shares issued and outstanding at December 31, 2003 and 2002, respectively)	—	—
Additional paid-in capital	19,560	19,513
Common Stock held in treasury, at cost (49,736,520 and 24,283,271 shares at December 31, 2003 and 2002, respectively)	(1,632)	(743)
Deferred compensation	(48)	(21)
Accumulated other comprehensive income	2,446	2,585
Retained earnings (deficit)	960	(10)
Total stockholders' equity	21,292	21,330
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 321,274	$ 292,616

See Notes to Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

Consolidated Statements of Operations
Years Ended December 31, 2003, 2002 and 2001 (in millions, except per share amounts)

	2003	2002	2001
REVENUES			
Premiums	$ 13,233	$ 13,053	$ 11,904
Policy charges and fee income	2,001	1,780	2,027
Net investment income	8,681	8,819	9,087
Realized investment gains (losses), net	270	(1,365)	(674)
Commissions and other income	3,722	4,016	4,334
Total revenues	27,907	26,303	26,678
BENEFITS AND EXPENSES			
Policyholders' benefits	13,424	13,378	12,457
Interest credited to policyholders' account balances	1,830	1,846	1,804
Dividends to policyholders	2,602	2,644	2,722
General and administrative expenses	7,602	8,355	9,228
Demutualization costs and expenses	—	—	588
Loss on disposition of property and casualty insurance operations	491	—	—
Total benefits and expenses	25,949	26,223	26,799
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	1,958	80	(121)
Income taxes:			
Current	162	(91)	(902)
Deferred	488	(98)	870
Total income tax expense (benefit)	650	(189)	(32)
INCOME (LOSS) FROM CONTINUING OPERATIONS	1,308	269	(89)
DISCONTINUED OPERATIONS			
Loss from discontinued operations, net of taxes	(44)	(75)	(65)
NET INCOME (LOSS)	$ 1,264	$ 194	$ (154)
EARNINGS PER SHARE (See Note 13)			
Financial Services Businesses(a)			
Basic:			
Income from continuing operations per share of Common Stock	$ 2.07	$ 1.38	$ 0.07
Discontinued operations	(0.08)	(0.13)	—
Net income per share of Common Stock	$ 1.99	$ 1.25	$ 0.07
Diluted:			
Income from continuing operations per share of Common Stock	$ 2.06	$ 1.38	$ 0.07
Discontinued operations	(0.08)	(0.13)	—
Net income per share of Common Stock	$ 1.98	$ 1.25	$ 0.07
Dividends declared per share of Common Stock	$ 0.50	$ 0.40	$ —
Closed Block Business(a)			
Net income (loss) per share of Class B Stock—basic and diluted	$ 89.50	$ (264.00)	$ 1.50
Dividends declared per share of Class B Stock	$ 9.63	$ 9.63	$ —

(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, 2003, 2002 and 2001 (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, 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
Treasury stock acquired	(26.0)	—	—	—	—	(800)	—	—	(800)
Stock-based compensation programs	1.7	—	—	4	—	57	(21)	—	40
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
Treasury stock acquired	(29.1)	—	—	—	—	(1,001)	—	—	(1,001)
Stock-based compensation programs	3.7	—	—	40	(6)	112	(27)	—	119
Adjustments to policy credits issued and cash payments to eligible policyholders	0.1	—	—	7	—	—	—	—	7
Dividends declared on Common Stock	—	—	—	—	(269)	—	—	—	(269)
Dividends declared on Class B Stock	—	—	—	—	(19)	—	—	—	(19)
Comprehensive income:									
Net income	—	—	—	—	1,264	—	—	—	1,264
Other comprehensive income, net of tax	—	—	—	—	—	—	—	(139)	(139)
Total comprehensive income									1,125
Balance, December 31, 2003	534.9	$ 6	$ —	$ 19,560	$ 960	$ (1,632)	$ (48)	$ 2,446	$ 21,292

See Notes to Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

Consolidated Statements of Cash Flows
Years Ended December 31, 2003, 2002 and 2001 (in millions)

	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ 1,264	$ 194	$ (154)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Realized investment (gains) losses, net	(270)	1,365	674
Policy charges and fee income	(410)	(486)	(482)
Interest credited to policyholders' account balances	1,830	1,846	1,804
Depreciation and amortization, including premiums and discounts	733	559	433
Net loss on business dispositions	510	—	—
Change in:			
Deferred policy acquisition costs	(606)	(211)	(259)
Future policy benefits and other insurance liabilities	2,072	2,026	933
Trading account assets	(560)	1,596	2,268
Income taxes payable	263	(205)	(1,282)
Broker-dealer related receivables/payables	417	564	4,538
Securities purchased under agreements to resell	(85)	(423)	974
Cash collateral for borrowed securities	(435)	550	(1,352)
Cash collateral for loaned securities	(737)	788	(1,626)
Securities sold but not yet purchased	(51)	(795)	(2,168)
Securities sold under agreements to repurchase	(1,554)	2,517	(2,625)
Other, net	(2,977)	401	(1,573)
Cash flows from (used in) operating activities	(596)	10,286	103
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from the sale/maturity/prepayment of:			
Fixed maturities, available for sale	46,595	60,529	98,150
Fixed maturities, held to maturity	1,418	418	139
Equity securities, available for sale	1,355	2,050	5,503
Commercial loans	3,019	3,148	5,459
Other long-term investments	1,222	1,080	798
Payments for the purchase of:			
Fixed maturities, available for sale	(47,919)	(71,539)	(97,511)
Fixed maturities, held to maturity	(1,816)	(2,701)	(56)
Equity securities, available for sale	(1,268)	(2,830)	(2,557)
Commercial loans	(2,473)	(2,543)	(1,558)
Other long-term investments	(804)	(1,357)	(1,400)
Acquisition of subsidiaries, net of cash acquired.	(946)	—	5,912
Cash of operations contributed to Wachovia Securities Financial Holdings, LLC	(229)	—	—
Proceeds from sale of subsidiaries, net of cash disposed	(45)	—	—
Short-term investments	(2,528)	(612)	(442)
Cash flows from (used in) investing activities	(4,419)	(14,357)	12,437
CASH FLOWS FROM FINANCING ACTIVITIES			
Policyholders' account deposits	10,091	8,973	6,771
Policyholders' account withdrawals	(9,402)	(7,464)	(9,014)
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	(256)	(173)	—
Cash dividends paid on Class B Stock	(19)	(19)	—
Net increase (decrease) in short-term debt	3,484	(2,170)	(6,098)
Proceeds from deferred compensation program	—	56	—
Treasury stock acquired	(1,007)	(782)	—
Treasury stock reissued for exercise of stock options	53	1	—
Proceeds from the issuance of long-term debt	1,495	122	3,214
Repayments of long-term debt	(1,226)	(542)	(720)
Cash payments to eligible policyholders	(147)	(2,569)	—
Cash flows from (used in) financing activities	3,066	(4,567)	(1,680)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,949)	(8,638)	10,860
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9,898	18,536	7,676
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 7,949	$ 9,898	$ 18,536
SUPPLEMENTAL CASH FLOW INFORMATION			
Income taxes paid (received)	$ (84)	$ 57	$ 466
Interest paid	$ 399	$ 482	$ 638
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, 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, annuities, mutual funds, pension and retirement related investments and administration, and asset management. In addition, the Company provides securities brokerage services indirectly through a minority ownership in a joint venture. 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 and businesses to be divested are included in Corporate and Other operations within the Financial Services Businesses. The Closed Block Business, which includes the Closed Block (see Note 8), 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.

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.

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

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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, value of business acquired, 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

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. 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. The Company accounts for non-employee stock options using the fair value method. See Note 14 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 debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion is included in "Net investment income." The amortized cost of fixed maturities is written down to estimated fair value when a decline in value is considered to be an other than temporary impairment. See the discussion below on realized investment gains and losses for a description of the accounting for impairments. 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)."

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

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 an other than temporary impairment. See the discussion below on realized investment gains and losses for a description of the accounting for impairments.

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 3), 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 repurchase and resale agreements and securities borrowed and loaned transactions are used to generate income, to borrow funds, or to facilitate trading activity. Securities repurchase and resale agreements are generally short-term in nature, and therefore, the carrying amounts of these instruments approximate fair value. Securities repurchase and resale agreements are collateralized principally by U.S. government and government agency securities. Securities borrowed or loaned are collateralized principally by cash or U.S. government securities. For securities repurchase agreements and securities loaned transactions used to generate income, the cash received is typically invested in cash equivalents, short-term investments or fixed maturities.

Securities purchased under agreements to resell and securities sold under agreements to repurchase that satisfy certain criteria are treated as collateralized financing arrangements. These agreements are carried at the amounts at which the securities will be subsequently resold or reacquired, 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 or resold are the same, or substantially the same, as the assets transferred or received. The market value of securities to be repurchased is monitored, and additional collateral is obtained, where appropriate, to protect against credit exposure. Income and expenses related to these transactions executed within our general account, insurance subsidiaries, and broker-dealer used to generate income is reported as net investment income; however, for transactions used to borrow funds, the associated borrowing cost is reported as interest expense (included in "General and administrative expenses"). Income and expenses related to these transactions executed within our mortgage banking, derivative dealer and hedge portfolio operations are reported in "Commissions and other income."

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 or provided as necessary. Substantially all of the Company's securities borrowed transactions are with brokers and dealers,

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

commercial banks and institutional clients. Substantially all of the Company's securities loaned transactions are with large brokerage firms. Income and expenses associated with securities borrowing activities is included in "Net investment income." Income and expenses associated with securities lending activities used to generate income is generally included in "Net investment income;" however, for securities lending activity used for funding purposes the associated rebate is reported as interest expense (included in "General and administrative expenses").

Other long-term investments consist of the Company's investments in joint ventures and limited partnerships in which the Company does not exercise control as well as investments in the Company's own separate accounts, which are carried at estimated fair value, and investment real estate. Joint venture and partnership interests are generally accounted for using the equity method of accounting, 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."

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 of the decline (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.

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. DAC, for applicable products, is 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)."

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 7.33% at December 31, 2003 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 expected 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 and funding agreement notes issuance program, 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 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, value of business acquired, goodwill and other intangible assets, the Company's investment in Wachovia Securities Financial Holdings, LLC. ("Wachovia Securities"), 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 for the years ended

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

December 31, 2003, 2002 and 2001, were $1,179 million, $615 million and $1,409 million, respectively. In some of the commercial loan securitizations, the Company retained servicing responsibilities, however, did not retain any material ownership interest in the financial assets that were transferred. The Company recognized net pre-tax gains of $19 million, $18 million and $60 million for the years ended December 31, 2003, 2002 and 2001, respectively, in connection with securitizations transactions, 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.

As a result of certain acquisitions and the application of purchase accounting, the Company reports a financial asset representing the value of business acquired ("VOBA"). VOBA represents the present value of future profits embedded in acquired insurance and annuity contracts. VOBA is determined by estimating the net present value of future cash flows from the contracts in force at the date of acquisition. For acquired traditional insurance contracts, future positive cash flows generally include net valuation premiums while future negative cash flows include policyholders' benefits and certain maintenance expenses. For acquired annuity contracts, future positive cash flows generally include fees and other charges assessed to the contracts as long as they remain in force as well as fees collected upon surrender, if applicable, while future negative cash flows include costs to administer contracts, and benefit payments. The Company amortizes VOBA over the effective life of the acquired contracts. For acquired traditional insurance contracts, VOBA is amortized in proportion to gross premiums or in proportion to the face amount of insurance in force, as applicable. For acquired annuity contracts VOBA is amortized in proportion to estimated gross profits arising from the contracts and anticipated future experience, which is evaluated regularly. The effect of changes in estimated gross profits on unamortized VOBA is reflected in "General and administrative expenses" in the period such estimates of expected future profits are revised.

Contingencies

Amounts related to contingencies are accrued if it is probable that a liability has been incurred and an amount is reasonably estimable.

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, structured settlements with life contingencies and single premium immediate annuities with life contingencies are recognized when received. Benefits are recorded as an expense when they are incurred. A liability for future policy benefits is recorded when premiums are recognized, based on the present value of future benefits and expenses.

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 and other 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," or as a reduction of "Interest credited to policyholders' account balances," 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.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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, as well as earnings from our investment in Wachovia Securities. 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. In 2003, the Company adopted SFAS No. 149, "Amendment of Statement 133, Accounting for Derivative Instruments and Hedging Activities." The adoption of this statement did not have a material impact on the results of operations of the Company, other than as discussed below.

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)" at the time of the transfer in 2001.

Upon its adoption of SFAS No. 149, the Company recharacterized certain contracts to acquire "to be announced" securities from "Fixed maturities—available for sale" to derivatives within "Other long-term investments". The impact of adoption of this standard included a reduction of approximately $3.2 billion of available for sale securities, as of December 31, 2003, with the related offsets recorded in "Other assets" and "Other liabilities." In addition, an asset related to these contracts of approximately $12 million was reported in "Other long-term investments," as of December 31, 2003, with a related gain reported in "Realized investment gains (losses), net" for the year ended December 31, 2003.

Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, financial indices, or the values of securities or commodities. Derivative financial instruments 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, values 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,

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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," "Broker-dealer related receivables," or "Other long-term investments," 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 18, 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 investments 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. 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.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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."

When it is determined that the derivative no longer qualifies as an effective fair value or cash flow hedge or management removes the hedge designation, the derivative will continue to be carried on the balance sheet at its fair value, with changes in fair value recognized currently in "Realized investment gains (losses), net." The asset or liability under a fair value hedge will no longer be adjusted for changes in fair value and the existing basis adjustment is amortized to the income statement line associated with the asset or liability. The component of "Accumulated other comprehensive income (loss)" related to discontinued cash flow hedges is amortized to the income statement line associated with the hedged cash flows over the original term of the hedge contract.

When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, or because it is probable that the forecasted transaction will not occur by the end of the specified time period, the derivative will continue to be carried on the balance sheet at its fair value, with changes in fair value recognized currently in "Realized investment gains (losses), net." Any asset or liability that was recorded pursuant to recognition of the firm commitment is removed from the balance sheet and recognized currently in "Realized investment gains (losses), net." Gains and losses that were in "Accumulated other comprehensive income (loss)" pursuant to the hedge of a forecasted transaction are recognized immediately in "Realized investment gains (losses), net."

Income Taxes

The Company and its eligible 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.

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.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

New Accounting Pronouncements

In December 2003, the Financial Accounting Standards Board ("FASB") revised Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities", which was originally issued in January 2003. 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 FIN No. 46 for relationships with VIEs that began on or after February 1, 2003, and on December 31, 2003, adopted the revised guidance for all relationships with VIEs that are special purpose entities ("SPEs"). The Company will implement the revised guidance to relationships with potential VIEs that are not SPEs as of March 31, 2004. The transition to the revised guidance for SPEs as of December 31, 2003, resulted in the deconsolidation of certain previously consolidated SPEs, with no material effect to the Company's consolidated financial position, results of operations or cash flows. The Company does not believe the transition to the revised guidance on March 31, 2004, will have a material effect on the Company's consolidated financial position or results of operations.

In July 2003, the Accounting Standards Executive Committee ("AcSEC") of the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") 03-01, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts." AcSEC has developed the SOP to address the evolution of product designs since the issuance of Statement of Financial Accounting Standards ("SFAS") No. 60, "Accounting and Reporting by Insurance Enterprises," and SFAS No. 97, "Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments" and the need for interpretive guidance to be developed in three areas: separate account presentation and valuation; the accounting recognition given sales inducements (bonus interest, bonus credits, persistency bonuses); and the classification and valuation of certain long-duration contract liabilities.

The most significant accounting implications of the SOP are as follows: (1) reporting and measuring assets and liabilities of separate account products as general account assets and liabilities when specified criteria are not met; (2) reporting and measuring seed money in separate accounts as general account assets based on the insurer's proportionate beneficial interest in the separate account's underlying assets; (3) capitalizing sales inducements that meet specified criteria and amortizing such amounts over the life of the contracts using the same methodology as used for amortizing deferred acquisition costs, but immediately expensing those sales inducements accrued or credited if such criteria are not met; (4) recognizing contractholder liabilities for: (a) modified guaranteed (market value adjusted) annuities at accreted balances that do not include the then current market value surrender adjustment, (b) two-tier annuities at the lower (non-annuitization) tier account value, (c) persistency bonuses at amounts that are not reduced for expected forfeitures, (d) group pension participating and similar general account "pass through" contracts that are not accounted for under SFAS No. 133 at amounts based on the fair value of the assets or index that determines the investment return pass through; (5) establishing an additional liability for guaranteed minimum death and similar mortality and morbidity benefits only for contracts determined to have mortality and morbidity risk that is other than

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

nominal and when the risk charges made for a period are not proportionate to the risk borne during that period; and (6) for contracts containing an annuitization benefits contract feature, if such contract feature is not accounted for under the provisions of SFAS No. 133 establishing an additional liability for the contract feature if the present value of expected annuitization payments at the expected annuitization date exceeds the expected account balance at the expected annuitization date.

The Company will adopt the SOP effective January 1, 2004. The effect of initially adopting this SOP will be reported as a cumulative effect of a change in accounting principle in the 2004 results of operations, which the Company expects to be a charge of approximately $75 million, net of taxes. This charge is caused primarily by the impact of converting a large group annuity contract and certain individual market value adjusted ("MVA") annuity contracts from separate account accounting treatment to general account accounting treatment and an increase in reserves for guaranteed minimum death benefits. In addition, the FASB is currently considering the accounting for certain unearned revenue liabilities under the SOP, which could result in a decrease in the cumulative effect of change in accounting principle to be recorded.

In April 2003, the FASB issued Statement No. 133 Implementation Issue No. B36, "Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments That Incorporate Credit Risk Exposures That Are Unrelated or Only Partially Related to the Creditworthiness of the Obligor Under Those Instruments." Implementation Issue No. B36 indicates that a modified coinsurance arrangement ("modco"), in which funds are withheld by the ceding insurer and a return on those withheld funds is paid based on the ceding company's return on certain of its investments, generally contains an embedded derivative feature that is not clearly and closely related to the host contract and should be bifurcated in accordance with the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." Effective October 1, 2003, the Company adopted the guidance prospectively for existing contracts and all future transactions. As permitted by SFAS No. 133, all contracts entered into prior to January 1, 1999, were grandfathered and are exempt from the provisions of SFAS No. 133 that relate to embedded derivatives. The application of Implementation Issue No. B36 had no impact on the consolidated financial position or results of operations of the Company.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 generally applies to instruments that are mandatorily redeemable, that represent obligations that will be settled with a variable number of company shares, or that represent an obligation to purchase a fixed number of company shares. For instruments within its scope, the statement requires classification as a liability with initial measurement at fair value. Subsequent measurement depends upon the certainty of the terms of the settlement (such as amount and timing) and whether the obligation will be settled by a transfer of assets or by issuance of a fixed or variable number of equity shares. The Company's adoption of SFAS No. 150, as of July 1, 2003, did not have a material effect on the Company's consolidated financial position or results of operations.

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. The Company has adopted this statement for applicable transactions occurring on or after January 1, 2003.

In November 2002, the FASB issued 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.

In June 2001, 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

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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. The Company adopted SFAS No. 144 effective January 1, 2002.

Reclassifications

Certain amounts in prior years have been reclassified to conform to the current year presentation.

3. ACQUISITIONS AND DISPOSITIONS

Acquisition of CIGNA Corporation's Retirement Business

On November 17, 2003, the Company announced that it had entered into a definitive Stock Purchase and Asset Transfer Agreement with CIGNA Corporation ("CIGNA") and certain of its affiliates, pursuant to which the Company will acquire CIGNA's retirement business. The total consideration payable in the transaction is a cash purchase price of $2.1 billion, subject to certain adjustments. The transaction is subject to various closing conditions, including, among others, state insurance and other regulatory approvals and is expected to close in the first half of 2004.

Acquisition of Skandia U.S. Inc.

On May 1, 2003, the Company acquired Skandia U.S. Inc. ("Skandia U.S."), a wholly owned subsidiary of Skandia Insurance Company Ltd. ("Skandia"). The Company purchased newly issued shares of common stock representing 90% of the outstanding common stock of Skandia U.S. and one share of a newly issued class of preferred stock (collectively the "Shares") and entered into an agreement at the date of acquisition whereby the Company had the right to acquire, and Skandia had the right to require the Company to acquire, the remaining 10% of outstanding common stock. This agreement was accounted for as a financing transaction until the Company purchased the remaining 10% in the third quarter of 2003. The Company's acquisition of Skandia U.S. included American Skandia, Inc. ("American Skandia"). American Skandia, through its wholly owned subsidiaries, is the largest distributor of variable annuities through independent financial planners in the U. S. and operates a mutual fund business.

Effective May 1, 2003, 100% of the assets acquired and liabilities assumed and the results of operations have been included in the Company's consolidated financial statements. The total purchase price was as follows:

	(in millions)
Purchase price paid for the Shares(a)	$ 646
Assumption of collateralized notes held by third parties	248
Purchase price for the remaining 10% equity of Skandia U.S.	165
Other payments to Skandia(b)	115
Transaction costs	10
Total purchase price(c)	$ 1,184

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

3. ACQUISITIONS AND DISPOSITIONS *(continued)*

The following table represents an allocation of the purchase price to assets acquired and liabilities assumed:

	(in millions)
Total investments at market value	$ 486
Cash and cash equivalents	238
Valuation of business acquired ("VOBA")	440
Other assets at fair value	393
Separate account assets	22,311
Total assets acquired	23,868
Policyholders' account balances	(168)
Other liabilities at fair value	(205)
Separate account liabilities	(22,311)
Total liabilities assumed	(22,684)
Net assets acquired(c)	$ 1,184

(a) The proceeds were used by Skandia U.S. to retire an aggregate of $646 million of unsecured debt and collateralized notes held by Skandia.
(b) Prior to the Company's acquisition of Skandia U.S., Skandia acquired certain subsidiaries of Skandia U.S. The cash Skandia paid to Skandia U.S. for these subsidiaries has been repaid to Skandia and is considered a component of the purchase price.
(c) In May 2003, subsequent to the Company's acquisition of Skandia U.S., Skandia U.S. paid a dividend to Prudential Financial of approximately $108 million, reducing the equity of Skandia U.S. by that amount.

As described in Note 2, VOBA represents the present value of profits embedded in acquired insurance and annuity contracts and is determined based on the net present value of future cash flows expected to result from the contracts in force at the date of acquisition. For the American Skandia business, future cash flows include future positive cash flows such as fees and other charges assessed against the contract, and future negative cash flows such as costs to administer the contracts and benefit payments including payments under guaranteed minimum death benefit ("GMDB") provisions.

Certain contracts issued by American Skandia include a MVA feature that requires the Company to pay to the contract holder upon surrender the accreted value of the fund as well as a market value adjustment based on the crediting rates on the contract surrendered compared to crediting rates on newly issued contracts. As of December 31, 2003, this liability is reflected at market value, which considers the effects of unrealized gains and losses in contract value resulting from changes in crediting rates. Upon adoption of SOP 03-01 effective January 1, 2004, the Company will account for American Skandia's contracts containing MVA features as described previously under "New Accounting Pronouncements" and will recognize an explicit liability for the GMDB provision of its contracts. The recognition of a liability for GMDB provisions associated with the American Skandia business and the change in the liability for the MVA feature associated with the American Skandia business will result in a net decrease in VOBA of approximately $130 million, since the expected cash flows on American Skandia's business in force at the time of acquisition that corresponds to the obligations covered by SOP-03-01 were considered in establishing the initial VOBA.

As of December 31, 2003, the Company's VOBA was $489 million, principally related to the American Skandia acquisition.

The following table provides estimated future amortization of value of business acquired, net of interest, including the effect of adoption of SOP 03-01, for the periods indicated.

	VOBA Amortization
	(in millions)
2004	$ 60
2005	54
2006	48
2007	43
2008	38
2009 and thereafter	114
Total	$ 357

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

3. ACQUISITIONS AND DISPOSITIONS *(continued)*

The following table presents selected unaudited pro forma financial information of the Company, assuming that the Skandia U.S. acquisition had occurred January 1, 2002, for the periods ended December 31, 2003 and 2002. This pro forma information does not purport to represent what the Company's actual results of operations would have been if the acquisition had occurred as of the dates indicated or what such results would be for any future periods.

	Years ended December 31,	
	2003	2002
	(in millions, except per share data)	
Total revenues	$ 28,049	$ 26,868
Income from continuing operations	1,321	386
Net income	1,277	311
Earnings per share:		
Financial Services Businesses:		
Income from continuing operations per share of Common Stock		
Basic	$ 2.10	$ 1.58
Diluted	2.08	1.58
Net income per share of Common Stock		
Basic	$ 2.02	$ 1.45
Diluted	2.00	1.45
Closed Block Business:		
Income (loss) from continuing operations per share of Class B Stock		
Basic and diluted	$ 89.50	$ (264.00)
Net income (loss) per share of Class B Stock		
Basic and diluted	$ 89.50	$ (264.00)

Investment in Wachovia Securities

On July 1, 2003, the Company completed the combination of its retail securities brokerage and clearing operations with those of Wachovia Corporation ("Wachovia") to form a joint venture, Wachovia Securities Financial Holdings, LLC ("Wachovia Securities"). The Company has a 38% ownership interest in the joint venture, while Wachovia owns the remaining 62%. The transaction included certain assets and liabilities of the Company's securities brokerage operations but did not include its equity sales, trading and research operations. As part of the transaction the Company retained certain assets and liabilities related to the contributed businesses, including liabilities for certain litigation and regulatory matters. The Company accounts for its 38% ownership of the joint venture under the equity method of accounting; periods prior to July 1, 2003, continue to reflect the results of the Company's previously wholly-owned securities brokerage operations on a fully consolidated basis.

Results for the year ended December 31, 2003, include a pre-tax gain of $22 million from the combination of the businesses.

The Company recognized pre-tax equity earnings from Wachovia Securities of $56 million for the year ended December 31, 2003. The pre-tax equity earnings from Wachovia Securities are included in "Commissions and other income" within the Consolidated Statement of Operations. The Company's investment in Wachovia Securities as of December 31, 2003, was $1 billion and is included in "Other assets" in the Consolidated Statement of Financial Position.

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 primarily offers individual life insurance in Japan, and its distribution is primarily through an agency force and affinity groups.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

3. ACQUISITIONS AND DISPOSITIONS *(continued)*

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 former 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, 2003, a liability of $882 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 as of December 31, 2003 and 2002, include Gibraltar Life's assets and liabilities as of November 30, 2003 and 2002, respectively, and for the years ended December 31, 2003, 2002 and 2001, respectively, include Gibraltar Life's results of operations for the periods April 2, 2001 through November 30, 2001, December 1, 2001 through November 30, 2002 and December 1, 2002 through November 30, 2003. The Company's Consolidated Financial Statements include income from continuing operations before income taxes for Gibraltar Life of $345 million, $221 million and $238 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Discontinued Operations

Results of operations of discontinued businesses, including charges upon disposition, for the years ended December 31, are as follows:

	2003	2002	2001
		(in millions)	
International securities operations (a)	$ (76)	$ (69)	$ (40)
Web-based workplace distribution of voluntary benefits (b)	—	(58)	(20)
Healthcare operations (c)	11	71	25
Property and casualty operations (d)	(28)	(32)	(21)
Other (e)	(13)	3	(25)
Loss from discontinued operations before income taxes	(106)	(85)	(81)
Income tax benefit	(62)	(10)	(16)
Loss from discontinued operations, net of taxes	$ (44)	$ (75)	$ (65)

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

3. ACQUISITIONS AND DISPOSITIONS *(continued)*

The Company's Consolidated Statements of Financial Position include total assets and total liabilities related to discontinued businesses of $1,511 million and $1,172 million, respectively, at December 31, 2003 and $3,107 million and $2,600 million, respectively, at December 31, 2002.

(a) 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 $38 million relating primarily to severance and termination benefits and office closure costs.

In the fourth quarter of 2003, the Company determined, based upon its expected continued involvement with certain of the international securities operations of Prudential Securities Group Inc. after their sale, that those operations no longer qualified for discontinued operations treatment. As such, the results of these businesses (after tax losses of $15 million and $4 million in 2003 and 2002, respectively, and after tax income of $1 million in 2001) were reclassified to continuing operations for all periods.

(b) 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.

(c) The sale of the Company's healthcare business to Aetna was completed in 1999. The loss the Company previously recorded upon the disposal of its healthcare business was reduced in each of the years ended December 31, 2003, 2002 and 2001. The reductions were primarily the result of favorable resolution of certain legal, regulatory and contractual 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 $(2) million and $(7) million, respectively for the year ended December 31, 2003. Ceded premiums and benefits were $27 million and $17 million, respectively for the year ended December 31, 2002. Ceded premium and benefits were $966 million and $827 million, respectively, for the year ended December 31, 2001. Reinsurance recoverable under this agreement, included in "Other assets," was $14 million at December 31, 2003 and $45 million at December 31, 2002.

(d) Includes the results of the Company's specialty automobile and work-place distribution property and casualty insurance operations, which the Company sold in 2003 and early 2004, respectively.

(e) Other includes the results of the consumer banking operations, which the Company decided to exit in the third quarter of 2003, and the retail broker-dealer operations in Tokyo which the Company decided to sell in the fourth quarter of 2002.

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.

Disposition of Other Property and Casualty Insurance Operations

In the fourth quarter of 2003, the Company completed the sale of its property and casualty insurance companies that operated nationally in 48 states outside of New Jersey, and the District of Columbia, to Liberty Mutual Group, as well as its New Jersey property and casualty insurance companies to Palisades Group. Results of these businesses are included in "Income (loss) from continuing operations before income taxes" for all periods. For the year ended December 31, 2003, the Company recognized a loss on disposition of $491 million ($319 million after taxes), recorded within "Loss from disposition of property and casualty insurance operations," which also includes management's best estimate of the cost of retained liabilities, including litigation pertaining to events before the closing and the estimated value of indemnification coverage provided in connection with potential adverse claim experience and a $57 million abandonment and impairment loss recorded in connection with certain long-lived assets.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

4. INVESTMENTS

Fixed Maturities and Equity Securities

The following tables provide information relating to fixed maturities and equity securities (excluding trading account assets) at December 31,

	2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)			
Fixed maturities available for sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 7,023	$ 439	$ 30	$ 7,432
Obligations of U.S. states and their political subdivisions	1,815	178	8	1,985
Foreign government bonds	24,167	1,072	91	25,148
Corporate securities	84,443	6,412	331	90,524
Mortgage-backed securities	3,745	116	7	3,854
Total fixed maturities available for sale	$ 121,193	$ 8,217	$ 467	$ 128,943
Equity securities available for sale	$ 2,799	$ 691	$ 89	$ 3,401

	2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)			
Fixed maturities held to maturity				
Foreign government bonds	$ 163	$ 2	$ 3	$ 162
Corporate securities	312	12	—	324
Mortgage-backed securities	2,593	28	23	2,598
Total fixed maturities held to maturity	$ 3,068	$ 42	$ 26	$ 3,084

	2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	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	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

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

4. INVESTMENTS *(continued)*

The amortized cost and estimated fair value of fixed maturities by contractual maturities at December 31, 2003, is as follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)		(in millions)	
Due in one year or less	$ 6,187	$ 6,273	$ 48	$ 49
Due after one year through five years	33,224	34,881	116	121
Due after five years through ten years	37,943	40,423	49	53
Due after ten years	40,094	43,512	262	263
Mortgage-backed securities	3,745	3,854	2,593	2,598
Total	$ 121,193	$ 128,943	$ 3,068	$ 3,084

Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

The following table depicts the source of fixed maturity proceeds and related gross gains/(losses) on trades and prepayments and losses on impairments of both fixed maturities and equity securities:

	2003	2002	2001
		(in millions)	
Fixed maturities – available for sale:			
Proceeds from sales	$ 34,489	$ 47,341	$ 84,629
Proceeds from maturities/repayments	12,106	13,188	13,521
Gross investment gains from sales and prepayments	933	1,276	1,270
Gross investment losses from sales	(307)	(1,301)	(1,136)
Fixed maturities – held to maturity:			
Proceeds from maturities/repayments	$ 1,418	$ 418	$ 139
Gross investment gains from prepayments	—	—	—
Fixed maturity and equity security impairments:			
Write-downs for impairments of fixed maturities	$ (389)	$ (687)	$ (777)
Write-downs for impairments of equity securities	(160)	(309)	(239)

Due to the adoption of SFAS No. 133, 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

4. INVESTMENTS *(continued)*

Commercial Loans

The Company's commercial loans are as follows at December 31,

	2003		2002	
	Amount (in millions)	% of Total	Amount (in millions)	% of Total
Collateralized loans by property type				
Office buildings	$ 3,355	18.8%	$ 3,334	18.9%
Retail stores	1,739	9.8%	1,992	11.3%
Residential properties	2,058	11.5%	2,137	12.1%
Apartment complexes	4,642	26.1%	4,413	25.0%
Industrial buildings	3,379	19.0%	3,099	17.6%
Agricultural properties	1,864	10.5%	1,864	10.6%
Other	764	4.3%	800	4.5%
Subtotal of collateralized loans	17,801	100.0%	17,639	100.0%
Valuation allowance	(160)		(198)	
Total collateralized loans	17,641		17,441	
Uncollateralized loans				
Uncollateralized loans	2,160		2,258	
Valuation allowance	(332)		(298)	
Total uncollateralized loans	1,828		1,960	
Net carrying value	$ 19,469		$ 19,401	

The commercial loans are geographically dispersed throughout the United States, Canada and Asia with the largest concentrations in California (22.2%) and Asia (15.1%) at December 31, 2003.

Activity in the allowance for losses for all commercial loans, for the years ended December 31, is summarized as follows:

	2003	2002	2001
		(in millions)	
Allowance for losses, beginning of year	$ 496	$ 550	$ 240
Allowance on loans acquired from Gibraltar Life	—	—	739
Release of allowance for losses	(34)	(33)	(22)
Charge-offs, net of recoveries	(7)	(39)	(414)
Change in foreign exchange	37	18	7
Allowance for losses, end of year	$ 492	$ 496	$ 550

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:

	2003	2002
	(in millions)	
Non-performing commercial loans with allowance for losses	$ 369	$ 379
Non-performing commercial loans with no allowance for losses	120	182
Allowance for losses, end of year	(318)	(282)
Net carrying value of non-performing commercial loans	$ 171	$ 279

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

4. 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 $542 million, $631 million and $1,338 million for 2003, 2002 and 2001, respectively. Net investment income recognized on these loans totaled $14 million, $27 million and $36 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Other Long-term Investments

"Other long-term investments" are comprised as follows:

	2003	2002
	(in millions)	
Joint venture and limited partnerships:		
Real estate related	$ 368	$ 685
Non real estate related	1,245	1,120
Total joint venture and limited partnerships	1,613	1,805
Real estate held through direct ownership	1,204	1,217
Separate accounts	1,273	1,051
Other	1,519	1,335
Total other long-term investments	$ 5,609	$ 5,408

Equity Method Investments

Summarized combined financial information for joint ventures and limited partnership interests accounted for under the equity method, including our investment in Wachovia Securities, 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,	
	2003	2002
	(in millions)	
STATEMENTS OF FINANCIAL POSITION		
Investments in real estate	$ 2,540	$ 2,179
Investments in securities	15,788	2,958
Cash and cash equivalents	751	132
Other assets	12,726	76
Total assets	$ 31,805	$ 5,345
Borrowed funds-third party	$ 17,604	$ 645
Borrowed funds-Prudential Financial	460	—
Other liabilities	6,174	561
Total liabilities	24,238	1,206
Partners' capital	7,567	4,139
Total liabilities and partners' capital	$ 31,805	$ 5,345
Equity in partners' capital included above	$ 2,486	$ 1,273
Equity in limited partnership interests not included above	548	532
Carrying value	$ 3,034	$ 1,805

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

4. INVESTMENTS *(continued)*

	Years ended December 31,		
	2003	2002	2001
	(in millions)		
STATEMENTS OF OPERATIONS			
Income from real estate investments	$ 313	$ 140	$ 246
Income from securities investments	2,693	140	142
Interest expense-third party	(162)	(63)	(31)
Other expenses	(2,293)	(159)	(251)
Net earnings	$ 551	$ 58	$ 106
Equity in net earnings included above	$ 141	$ 12	$ 37
Equity in net earnings of limited partnership interests not included above	60	16	48
Total equity in net earnings	$ 201	$ 28	$ 85

Net Investment Income

Net investment income for the years ended December 31, was from the following sources:

	2003	2002	2001
	(in millions)		
Fixed maturities available for sale	$ 6,308	$ 6,344	$ 6,778
Fixed maturities held to maturity	117	80	12
Trading account assets	66	135	294
Equity securities available for sale	54	73	45
Commercial loans	1,368	1,416	1,407
Policy loans	497	529	522
Broker-dealer related receivables	95	259	497
Short-term investments and cash equivalents	182	312	451
Other investment income	541	370	432
Gross investment income	9,228	9,518	10,438
Less investment expenses	(547)	(699)	(1,351)
Net investment income	$ 8,681	$ 8,819	$ 9,087

Based on the carrying value, assets categorized as “non-income producing” at December 31, 2003 included in fixed maturities, commercial loans and other long-term investments totaled $72 million, $28 million and $30 million, respectively.

Realized Investment Gains (Losses), Net

Realized investment gains (losses), net, for the years ended December 31, were from the following sources:

	2003	2002	2001
	(in millions)		
Fixed maturities	$ 238	$ (720)	$ (717)
Equity securities available for sale	(10)	(335)	(236)
Commercial loans	81	48	—
Investment real estate	(22)	(7)	44
Joint ventures and limited partnerships	65	24	—
Derivatives	(167)	(400)	226
Other	85	25	9
Realized investment gains (losses), net	$ 270	$ (1,365)	$ (674)

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

4. 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, 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
Net investment gains (losses) on investments arising during the period	1,164	—	—	—	(439)	725
Reclassification adjustment for (gains) losses included in net income	(368)	—	—	—	139	(229)
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs	—	103	—	—	(37)	66
Impact of net unrealized investment (gains) losses on future policy benefits	—	—	(446)	—	161	(285)
Impact of net unrealized investment (gains) losses on policyholders' dividends	—	—	—	(837)	301	(536)
Balance, December 31, 2003	$ 8,242	$ (433)	$ (1,292)	$ (2,443)	$ (1,499)	$ 2,575

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

4. INVESTMENTS *(continued)*

The table below presents unrealized gains (losses) on investments by asset class at December 31,

	2003	2002	2001
		(in millions)	
Fixed maturities	$ 7,750	$ 7,594	$ 2,478
Equity securities	602	(42)	20
Other investments	(110)	(106)	(126)
Unrealized gains on investments	$ 8,242	$ 7,446	$ 2,372

Duration of Gross Unrealized Loss Positions for Fixed Maturities

The following table shows the fair value and gross unrealized losses aggregated by investment category and length of time that individual fixed maturity securities have been in a continuous unrealized loss position, as of December 31, 2003:

	Less than twelve months		Twelve months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in millions)			
Fixed maturities[1]						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 1,642	$ 34	$ —	$ —	$ 1,642	$ 34
Obligations of U.S. states and their political subdivisions	235	8	3	—	238	8
Foreign government bonds	2,703	91	54	2	2,757	93
Corporate securities	8,802	250	1,498	79	10,300	329
Mortgage-backed securities	2,309	29	—	—	2,309	29
Total	$ 15,691	$ 412	$ 1,555	$ 81	$ 17,246	$ 493

(1) Includes $1,617 million of fair value and $26 million of gross unrealized losses at December 31, 2003 on securities classified as held to maturity, which are not reflected in accumulated other comprehensive income.

As of December 31, 2003, gross unrealized losses on fixed maturities totaled $493 million comprising 1,023 issuers. Of this amount, there was $412 million in less than twelve months category comprising 922 issuers and $81 million in the greater than twelve months category comprising 101 issuers. The $493 million of gross unrealized losses is comprised of $396 million related to investment grade securities and $97 million related to below investment grade securities. Approximately $39 million of the total gross unrealized losses represented declines in value of greater than 20%, none of which had been in that position for a period of twelve months or more, and substantially all of which were less than six months old. The $81 million of gross unrealized losses of twelve months or more were concentrated in the retail, finance and manufacturing sectors and there were no individual issuers with gross unrealized losses greater than $10 million. Based on a review of the above information in conjunction with other factors as outlined in the policy surrounding other than temporary impairments (see Note 2), the Company has concluded that an adjustment for other than temporary impairments is not warranted at December 31, 2003.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

4. INVESTMENTS *(continued)*

Duration of Gross Unrealized Loss Positions for Equity Securities

The following table shows the fair value and gross unrealized losses aggregated by length of time that individual equity securities have been in a continuous unrealized loss position, as of December 31, 2003:

	Less than twelve months		Twelve months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in millions)			
Equity securities available for sale	$ 548	$ 65	$ 123	$ 24	$ 671	$ 89

As of December 31, 2003, gross unrealized losses on equity securities totaled $89 million comprising 1,474 issuers. Of this amount, there were $65 million in less than twelve months category comprising 1,043 issuers and $24 million in the greater than twelve months category comprising 431 issuers. Approximately $8 million of the total gross unrealized losses represented declines of greater than 20%, substantially all of which was less than six months old. There were no individual issuers comprising more than $5 million of the $24 million of gross unrealized losses in the greater than twelve months category. Based on a review of the above information in conjunction with other factors outlined in the policy surrounding other than temporary impairments (see Note 2), the Company has concluded that an adjustment for other than temporary impairments is not warranted at December 31, 2003.

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 agreements 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:

	2003	2002
	(in millions)	
Fixed maturities available for sale	$ 13,537	$ 15,600
Trading account assets	1,927	1,799
Separate account assets	3,196	2,496
Total securities pledged	$ 18,660	$ 19,895

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 $1,628 million and $13,488 million at December 31, 2003 and 2002, respectively, of which $1,478 million in 2003 and $9,288 million in 2002 had either been sold or repledged.

Assets of $419 million and $399 million at December 31, 2003 and 2002, respectively, were on deposit with governmental authorities or trustees as required by certain insurance laws. Additionally, assets valued at $601 million and $789 million at December 31, 2003 and 2002, respectively, were held in voluntary trusts established primarily to fund guaranteed dividends to certain policyholders and to fund certain employee benefits. Assets valued at $73 million and $424 million at December 31, 2003 and 2002, respectively, were pledged as collateral for bank loans and other financing agreements. Letter stock or other securities restricted as to sale amounted to $11 million and $25 million at December 31, 2003 and 2002, respectively. Restricted cash and securities of $1,908 million and $1,869 million at December 31, 2003 and 2002, 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

5. 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:

	2003	2002	2001
		(in millions)	
Balance, beginning of year	$ 7,031	$ 6,868	$ 7,063
Capitalization of commissions, sales and issue expenses	1,584	1,478	1,385
Amortization	(978)	(1,267)	(1,126)
Change in unrealized investment gains and losses	103	(216)	(270)
Foreign currency translation	204	168	(184)
Disposition of subsidiaries	(118)	—	—
Balance, end of year	$ 7,826	$ 7,031	$ 6,868

6. GOODWILL AND OTHER INTANGIBLES

The Company adopted SFAS No. 142 as of January 1, 2002. The Company ceased the amortization of goodwill as of that date and determined that the implementation of the standard's transition provisions did not result in an impairment loss as of the adoption date. Net loss would have been approximately $133 million for the year ended December 31, 2001, had the provisions of the new standard been applied as of January 1, 2001. Goodwill amortization amounted to $21 million for the year ended December 31, 2001. The changes in the book value of goodwill by segment, are as follows:

	Year Ended December 31, 2003					
	Balance at January 1	Acquisitions	Impairment Charge	Disposal of Reporting Unit	Other[a]	Balance at December 31
			(in millions)			
Investment Management	$ 135	$ —	$ —	$ —	$ 7	$ 142
International Insurance	—	14	—	—	—	14
International Investments	161	3	—	—	(7)	157
Corporate and Other	121	1	—	—	—	122
Total	$ 417	$ 18	$ —	$ —	$ —	$ 435

	Year Ended December 31, 2002					
	Balance at January 1	Acquisitions	Impairment Charge	Disposal of Reporting Unit	Other	Balance at December 31
			(in millions)			
Investment Management	$ 50	$ 85	$ —	$ —	$ —	$ 135
Other Asset Management	4	—	—	(4)	—	—
International Investments	119	45	(3)	—	—	161
Corporate and Other	152	2	(33)	—	—	121
Total	$ 325	$ 132	$ (36)	$ (4)	$ —	$ 417

(a) Other represents foreign currency translation and purchase price adjustments.

The Company tests goodwill for impairment annually as of December 31 and more frequently 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. The December 31, 2003 annual impairment test resulted in no impairments. As a result of the December 31, 2002 annual impairment test, the Company determined that the goodwill related to its Property and Casualty Insurance business, included in Corporate and Other above, was impaired. Accordingly, the Company recorded an impairment charge of $33 million representing the entire carrying amount of the business's goodwill.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

6. GOODWILL AND OTHER INTANGIBLES *(continued)*

At December 31, 2003, the gross carrying amount and accumulated amortization for the Company's other intangibles amounted to $336 million and $133 million, respectively, and at December 31, 2002, $319 million and $99 million, respectively. Other intangibles consist primarily of mortgage servicing rights and customer relationships related to the Investment Management segment. At December 31, 2003 and 2002, mortgage servicing rights, including both purchased and originated servicing rights, were $122 million and $124 million, respectively, and customer relationships were $72 million and $77 million, respectively. Amortization expense for other intangibles was $35 million, $27 million and $21 million for the years ended December 31, 2003, 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.

7. POLICYHOLDERS' LIABILITIES

Future Policy Benefits

Future policy benefits at December 31, are as follows:

	2003	2002
	(in millions)	
Life insurance	$ 78,927	$ 74,438
Annuities	15,504	15,052
Other contract liabilities	414	970
Total future policy benefits	$ 94,845	$ 90,460

The Company's individual participating insurance is included within the Closed Block Business. Participating insurance represented 30% and 34% of domestic individual life insurance in force at December 31, 2003 and 2002, respectively, and 92%, 91% and 92% of domestic individual life insurance premiums for 2003, 2002 and 2001, 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, for periods prior to December 31, 2003, 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 9.5%; 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 1.4% to 14%; 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 1.8% to 14.8%; less than 2% of the reserves are based on an interest rate in excess of 8%.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

7. 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 9.3%; 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 $2,830 million and $2,457 million are included in "Future policy benefits" with respect to these deficiencies at December 31, 2003 and 2002, respectively.

Policyholders' Account Balances

Policyholders' account balances at December 31, are as follows:

	2003	2002
	(in millions)	
Individual annuities	$ 9,565	$ 8,497
Group annuities	4,046	3,911
Guaranteed investment contracts and guaranteed interest accounts	13,951	13,698
Funding agreements	1,451	284
Interest-sensitive life contracts	8,400	7,584
Dividend accumulations and other	12,278	12,306
Policyholders' account balances	$ 49,691	$ 46,280

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, if applicable. Included in funding agreements at December 31, 2003, are $1,052 million of medium-term notes of consolidated trust entities secured by funding agreements purchased with the proceeds of such notes. The interest rates associated with such notes range from 1.3% to 3.9%. Interest crediting rates range from 0.5% to 9.5% for interest-sensitive life contracts and from 0.0% to 13.8% for investment-type contracts. Less than 3% of policyholders' account balances have interest crediting rates in excess of 8%.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

7. 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 and accident and health insurance at December 31:

	2003		2002		2001	
	Accident and Health	Property and Casualty	Accident and Health	Property and Casualty	Accident and Health	Property and Casualty
			(in millions)			
Balance at January 1	$ 1,567	$ 1,861	$ 1,655	$ 1,753	$ 1,701	$ 1,848
Less reinsurance recoverables, net	24	598	129	671	246	608
Net balance at January 1	1,543	1,263	1,526	1,082	1,455	1,240
Incurred related to:						
Current year	634	1,184	627	1,615	632	1,440
Prior years	33	(22)	(32)	(15)	(45)	(113)
Total incurred	667	1,162	595	1,600	587	1,327
Paid related to:						
Current year	237	706	237	967	219	932
Prior years	361	297	341	452	312	553
Total paid	598	1,003	578	1,419	531	1,485
Acquisitions (dispositions)	—	(1,364)	—	—	15	—
Net balance at December 31	1,612	58	1,543	1,263	1,526	1,082
Plus reinsurance recoverables, net	17	—	24	598	129	671
Balance at December 31	$ 1,629	$ 58	$ 1,567	$ 1,861	$ 1,655	$ 1,753

The property and casualty reinsurance recoverable balance related to unpaid claims at December 31, 2003, 2002 and 2001 includes $0 million, $151 million and $165 million, respectively, attributable to the Company's discontinued property and casualty businesses. The accident and health reinsurance recoverable balance related to unpaid claims at December 31, 2003, 2002 and 2001 includes $1 million, $9 million and $117 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 that related to prior years were primarily driven by lower than anticipated losses for the auto line of business and prior period reserve releases related to mold claims in 2003 and group personal catastrophe coverage in 2002. The amounts incurred for claims and claim adjustment expenses for accident and health in 2003 that related to prior years were primarily due to required interest somewhat offset by long-term disability claim termination experience, and long-term disability claim termination experience for 2002 and 2001.

8. 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 19. The Company established a separate closed block for participating individual life insurance policies issued by the Canadian

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

8. CLOSED BLOCK *(continued)*

branch of Prudential Insurance. Due to the substantially smaller number of outstanding Canadian policies, this separate closed block is insignificant in size and is not included in the information presented below.

The 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.

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. In establishing the Closed Block, 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 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, 2003, 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 policyholder dividend obligations of $2,443 million and $1,606 million at December 31, 2003 and 2002, respectively, 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 reduction of the liability for policyholder dividends recognized in the year ended December 31, 2002.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

8. CLOSED BLOCK *(continued)*

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:

	2003	2002
	(in millions)	
Closed Block Liabilities		
Future policy benefits	$ 48,842	$ 48,247
Policyholders' dividends payable	1,168	1,151
Policyholder dividend obligation	2,443	1,606
Policyholders' account balances	5,523	5,481
Other Closed Block liabilities	7,222	9,760
Total Closed Block Liabilities	65,198	66,245
Closed Block Assets		
Fixed maturities, available for sale, at fair value	40,517	42,402
Equity securities, available for sale, at fair value	2,282	1,521
Commercial loans	6,423	6,457
Policy loans	5,543	5,681
Other long-term investments	983	1,008
Short-term investments	3,361	2,374
Total investments	59,109	59,443
Cash and cash equivalents	2,075	2,526
Accrued investment income	693	715
Other Closed Block assets	323	528
Total Closed Block Assets	62,200	63,212
Excess of reported Closed Block Liabilities over Closed Block Assets	2,998	3,033
Portion of above representing accumulated other comprehensive income:		
Net unrealized investment gains	3,415	2,720
Allocated to policyholder dividend obligation	(2,443)	(1,606)
Future earnings to be recognized from Closed Block Assets and Closed Block Liabilities	$ 3,970	$ 4,147

Information regarding the policyholder dividend obligation is as follows:

	2003	2002
	(in millions)	
Balance, January 1	$ 1,606	$ —
Impact on income before gains allocable to policyholder dividend obligation	—	—
Net investment gains	—	—
Unrealized investment gains	837	1,606
Balance, December 31	$ 2,443	$ 1,606

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

8. CLOSED BLOCK *(continued)*

Closed Block revenues and benefits and expenses for the years ended December 31, 2003 and 2002, and the period from the date of demutualization through December 31, 2001 were as follows:

	2003	2002	December 18, 2001 through December 31, 2001
		(in millions)	
Revenues			
Premiums	$ 3,860	$ 4,022	$ 293
Net investment income	3,326	3,333	129
Realized investment gains (losses), net	430	(521)	24
Other income	64	68	3
Total Closed Block revenues	7,680	6,902	449
Benefits and Expenses			
Policyholders' benefits	4,174	4,310	288
Interest credited to policyholders' account balances	139	139	5
Dividends to policyholders	2,452	2,506	100
General and administrative expenses	759	801	33
Total Closed Block benefits and expenses	7,524	7,756	426
Closed Block revenues, net of Closed Block benefits and expenses, before income taxes	156	(854)	23
Income tax expense (benefit)	(21)	(147)	2
Closed Block revenues, net of Closed Block benefits and expenses and income taxes	$ 177	$ (707)	$ 21

9. 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. Prior to the sale of the Company's property and casualty insurance businesses, property and casualty reinsurance was 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 operations.

Reinsurance amounts included in the Consolidated Statements of Operations for the years ended December 31, were as follows:

	2003	2002	2001
		(in millions)	
Direct premiums	$ 13,968	$ 13,731	$ 12,498
Reinsurance assumed	133	103	84
Reinsurance ceded	(868)	(781)	(678)
Premiums	$ 13,233	$ 13,053	$ 11,904
Policyholders' benefits ceded	$ 840	$ 798	$ 823

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

9. REINSURANCE *(continued)*

Reinsurance recoverables, included in "Other assets" at December 31, are as follows:

	2003	2002
	(in millions)	
Life insurance	$ 521	$ 604
Property and casualty	—	457
Other reinsurance	66	71
Total reinsurance recoverable	$ 587	$ 1,132

Three major reinsurance companies account for approximately 65% of the reinsurance recoverable at December 31, 2003. 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.

10. SHORT-TERM AND LONG-TERM DEBT

Short-term Debt

Short-term debt at December 31, is as follows:

	2003	2002
	(in millions)	
Commercial paper	$ 3,258	$ 1,265
Notes payable	1,027	1,566
Current portion of long-term debt	454	638
Total short-term debt	$ 4,739	$ 3,469

The weighted average interest rate on outstanding short-term debt, excluding the current portion of long-term debt, was approximately 1.1% and 1.6% at December 31, 2003 and 2002, respectively.

At December 31, 2003, the Company had $2,566 million in committed lines of credit from numerous financial institutions, all of which were unused. These lines of credit generally have terms ranging from one to five years.

The Company issues commercial paper primarily to manage operating cash flows and existing commitments, to meet working capital needs and to take advantage of current investment opportunities. At December 31, 2003 and 2002, a portion of commercial paper borrowings were supported by $2,500 million of the Company's existing lines of credit. At December 31, 2003 and 2002, the weighted average maturity of commercial paper outstanding was 18 and 19 days, respectively.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

10. SHORT-TERM AND LONG-TERM DEBT *(continued)*

Long-term Debt

Long-term debt at December 31, is as follows:

Description	Maturity Dates	Rate	2003	2002
			(in millions)	
Prudential Holdings, LLC notes (the "IHC debt")				
Series A	2017(a)	(c)	$ 333	$ 333
Series B	2023(a)	7.245%	777	777
Series C	2023(a)	8.695%	640	640
Fixed rate notes				
U.S. Dollar	2006-2035(b)	3.75%-15.00%	3,169	1,131
Japanese Yen	2010	(d)	—	384
Floating rate notes ("FRNs")				
U.S. Dollar	2004-2035	(e)	—	785
Japanese Yen	2005-2010	(f)	—	17
Surplus notes	2007-2025	(g)	691	690
Total long-term debt			$ 5,610	$ 4,757

(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) U.S. Dollar fixed rate notes at December 31, 2003 include $711 million related to the issuance of equity security units. See Note 11 for more details regarding equity security units.
(c) 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 1.94% to 2.29% in 2003 and 2.29% to 2.87% in 2002.
(d) The interest rate on the Japanese Yen denominated fixed rate note was 2.2% in 2002. This note was prepaid in 2003.
(e) 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. U.S. Dollar floating rate notes at December 31, 2002 included $375 million related to a variable interest entity that was deconsolidated upon the adoption of the revised guidance under FIN No. 46 on December 31, 2003.
(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. These FRNs were prepaid in 2003.
(g) The interest rate on the Surplus notes ranged from 7.65% to 8.30% in 2003 and 2002.

Several long-term debt agreements have restrictive covenants related to the total amount of debt, net tangible assets and other matters. At December 31, 2003 and 2002, the Company was in compliance with all debt covenants.

Payment of interest and principal on the surplus notes issued after 1993, of which $691 million and $690 million was outstanding at December 31, 2003 and 2002, respectively, 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, 2003, 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, were decreases in interest expense of $18 million and $15 million for the years ended December 31, 2003 and 2002, respectively. Floating rates are determined by contractual formulas and may be subject to certain minimum or maximum rates. See Note 18 for additional information on the Company's use of derivative instruments.

Interest expense for short-term and long-term debt was $403 million, $427 million and $647 million, for the years ended December 31, 2003, 2002 and 2001, respectively. Securities business related interest expense of $82 million, $144 million and $287 million for the years ended December 31, 2003, 2002 and 2001, respectively, is included in "Net investment income."

Included in "Policyholders' account balances" are additional debt obligations of the Company. See Note 7 for further discussion.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

10. SHORT-TERM AND LONG-TERM DEBT *(continued)*

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 Service Coverage Account" (the "DSCA") 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 DSCA, constitutes additional collateral 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 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.

	2003	2002
	(in millions)	
Consolidated Statements of Financial Position data at December 31:		
Total assets	$ 237,242	$ 223,573
Total liabilities	220,770	208,264
Total equity	16,472	15,309
Total liabilities and equity	237,242	223,573

	2003	2002	2001
		(in millions)	
Consolidated Statements of Operations data for the years ended December 31:			
Total revenues	$ 17,344	$ 15,906	$ 27,161
Total benefits and expenses	15,891	16,050	27,359
Income (loss) from continuing operations before income taxes	1,453	(144)	(198)
Net income (loss)	1,085	(93)	(151)
Consolidated Statements of Cash Flows data for the years ended December 31:			
Cash flows from (used in) operating activities	$ (484)	$ 8,337	$ 5,267
Cash flows from (used in) investing activities	(2,116)	(7,503)	7,374
Cash flows from (used in) financing activities	2,116	(1,473)	(13,730)
Net decrease in cash and cash equivalents	(484)	(639)	(1,089)

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

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

10. SHORT-TERM AND LONG-TERM DEBT *(continued)*

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, 2003, the Company was in compliance with all IHC debt covenants.

11. EQUITY SECURITY UNITS

On the date of demutualization, Prudential Financial and Prudential Financial Capital Trust I (the "Trust") co-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. Each Unit has a stated amount of $50 and initially consists of (1) a contract requiring the holder to purchase (the "purchase contract") shares of Common Stock of Prudential Financial on November 15, 2004 (the "settlement date"), at a price determined by a formula described in the purchase contract and (2) a redeemable capital security of the Trust, with a stated liquidation amount of $50. The Trust was created as a statutory business trust under Delaware law and as a wholly-owned financing subsidiary of Prudential Financial, and was consolidated into the financial statements of the Company prior to the adoption of the revised guidance under FIN No. 46 described below. 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, defined as 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, 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 of 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.

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

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

11. EQUITY SECURITY UNITS *(continued)*

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. As of December 31, 2003, no payments have been deferred.

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 guarantee, when taken together with Prudential Financial's obligations under the debentures and its obligations to the Trust, have the effect of providing a full and unconditional guarantee of amounts due on the redeemable capital securities.

Prior to December 31, 2003, 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." In addition, the interest payments on the debentures by Prudential Financial and the corresponding interest income recognized by the Trust are eliminated in consolidation and the distributions on the redeemable capital securities by the Trust are reported within "General and administrative expenses." The present value of the sum of the contract fee payments on the purchase contracts of $26 million was recorded at issuance in 2001 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 debentures.

Effective December 31, 2003 the Company implemented the revised guidance under FIN No. 46. As a result, the financial statements of the Trust, a variable interest entity, are no longer consolidated within the financial statements of the Company, since the Company is not the primary beneficiary of the Trust. Accordingly, the $711 million of Prudential Financial debentures maturing on November 15, 2006 is now reported as "Long-term debt," and the investment in common securities of $21 million is reported in "Other assets." Additionally, beginning in 2004 the distributions on the redeemable capital securities will no longer be recognized within the financial statements of the Company, but will be replaced by the interest expenses attributable to the payments on the debentures. The contract fee payments and the issuance cost in connection with the offering of the Units will continue to be accounted for as discussed above.

12. 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, 2003 and 2002.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

12. STOCKHOLDERS' EQUITY *(continued)*

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 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

The principal sources of funds available to Prudential Financial 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, returns of capital, and interest from its subsidiaries. The regulated insurance 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 $1,557 million at December 31, 2003. There were applicable adjustments for unrealized capital gains of $624 million at December 31, 2003. 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, excluding realized capital gains and losses.

The laws regulating dividends of Prudential Financial's other insurance subsidiaries domiciled in other states are similar, but not identical, to New Jersey's. The laws of foreign countries may also limit the ability of the Company's 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

12. 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.

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, 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; 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 14.

In March 2003, Prudential Financial's Board of Directors authorized a new stock repurchase program that authorized Prudential Financial to purchase up to an additional $1 billion of its outstanding Common Stock. During 2003, the Company acquired 29,076,809 shares of Common Stock at a total cost of $1.0 billion.

In March 2004, Prudential Financial's Board of Directors authorized a new stock repurchase program under which the Company is authorized to purchase up to $1.5 billion of its outstanding Common Stock in 2004. This stock repurchase program supersedes all previous repurchase programs. The timing and amount of repurchases are determined by management based on market conditions and other considerations, and such repurchases may be effected in the open market or throughout negotiated transactions.

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

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

12. STOCKHOLDERS' EQUITY *(continued)*

Comprehensive Income

The components of comprehensive income for the years ended December 31, are as follows:

	2003	2002	2001
		(in millions)	
Net income (loss)	$ 1,264	$ 194	$ (154)
Other comprehensive income, net of tax:			
Change in foreign currency translation adjustments	153	83	(130)
Change in net unrealized investments gains (losses)	(259)	1,606	869
Additional pension liability adjustment	(33)	(48)	(29)
Other comprehensive income (loss), net of tax of $(159); $818, $568	(139)	1,641	710
Comprehensive income	$ 1,125	$ 1,835	$ 556

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, 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
Change in component during year	153	(259)	(33)	(139)
Balance, December 31, 2003	$ (1)	$ 2,575	$ (128)	$ 2,446

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 $1,231 million, $(490) million and $(896) million for the years ended December 31, 2003, 2002 and 2001, respectively. Statutory capital and surplus of Prudential Insurance amounted to $7,472 million and $5,699 million at December 31, 2003 and 2002, respectively.

13. EARNINGS PER SHARE

The Company has outstanding two separate classes of common stock. The Common Stock reflects the performance of the Financial Services Businesses and the Class B Stock reflects the performance of the Closed Block Business. Accordingly, earnings per share is calculated separately for each of these two classes of common stock. Earnings per common 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

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

13. EARNINGS PER SHARE *(continued)*

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:

	2003			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	Income (in millions)	Weighted Average Shares	Per Share Amount
Basic earnings per share									
Income from continuing operations attributable to the Financial Services Businesses	$ 1,069			$ 754			$ 41		
Direct equity adjustment	60			43			—		
Income from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$ 1,129	544,444,345	$ 2.07	$ 797	576,567,377	$ 1.38	$ 41	580,047,053	$ 0.07
Effect of dilutive securities and compensation programs									
Stock options		1,463,747			759,993			780,337	
Deferred and long-term compensation programs		1,524,221			655,125			—	
Put options		—			1,324			—	
Equity security units		931,196			—			—	
Diluted earnings per share									
Income from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$ 1,129	548,363,509	$ 2.06	$ 797	577,983,819	$ 1.38	$ 41	580,827,390	$ 0.07

For the years ended December 31, 2003 and 2002, 9,333,483 and 5,349,629 options, respectively, weighted for the portion of the period they were outstanding, with a weighted average exercise price of $31.66 and $32.97 per share, respectively, were excluded from the computation of diluted earnings per share because the options, based on application of the treasury stock method, were antidilutive.

Class B Stock

The net income (loss) attributable to the Closed Block Business available to holders of Class B Stock after direct equity adjustment for the years ended December 31, 2003 and 2002, and the period December 18, 2001 through

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

13. EARNINGS PER SHARE *(continued)*

December 31, 2001, amounted to $179 million, $(528) million and $3 million, respectively. For the year ended December 31, 2003, the direct equity adjustment resulted in a decrease of $60 million in the net income attributable to the Closed Block Business applicable to holders of Class B Stock for earnings per share purposes. For the year ended December 31, 2002, the direct equity adjustment resulted in an increase in loss of $43 million applicable to holders of the Class B stock for earnings per share purposes. There was no direct equity adjustment in 2001. For the years ended December 31, 2003 and 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.

14. STOCK-BASED COMPENSATION

In March 2003, the Company's Board of Directors adopted the Prudential Financial, Inc. Omnibus Incentive Plan (the "Omnibus Plan"). Upon adoption of the Omnibus Plan, the Prudential Financial, Inc. Stock Option Plan previously adopted by the Company on January 9, 2001 (the "Option Plan") was merged into the Omnibus Plan. The Omnibus Plan provides for equity-based compensation incentives through the grant of stock options, and stock appreciation rights ("SARs"), as did the Option Plan. The Omnibus Plan also provides for the grant of restricted stock shares, restricted stock units, and dividend equivalents, as well as cash and equity-based performance awards ("performance shares"). Any authorized shares of Common Stock not used under the Option Plan are available for the grant of awards under the Omnibus Plan. All outstanding award grants under the Option Plan continue in full force and effect, subject to the original terms under the Option Plan.

As of December 31, 2003, 65,231,100 authorized shares remained available for grant under the Omnibus Plan including previously authorized but unissued shares under the Option Plan.

Under the Omnibus Plan, the Company made grants of stock options, restricted stock shares, restricted stock units and performance share awards to executives. Restricted stock awards, restricted stock units, stock options and performance shares are granted to executives on a recurring basis primarily as replacements for a portion of long-term cash compensation.

Through December 31, 2003, there have been no grants of SARs.

Options

Under the Option Plan, the Company had made 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 certain officers 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. Participants are employees and non-employees (i.e. statutory agents who perform services for the Company and participating subsidiaries.)

Under the Option Plan, and subsequently the Omnibus 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.

Employee Stock Option Grants

During 2002 and 2001, the Company accounted for employee stock options using the intrinsic value method of APB No. 25, 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, as amended,

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

14. STOCK-BASED COMPENSATION *(continued)*

prospectively for all new awards granted to employees on or after January 1, 2003. Generally, awards previously issued under the Option Plan vest over three years. If the Company had accounted for all 2001 and 2002 employee stock option grants under the fair value based accounting method of SFAS No. 123 for the years ended December 31, 2003 and 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, 2003		Year ended December 31, 2002		December 18, 2001 through December 31, 2001	
	Financial Services Businesses	Closed Block Business	Financial Services Businesses	Closed Block Business	Financial Services Businesses	Closed Block Business
	(in millions, except per share amounts)					
Net income (loss), as reported	$ 1,025	$ 239	$ 679	$ (485)	$ 38	$ 3
Add: Total employee stock option compensation expense included in reported net income, net of tax	10	—	—	—	—	—
Deduct: Total employee stock option compensation expense determined under the fair value based method for all awards, net of tax	45	1	30	—	1	—
Pro forma net income (loss)	$ 990	$ 238	$ 649	$ (485)	$ 37	$ 3
Earnings per share:						
Basic—as reported	1.99	89.50	1.25	(264.00)	.07	1.50
Basic—pro forma	1.93	89.50	1.20	(264.00)	.06	1.50
Diluted—as reported	1.98	89.50	1.25	(264.00)	.07	1.50
Diluted—pro forma	1.91	89.50	1.20	(264.00)	.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 and 2003. The Executive Grants replace a portion of long-term cash compensation, which would have been expensed. The table above reflects the pro forma effect of the fair value based accounting method considering both the 2001 Associates Grant and the 2002 Executive Grants. The pro forma effect of the 2002 Executive Grants, without considering the Associates Grant, would have been to reduce net income by $24 million and $12 million for the years ended December 31, 2003 and 2002, respectively, with a corresponding reduction of $0.04 and $0.02 to basic and diluted net income per share of Common Stock for the years ended December 31, 2003 and 2002, respectively.

The fair value of each option issued prior to January 1, 2003 was estimated on the date of grant using a Black-Scholes option-pricing model. For options issued on or after January 1, 2003, the fair value of each option was estimated on the date of grant using a binomial option-pricing model. The weighted average assumptions used in the determination of the fair value of each option are as follows:

	2003	2002	2001
Dividend yield	1.20%	1.05%	1%
Expected volatility	26.27%	33.33%	37%
Risk-free interest rate	3.01%	3.98%	4.05%
Expected life of stock option	5.5 years	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

14. 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
Granted	8,575,698	29.66
Exercised	(1,818,239)	28.60
Forfeited	(5,009,860)	29.40
Expired	—	—
Transfer to non-employee status	(77,586)	27.55
Outstanding at December 31, 2003	20,791,374	$ 30.77

Options exercisable were 7,424,250 shares with a weighted average exercise price of $30.21 at December 31, 2003, 3,291,965 shares with a weighted average exercise price of $27.72 at December 31, 2002 and 15,000 shares with a weighted average exercise price of $27.50 at December 31, 2001.

Employee options granted and their related grant date weighted average fair value are as follows:

	2003			2002			2001		
	Shares	Weighted Average Grant Date Fair Value	Weighted Average Exercise Price	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	8,575,698	$ 7.39	$ 29.66	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	8,575,698	$ 7.39	$ 29.66	10,367,694	$ 11.87	$ 33.53	11,364,120	$ 8.78	$ 27.53

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

14. STOCK-BASED COMPENSATION *(continued)*

The following table summarizes information about the employee stock options outstanding and employee stock options exercisable at December 31, 2003:

	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 — $29.90	12,018,412	8.61	$ 28.72	4,258,559	$ 27.71
$30.49 — $36.55	8,761,826	8.60	33.58	3,165,691	33.58
$36.60 — $40.62	11,136	9.83	37.99	—	—
Total	20,791,374	8.61	$ 30.77	7,424,250	$ 30.21

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.

Prior to January 1, 2003, 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. In 2003, the Company implemented a binomial option-pricing model. The fair value of each option under the binomial model was estimated on the balance sheet date for nonvested options and on the vesting date for any option vesting during 2003. The weighted average assumptions used in the determination of the fair value of each option are as follows:

	2003	2002	2001
Dividend yield	1.20%	1.30%	1%
Expected volatility	26.27%	35.60%	37%
Risk-free interest rate	2.47%	2.15%	4.07%
Expected life of stock option	3.20 years	3.21 years	3.95 years

The dividend yield reflects the assumption that the current dividend payout will continue with no anticipated increases.

The compensation expense recognized for stock-based non-employee compensation awards was $5 million, $4 million and $270 thousand for the years ended December 31, 2003 and 2002, and the period December 18, 2001 through December 31, 2001, respectively.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

14. STOCK-BASED COMPENSATION *(continued)*

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
Granted	163,159	28.61
Exercised	(68,100)	27.65
Forfeited	(71,116)	27.59
Expired	—	—
Transfer from employee status	77,586	27.55
Outstanding at December 31, 2003	965,356	$ 28.25

Options exercisable were 495,397 shares with a weighted average exercise price of $27.85 at December 31, 2003, 268,080 shares with a weighted average exercise price of $27.50 at December 31, 2002 and 1,200 shares with a weighted average exercise price at $27.50 at December 31, 2001. The weighted average fair value for nonvested options and options vesting during the year was $14.80, $9.26 and $12.77 for the years ended December 31, 2003, 2002 and 2001, respectively.

The following table summarizes information about the non-employee stock options outstanding and exercisable at December 31, 2003:

	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 — $29.90	876,245	8.16	$ 27.68	468,544	$ 27.50
$30.96 — $34.24	89,111	8.51	33.81	26,853	33.96
Total	965,356	8.19	$ 28.25	495,397	$ 27.85

Restricted Stock Shares and Restricted Stock Units

A restricted stock share represents a grant of Common Stock to employee and non-employee participants that is subject to certain transfer restrictions and forfeiture provisions for a specified period of time. A restricted stock unit is an unfunded, unsecured right to receive a share of Common Stock at the end of a specified period of time, which is also subject to forfeiture and transfer restrictions. Generally, the restrictions on restricted stock shares and restricted stock units will lapse on the third anniversary of the date of grant. Restricted stock shares subject to the transfer restrictions and forfeiture provisions are considered nonvested shares. Nonvested shares forfeited by participants revert to the Company and are reflected as treasury stock of the Company as of the date of forfeiture.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

14. STOCK-BASED COMPENSATION *(continued)*

Performance Share Awards

Performance share awards are awards of units denominated in Common Stock. The number of units is determined over the performance period, and may be adjusted based on the satisfaction of certain performance goals. Performance share awards are payable in Common Stock.

The following tables summarize awards granted, weighted average price, compensation expense recorded and nonvested awards for restricted stock shares, restricted stock units and performance shares:

	Awards Granted			Weighted Average Grant Date Price	Weighted Average Balance Sheet Date Price
	Employee	Non-Employee	Total	Employee	Non-Employee
Restricted stock shares	1,917,152	13,946	1,931,098	$ 33.66	$ 41.77
Restricted stock units	139,452	—	139,452	33.61	—
Performance shares	236,933	—	236,933	33.61	—
Total	2,293,537	13,946	2,307,483	$ 33.65	$ 41.77

The weighted average price of employee restricted stock shares, restricted stock units, and performance shares is based on the quoted fair value of the Company's Common Stock on the date of grant. The weighted average price of non-employee restricted stock shares is based on the Company's Common Stock price at the balance sheet date.

	Compensation Expense for Year Ended December 31, 2003		
	Employee	Non-Employee	Total
		(in millions)	
Restricted stock shares	$ 19	$ —	$ 19
Restricted stock units	2	—	2
Performance shares	2	—	2
Total	$ 23	$ —	$ 23

	Nonvested Shares at December 31, 2003		
	Employee	Non-Employee	Total
Restricted stock shares	1,645,145	13,946	1,659,091
Restricted stock units	138,846	—	138,846
Performance shares	236,933	—	236,933
Total	2,020,924	13,946	2,034,870

Deferred Compensation Program

Prior to the contribution of the Company's retail securities brokerage and clearing operations into the joint venture with Wachovia on July 1, 2003, the Company maintained a deferred compensation program for Financial Advisors and certain other employees (the "participants") of the contributed operations, under which participants elected to defer a portion of their compensation. Amounts deposited to participant accounts, including 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

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

14. STOCK-BASED COMPENSATION *(continued)*

being amortized over the vesting period, was recorded as a reduction in stockholders' equity. The deferred compensation expense of $14 million, as of July 1, 2003, was included in the net assets of the Company's retail securities brokerage and clearing operations contributed to the joint venture with that of Wachovia. The results of operations of the joint venture, of which the Company owns a 38% interest, will include the amortization of the deferred compensation expense. As of December 31, 2003, there were 1,000,963 nonvested shares in participants accounts. The Company continues to repurchase forfeited shares from the joint venture, which are reflected as treasury stock of the Company as of the date of forfeiture.

15. EMPLOYEE BENEFIT PLANS

Pension and Other Postretirement Plans

The Company has funded and non-funded contributory and 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 benefits for 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 for its retired employees, their beneficiaries and covered dependents ("other postretirement benefits"). 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.

On December 8, 2003 President Bush signed the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 ("the Act") into law. The Act introduces a prescription drug benefit under Medicare (Medicare Part D). This legislation may eventually reduce the Company's costs for retiree health care benefits.

On January 12, 2004, the FASB issued FASB Staff Position No. SFAS 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003" ("FSP 106-1"). As permitted by FSP 106-1, the Company is electing to defer the accounting for the effects of the Act. The deferral remains in effect until the earlier of the re-measurement of plan assets and obligations subsequent to January 31, 2004 or the issuance of guidance by the FASB. The accumulated postretirement benefit obligation and net periodic postretirement cost in the financial statements and accompanying notes do not reflect the effect of the Act.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

15. 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	
	2003	2002	2003	2002
	(in millions)			
Change in benefit obligation				
Benefit obligation at the beginning of period	$ (7,570)	$ (6,607)	$ (2,434)	$ (2,096)
Service cost	(180)	(175)	(14)	(14)
Interest cost	(444)	(463)	(152)	(152)
Plan participants' contributions	(1)	—	(11)	(8)
Amendments	(17)	(218)	73	141
Acquisitions	—	—	—	—
Annuity purchase	3	68	—	—
Actuarial losses, net	(645)	(560)	(559)	(375)
Settlements	436	—	—	—
Curtailments	130	—	1	—
Contractual termination benefits	(1)	(1)	—	—
Special termination benefits	(61)	—	(1)	—
Benefits paid	642	452	171	165
Foreign currency changes	(81)	(66)	(4)	—
Divestiture	—	—	71	—
Transfer from postemployment benefits	—	—	—	(95)
Benefit obligation at end of period	$ (7,789)	$ (7,570)	$ (2,859)	$ (2,434)
Change in plan assets				
Fair value of plan assets at beginning of period	$ 7,914	$ 8,629	$ 1,156	$ 1,343
Actual return (loss) on plan assets	1,391	(299)	128	(38)
Annuity purchase	(3)	(68)	—	—
Employer contributions	74	95	8	8
Plan participants' contributions	1	—	10	8
Contributions for settlements	423	—	—	—
Disbursement for settlements	(436)	—	—	—
Benefits paid	(642)	(452)	(171)	(165)
Foreign currency changes	9	9	—	—
Fair value of plan assets at end of period	$ 8,731	$ 7,914	$ 1,131	$ 1,156
Funded status				
Funded status at end of period	$ 942	$ 344	$ (1,728)	$ (1,278)
Unrecognized transition (asset) liability	(23)	(129)	6	41
Unrecognized prior service costs	181	234	(74)	(9)
Unrecognized actuarial losses, net	1,428	1,477	866	349
Effects of fourth quarter activity	9	11	1	2
Net amount recognized	$ 2,537	$ 1,937	$ (929)	$ (895)
Amounts recognized in the Statements of Financial Position				
Prepaid benefit cost	$ 3,328	$ 3,082	$ —	$ —
Accrued benefit liability	(1,003)	(1,285)	(929)	(895)
Intangible asset	17	4	—	—
Accumulated other comprehensive income	195	136	—	—
Net amount recognized	$ 2,537	$ 1,937	$ (929)	$ (895)
Accumulated benefit obligation	$ (7,249)	$ (6,903)	$ (2,859)	$ (2,434)

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 $1,195 million, $1,057 million and $88

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

15. EMPLOYEE BENEFIT PLANS *(continued)*

million, respectively, at September 30, 2003 and $1,480 million, $1,247 million and $77 million, respectively, at September 30, 2002.

In 2003 and 2002, the pension plan purchased annuity contracts from Prudential Insurance for $3 million and $68 million, respectively. The approximate future annual benefit payment for all annuity contracts was $22 million and $20 million in 2003 and 2002, respectively.

The benefit obligation for pensions increased by $17 million in 2003 for the inclusion of a new non-qualified pension plan for mid-career hires. The benefit obligation for pensions increased by $218 million in 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 other postretirement benefits decreased by $73 million in 2003 for changes in the substantive plan made to medical, dental and life insurance benefits. There was a reduction in cost related to changes in the prescription drug program of $39 million and a reduction of $39 million for cost sharing shifts to certain retirees for medical and dental benefits. There was an increase in cost of $5 million associated with providing Prudential Financial benefits to former Prudential Securities Inc. employees that transferred to Prudential Financial effective July 1, 2003. The benefit obligation for other postretirement benefits decreased by $141 million in 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 pension benefits were amended during the time periods presented for 2002 and 2001 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.

Employees were provided special termination benefits in conjunction with their termination of employment related to the Prudential Securities Inc. and Prudential Property and Casualty transactions in 2003. These benefits include the cost of vesting plan participants, accruing benefits until year-end, crediting service for vesting purposes and certain early retirement subsidies.

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		
	2003	2002	2001	2003	2002	2001
	(in millions)					
Components of net periodic (benefit) cost						
Service cost	$ 180	$ 175	$ 167	$ 14	$ 14	$ 18
Interest cost	444	463	431	152	152	150
Expected return on plan assets	(839)	(913)	(880)	(83)	(114)	(134)
Amortization of transition amount	(106)	(106)	(106)	3	17	17
Amortization of prior service cost	29	30	12	(1)	—	—
Amortization of actuarial (gain) loss, net	14	(45)	(85)	10	(10)	(16)
Settlements	16	—	—	—	—	—
Curtailments	31	—	—	—	—	—
Contractual termination benefits	—	1	4	—	—	—
Special termination benefits	61	—	—	1	—	—
Net periodic (benefit) cost	$ (170)	$ (395)	$ (457)	$ 96	$ 59	$ 35

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

15. EMPLOYEE BENEFIT PLANS *(continued)*

The increase in the minimum liability included in "Accumulated other comprehensive income" as of September 30, 2003 and September 30, 2002 is as follows:

	Pension Benefits		Other Postretirement Benefits	
	2003	2002	2003	2002
	(in millions)			
Increase in minimum liability included in other comprehensive income	$ 59	$ 66	$ —	$ —

The assumptions as of 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		
	2003	2002	2001	2003	2002	2001
Weighted-average assumptions						
Discount rate (beginning of period)	6.50%	7.25%	7.75%	6.50%	7.25%	7.75%
Discount rate (end of period)	5.75%	6.50%	7.25%	5.75%	6.50%	7.25%
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)	8.75%	9.50%	9.50%	7.75%	9.00%	9.00%
Health care cost trend rates	—	—	—	6.05–10.00%	6.40–10.00%	6.76–8.76%
Ultimate health care cost trend rate after gradual decrease until 2007	—	—	—	5.00%	5.00%	5.00%

The pension and postretirement expected long term rates of return for 2003 were determined based upon an approach that considered an expectation of the allocation of plan assets during the measurement period of 2003. Expected returns are estimated by asset class as noted in the discussion of investment policies and strategies. The expected returns by an asset class contemplate the risk free interest rate environment as of the measurement date and then add a risk premium. The risk premium is a range of percentages and is based upon historical information and other factors such as expected reinvestment returns and asset manager performance.

The Company applied the same approach to the determination of the expected long term rate of return in 2004. The expected long term rate of return for 2004 is 8.75% and 7.75%, respectively, for the pension and postretirement plans.

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.

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
	2003
	(in millions)
One percentage point increase	
Increase in total service and interest costs	$ 11
Increase in postretirement benefit obligation	230
One percentage point decrease	
Decrease in total service and interest costs	$ 9
Decrease in postretirement benefit obligation	197

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

15. EMPLOYEE BENEFIT PLANS *(continued)*

Pension and postretirement plan asset allocation as of September 30, 2003 and September 30, 2002, are as follows:

	Pension Percentage of Plan Assets as of September 30		Postretirement Percentage of Plan Assets as of September 30	
	2003	2002	2003	2002
Asset category				
U.S. Stocks	49%	42%	52%	55%
International Stocks	9%	9%	5%	3%
U.S. Bonds	32%	30%	20%	14%
International Bonds	2%	5%	0%	0%
Short Term Investments	2%	3%	3%	1%
Real Estate	6%	8%	0%	0%
Municipal Bonds	0%	0%	20%	27%
Other	0%	3%	0%	0%
Total	100%	100%	100%	100%

The Company, for its domestic pension and postretirement plans, has developed guidelines for asset allocations. As of the September 30, 2003 measurement date the range of target percentages are as follows:

	Pension Investment Policy Guidelines as of September 30, 2003		Postretirement Investment Policy Guidelines as of September 30, 2003	
	Minimum	Maximum	Minimum	Maximum
Asset category				
U.S. Stocks	18%	56%	24%	59%
International Stocks	5%	15%	1%	7%
U.S. Bonds	19%	57%	10%	44%
International Bonds	5%	25%	0%	0%
Short Term Investments	0%	5%	0%	27%
Real Estate	0%	7%	0%	0%
Municipal Bonds	0%	0%	20%	22%

Management reviews its investment strategy on an annual basis.

The investment goal of the domestic pension plan assets is to generate an above benchmark return on a diversified portfolio of stocks, bonds and real estate, while meeting the cash requirements for a pension obligation that includes a traditional formula principally representing payments to annuitants and a cash balance formula which allows lump sum payments and annuity payments. The pension plan risk management practices include guidelines for asset concentration, credit rating and liquidity. The pension plan does not invest in leveraged derivatives. Derivatives such as futures contracts are used to reduce transaction costs and change asset concentration.

The investment goal of the domestic postretirement plan assets is to generate an above benchmark return on a diversified portfolio of stocks, bonds and municipal bonds, while meeting the cash requirements for the postretirement obligations that includes a medical benefit including prescription drugs, a dental benefit and a life benefit. The postretirement domestic equity is used to provide expected growth in assets deposited into the plan assets. International equity is used to provide diversification to domestic equity as well as expected capital growth. Bonds provide liquidity and income. Short-term investments provide liquidity and allow for defensive asset mixes. Municipal bonds provide liquidity and tax efficient income, where appropriate. The postretirement plans risk management practices include guidelines for asset concentration, credit rating, liquidity, and tax efficiency. The postretirement plan does not invest in leveraged derivatives. Derivatives such as futures contracts are used to reduce transaction costs and change asset concentration.

Pension assets include Prudential Financial Inc. common stock in the amount of $103 million (1.2 percent of total plan assets) as of September 30, 2002. There were no investments in Prudential Financial Inc. common stock as of September 30, 2003. Pension plan assets of $7,216 million and $6,385 million are included in Separate Account assets and liabilities as of September 30, 2003 and 2002, respectively.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

15. EMPLOYEE BENEFIT PLANS *(continued)*

Postretirement equity securities did not include any Prudential Financial Inc. common stock as of September 30, 2003 or 2002.

The expected benefit payments for the Company's domestic pension and postretirement plans for the years indicated are as follows:

Expected Benefits Payments	Pension	Other Postretirement Benefits
	(in millions)	
2004	$ 641	$ 226
2005	441	233
2006	369	239
2007	371	242
2008	375	241
2009-2013	2,004	1,206
Total	$ 4,201	$ 2,387

The Company anticipates that it will make cash contributions in 2004 of $37 million to the non-qualified pension plan and $2 million to the postretirement plans. The Company does not anticipate making any contributions to the qualified pension plan in 2004.

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, 2003 and 2002, was $52 million and $91 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% of annual salary. The matching contributions by the Company included in "General and administrative expenses" were $54 million, $55 million and $72 million for the years ended December 31, 2003, 2002 and 2001, respectively.

16. INCOME TAXES

The components of income tax expense (benefit) for the years ended December 31, were as follows:

	2003	2002	2001
		(in millions)	
Current tax expense (benefit)			
U.S.	$ 101	$ (125)	$ (1,021)
State and local	23	2	60
Foreign	38	32	59
Total	162	(91)	(902)
Deferred tax expense (benefit)			
U.S.	143	(238)	773
State and local	43	(61)	(74)
Foreign	302	201	171
Total	488	(98)	870
Total income tax expense (benefit)	$ 650	$ (189)	$ (32)

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

16. INCOME TAXES *(continued)*

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:

	2003	2002	2001
		(in millions)	
Expected federal income tax expense (benefit)	$ 685	$ 28	$ (42)
Assumed repatriation of foreign earnings	120	—	—
Disposition of subsidiaries	(78)	(183)	—
Equity tax	—	—	(200)
Non-taxable investment income	(72)	(116)	(63)
State and local income taxes	43	(41)	(9)
Non-deductible expenses	(12)	40	241
Change in valuation allowance	(2)	37	17
Other	(34)	46	24
Total income tax expense (benefit)	$ 650	$ (189)	$ (32)

Deferred tax assets and liabilities at December 31, resulted from the items listed in the following table:

	2003	2002
	(in millions)	
Deferred tax assets		
Insurance reserves	$ 1,247	$ 832
Policyholder dividends	1,077	710
Net operating and capital loss carryforwards	248	426
Other	814	810
Deferred tax assets before valuation allowance	3,386	2,778
Valuation allowance	(85)	(118)
Deferred tax assets after valuation allowance	3,301	2,660
Deferred tax liabilities		
Net unrealized investment gains	2,999	2,739
Deferred policy acquisition costs	1,943	1,798
Employee benefits	253	(6)
Other	214	218
Deferred tax liabilities	5,409	4,749
Net deferred tax liability	$ (2,108)	$ (2,089)

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, 2003 and 2002, respectively, the Company had federal net operating and capital loss carryforwards of $170 million and $348 million, which expire between 2007 and 2018. At December 31, 2003 and 2002, respectively, the Company had state operating and capital loss carryforwards for tax purposes approximating $5,160 million and $4,182 million, which expire between 2005 and 2023. At December 31, 2003 and 2002, respectively, the Company had foreign operating loss carryforwards for tax purposes approximating $35 million and $341 million, $24 million of which expires between 2004 and 2012 and $11 million have an unlimited carryforward.

The Company previously had not provided U.S. income taxes on unremitted foreign earnings of its non-U.S. operations because such earnings had been considered to be permanently reinvested in such operations. During 2003,

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

16. INCOME TAXES *(continued)*

the Company determined that earnings from companies in high tax jurisdictions will be repatriated to the U.S. Accordingly, earnings from its Japanese insurance operations are no longer considered permanently reinvested. U.S. income tax expense associated with the assumed repatriation of such earnings in the amount of $112 million have been recognized. The Company has undistributed earnings of foreign subsidiaries, other than its Japanese insurance operations, of $674 million and $353 million at December 31, 2003 and 2002, respectively, for which deferred taxes have not been provided. Such earnings are considered permanently invested in the foreign subsidiaries. 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 1996. The Service has begun its examination of 1997 through 2001. Management believes sufficient provisions have been made for potential adjustments.

17. 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 18 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 based upon various factors, including the terms of the loans, the intended exit strategy for the loans based upon either a securitization pricing model or commitments from investors, prevailing interest rates, and credit risk.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

17. FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

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.

The carrying amount approximates or equals 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,

	2003		2002	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(in millions)			
Fixed maturities, held to maturity	$ 3,068	$ 3,084	$ 2,612	$ 2,673
Commercial loans	19,469	21,037	19,401	21,335
Policy loans	8,152	9,706	8,827	10,714
Mortgage securitization inventory	1,056	1,058	700	708
Investment contracts	40,681	41,450	37,871	38,765
Short-term and long-term debt	10,349	10,844	8,226	8,804
Guaranteed beneficial interest in Trust holding solely debentures of Parent (a)	—	—	690	755

(a) Effective December 31, 2003, the Company adopted the revised guidance under FIN No. 46. As a result, the Trust was deconsolidated, and the Prudential Financial debentures are reported as "Long-term debt." See Note 11 for additional information.

18. 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 the 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

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

18. DERIVATIVE INSTRUMENTS *(continued)*

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.

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. The Company also uses "to be announced" (TBA) forward contracts to gain exposure to the investment risk and return of mortgage-backed securities. TBA transactions can help the Company to achieve better diversification and to enhance the return on its investment portfolio. TBAs provide a more liquid and cost effective method of achieving these goals than

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

18. DERIVATIVE INSTRUMENTS *(continued)*

purchasing or selling individual mortgage-backed pools. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at a specified future date. A portion of this activity was exited in connection with the restructuring of Prudential Securities Group Inc.'s capital markets activities.

Cash Flow, Fair Value and Net Investment Hedges

The ineffective portion of derivatives accounted for using hedge accounting in the years ended December 31, 2003, 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.

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)
Net deferred losses on cash flow hedges from January 1 to December 31, 2003	(90)
Amount reclassified into current period earnings	(18)
Balance, December 31, 2003	$ (111)

It is anticipated that a pre-tax gain of approximately $5 million will be reclassified from "Accumulated other comprehensive income (loss)" to earnings during the year ended December 31, 2004, offset by amounts pertaining to the hedged items. The maximum length for which variable cash flows are hedged is 20 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 $84 million in 2003, losses of $67 million in 2002 and gains of $77 million in 2001.

For the years ended December 31, 2003, 2002 and 2001, there were no derivative reclassifications to earnings due to hedged firm commitments no longer deemed probable or due to hedged 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.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

18. DERIVATIVE INSTRUMENTS *(continued)*

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.

19. SEGMENT INFORMATION

Segments

The Company has organized its principal operations into the Financial Services Businesses and the Closed Block Business. Within the Financial Services Businesses, the Company operates through three divisions, which together encompass eight reportable segments. Businesses that are not sufficiently material to warrant separate disclosure and businesses to be divested 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 Insurance division consists of the Individual Life and Annuities and Group Insurance segments. The Individual Life and Annuities segment manufactures and distributes individual variable life, term life, universal life, non-participating whole 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, long-term and short-term 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 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. 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, and the Retirement segment. The Financial Advisory segment includes, effective July 1, 2003, our equity method investment in the Wachovia Securities joint venture. This segment also includes the equity sales, trading and research operations. 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 portfolios 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 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 offers private banking, asset management, 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. The divested businesses consist primarily of the property and casualty insurance business, Gibraltar Casualty, and Prudential Securities Capital Markets. Wind-down businesses include individual health insurance and Canadian life insurance. 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 life insurance sales practices remediation.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

19. SEGMENT INFORMATION *(continued)*

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 8); 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 10) 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 years ended December 31, 2003 and 2002 and the period December 18, 2001 through December 31, 2001 include returns on these assets.

The accounting policies of the segments are the same as those described in Note 2, "Summary of Significant Accounting Policies." 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); life insurance sales practices remedies and costs; the contribution to income/loss of divested businesses that have been or will be 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.

Adjusted operating income excludes net realized investment gains and losses. A significant element of realized losses is impairments and losses from sales of credit-impaired securities, the timing of which depends largely on market credit cycles and can vary considerably across periods. The timing of other sales that would result in gains or losses is largely subject to the Company's discretion and influenced by market opportunities. Trends in the underlying profitability of the Company's businesses can be more clearly identified without the fluctuating effects of these transactions. Adjusted operating income excludes life insurance 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. Adjusted operating income excludes the results of divested businesses, which are not indicative of the Company's future operating results. Adjusted operating income also 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, which offset against net realized investment gains and losses, relate to policyholder dividends, amortization of deferred policy acquisition costs, and reserves for future policy benefits. The related charges associated with policyholder dividends include a percentage of net realized investment gains on specified Gibraltar

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

19. SEGMENT INFORMATION *(continued)*

Life assets that 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 (losses of $51 million, and revenues of $42 million and $34 million for the years ended December 31, 2003, 2002 and 2001, respectively). As of December 31, 2003 and 2002, the fair value of open contracts used for this purpose was a net liability of $152 million and $52 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 $51 million and $52 million for the years ended December 31, 2003 and 2002, respectively, of periodic settlements of such contracts. Amounts in 2001 were insignificant.

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." Commencing in the fourth quarter of 2002, the Company applied hedge accounting treatment to new mortgage 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. Prior to the fourth quarter of 2002, the mortgage loan inventory was recorded at the lower of aggregate cost or fair value. However, for segment reporting, changes in the estimated fair value of the mortgage loans (losses of $5 million, $2 million and $21 million for the years ended December 31, 2003, 2002 and 2001, respectively) were included in adjusted operating income of the Other Asset Management segment with an offsetting adjustment to adjusted operating income of Corporate and Other operations.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

19. SEGMENT INFORMATION *(continued)*

The summary below reconciles adjusted operating income, a non-GAAP measure, to income from continuing operations before income taxes:

	Years Ended December 31,		
	2003	2002	2001
	(in millions)		
Adjusted Operating Income before income taxes for Financial Services Businesses by Segment:			
Individual Life and Annuities	$ 619	$ 390	$ 389
Group Insurance	169	155	70
Total Insurance Division	788	545	459
Investment Management	162	139	141
Financial Advisory	(111)	(43)	(140)
Retirement	192	141	110
Other Asset Management	46	45	55
Total Investment Division	289	282	166
International Insurance	819	757	611
International Investments	(17)	(6)	(44)
Total International Insurance and Investments Division	802	751	567
Corporate and Other	93	160	(25)
Adjusted Operating Income before income taxes for Financial Services Businesses	1,972	1,738	1,167
Items excluded from Adjusted Operating Income:			
Realized investment losses, net, and related adjustments	(156)	(872)	(165)
Charges related to realized gains(losses), net	(43)	6	26
Sales practices remedies and costs	—	(20)	—
Divested businesses	(185)	(15)	58
Demutualization costs and expenses	—	—	(588)
Income from continuing operations before income taxes for Financial Services Businesses	1,588	837	498
Income (loss) from continuing operations before income taxes for Closed Block Business	370	(757)	(619)
Income (loss) from continuing operations before income taxes	$ 1,958	$ 80	$ (121)

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 is included in consolidating adjustments within Corporate and Other operations.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

19. SEGMENT INFORMATION *(continued)*

The summary below presents certain financial information for the Company's reportable segments:

	Year ended December 31, 2003						
	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	$ 3,082	$ 861	$ 984	$ 420	$ 17	$ (2)	$ 242
Group Insurance	3,690	585	2,797	216	—	2	3
Total Insurance Division	6,772	1,446	3,781	636	17	—	245
Investment Management	1,259	29	—	—	—	4	54
Financial Advisory	1,306	53	—	—	—	—	—
Retirement	2,281	2,043	791	946	—	17	12
Other Asset Management	101	26	—	—	—	12	—
Total Investment Division	4,947	2,151	791	946	—	33	66
International Insurance	5,655	787	3,520	109	94	3	284
International Investments	356	12	—	—	—	—	—
Total International Insurance and Investments Division	6,011	799	3,520	109	94	3	284
Corporate and Other	494	547	77	—	4	164	(62)
Total	18,224	4,943	8,169	1,691	115	200	533
Items excluded from adjusted operating income:							
Realized investment losses, net of related adjustments	(156)	—	—	—	—	—	—
Related charges	—	—	(1)	—	35	—	9
Total realized investment losses, net of related charges and adjustments	(156)	—	(1)	—	35	—	9
Divested businesses	1,857	106	1,082	—	—	—	269
Total Financial Services Businesses	19,925	5,049	9,250	1,691	150	200	811
Closed Block Business	7,982	3,632	4,174	139	2,452	165	121
Total per Consolidated Financial Statements	$ 27,907	$ 8,681	$ 13,424	$ 1,830	$ 2,602	$ 365	$ 932

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

19. SEGMENT INFORMATION *(continued)*

	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	$ 2,696	$ 837	$ 815	$ 398	$ 16	$ 1	$ 500
Group Insurance	3,586	582	2,703	235	—	2	(2)
Total Insurance Division	6,282	1,419	3,518	633	16	3	498
Investment Management	1,235	30	—	—	—	4	72
Financial Advisory	2,421	148	—	—	—	—	—
Retirement	2,375	2,090	880	978	—	18	20
Other Asset Management	90	30	—	—	—	8	—
Total Investment Division	6,121	2,298	880	978	—	30	92
International Insurance	5,073	682	3,175	96	103	1	233
International Investments	325	37	—	—	—	—	1
Total International Insurance and Investments Division	5,398	719	3,175	96	103	1	234
Corporate and Other	418	620	98	—	3	161	(85)
Total	18,219	5,056	7,671	1,707	122	195	739
Items excluded from adjusted operating income:							
Realized investment losses, net of related adjustments	(872)	—	—	—	—	—	—
Related charges	—	—	(1)	—	16	—	(21)
Total realized investment losses, net of related charges and adjustments	(872)	—	(1)	—	16	—	(21)
Divested businesses	1,835	145	1,403	—	—	—	335
Total Financial Services Businesses	19,182	5,201	9,073	1,707	138	195	1,053
Closed Block Business	7,121	3,618	4,305	139	2,506	156	162
Total per Consolidated Financial Statements	$ 26,303	$ 8,819	$ 13,378	$ 1,846	$ 2,644	$ 351	$ 1,215

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

19. 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	$ 2,708	$ 831	$ 797	$ 396	$ 12	$ 3	$ 366
Group Insurance	3,248	547	2,490	224	—	(2)	4
Total Insurance Division	5,956	1,378	3,287	620	12	1	370
Investment Management	1,357	42	—	—	—	11	76
Financial Advisory	2,712	225	—	—	—	—	—
Retirement	2,394	2,148	913	977	—	13	10
Other Asset Management	105	45	—	—	—	8	—
Total Investment Division	6,568	2,460	913	977	—	32	86
International Insurance	4,146	450	2,600	72	74	4	163
International Investments	296	33	—	—	—	—	1
Total International Insurance and Investments Division	4,442	483	2,600	72	74	4	164
Corporate and Other	410	683	36	1	3	289	(82)
Total	17,376	5,004	6,836	1,670	89	326	538
Items excluded from adjusted operating income:							
Realized investment losses, net of related adjustments	(165)	—	—	—	—	—	—
Related charges	—	—	(6)	—	—	—	(20)
Total realized investment losses, net of related charges and adjustments	(165)	—	(6)	—	—	—	(20)
Divested businesses	1,739	186	1,039	—	—	—	346
Total Financial Services Businesses	18,950	5,190	7,869	1,670	89	326	864
Closed Block Business	7,728	3,897	4,588	134	2,633	34	213
Total per Consolidated Financial Statements	$ 26,678	$ 9,087	$ 12,457	$ 1,804	$ 2,722	$ 360	$ 1,077

The International Insurance and Investments division includes "Revenues" from Japan, on a GAAP basis, of $4,824 million, $4,287 million and $3,602 million for the years ended December 31, 2003, 2002 and 2001, respectively.

The Investment Management segment revenues include intersegment revenues of $352 million, $395 million and $390 million for the years ended December 31, 2003, 2002 and 2001, respectively, primarily consisting of asset-based management and administration fees. In addition, the Financial Advisory segment revenues include intersegment revenues of $85 million, $194 million and $193 million for the years ended December 31, 2003, 2002 and 2001, 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

19. SEGMENT INFORMATION *(continued)*

The summary below presents total assets for the Company's reportable segments at December 31,

	Assets		
	2003	2002	2001
	(in millions)		
Individual Life and Annuities	$ 77,313	$ 44,482	$ 47,354
Group Insurance	20,898	18,419	16,897
Total Insurance Division	98,211	62,901	64,251
Investment Management	21,708	20,271	21,236
Financial Advisory	2,805	15,525	19,031
Retirement	59,268	56,018	54,580
Other Asset Management	5,416	4,227	6,521
Total Investment Division	89,197	96,041	101,368
International Insurance	45,989	40,741	38,239
International Investments	4,491	2,814	1,824
Total International Insurance and Investments Division	50,480	43,555	40,063
Corporate and Other	14,650	20,673	25,494
Total Financial Services Businesses	252,538	223,170	231,176
Closed Block Business	68,736	69,446	61,725
Total	$ 321,274	$ 292,616	$ 292,901

20. COMMITMENTS AND GUARANTEES, CONTINGENCIES AND LITIGATION

Commitments and Guarantees

The following table presents, as of December 31, 2003, the Company's future commitments on long-term debt, as more fully described in Note 10, and future minimum lease payments under non-cancelable operating leases:

	Long-term Debt	Operating Leases
	(in millions)	
2004	$ —	$ 215
2005	58	190
2006	774	162
2007	269	140
2008	1,102	100
Beyond 2008	3,407	320
Total	$ 5,610	$ 1,127

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, 2003, 2002 and 2001 was $308 million, $449 million and $520 million, respectively.

In connection with the Company's commercial mortgage banking business, it originates commercial mortgage loans. As of December 31, 2003, the Company had outstanding commercial mortgage loan commitments with borrowers of $1,282 million. In certain of these transactions, the Company prearranges that it will sell the loan to an investor after the Company funds the loan. As of December 31, 2003, $559 million of the Company's commitments to originate commercial mortgage loans are subject to such arrangements.

In connection with the Company's discontinued consumer banking business, it has commitments under home equity lines of credit and other lines of credit to lend up to specified limits to customers. It is anticipated that

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

20. COMMITMENTS AND GUARANTEES, CONTINGENCIES AND LITIGATION *(continued)*

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 $1,859 million, of which $818 million remains available at December 31, 2003.

The Company also has other commitments, which primarily include commitments to fund investments. These commitments amounted to $2,964 million at December 31, 2003.

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 GAAP, the Company does not accrue contingent consideration obligations prior to the attainment of the objectives. At December 31, 2003, maximum potential future consideration pursuant to such arrangements, to be resolved over the following six years, is $269 million. Any such payments would result in increases in intangible assets, including goodwill.

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, 2003, such contracts in force carried a total guaranteed value of $1,567 million.

A number of guarantees provided by the Company relate to real estate investments, 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 $880 million at December 31, 2003. 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, 2003, no amounts were accrued as a result of the Company's assessment that it is unlikely payments will be required.

The Company is subject to other financial guarantees and indemnity arrangements, including those related to businesses that have been sold. Some of these guarantees may extend far into the future, and are subject to caps aggregating to $36 million. In other limited cases, the amount that can be claimed from the Company or the time in which these claims may be presented to the Company are not limited. At December 31, 2003, the Company has accrued liabilities of $11 million associated with all other financial guarantees and indemnity arrangements, which does not include liabilities retained associated with sold businesses.

Contingencies

As discussed in Note 3, in the fourth quarter of 2003, the Company sold its property and casualty insurance companies that operate nationally in 48 states outside of New Jersey, and the District of Columbia, to Liberty Mutual. In connection with that sale, the Company reinsured Liberty Mutual for certain losses including: any further adverse loss development on the stop-loss reinsurance agreement with Everest Re Group, Ltd. ("Everest") discussed in the next paragraph; any adverse loss development on losses occurring prior to the sale that arise from insurance contracts generated through certain "discontinued" distribution channels or due to certain loss events including mold damage or the October 2003 California wild fires; stop-loss protection on losses occurring after the sale and arising from those same distribution channels of up to $95 million, in excess of related premiums and other adjustments; and stop-loss protection on losses occurring prior to the sale and arising from most other business, up to 75% of the first $30 million of adverse loss development recorded through October 31, 2005. The reinsurance covering the losses associated with the discontinued distribution channels will be settled based upon loss experience through December 31, 2008, with a provision that profits on the insurance business from these channels will be shared, with Liberty Mutual receiving up to $20 million of the first $50 million. As of December 31, 2003, the Company has recorded a liability of $119 million representing its estimate of its obligations under these reinsurance contracts.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

20. COMMITMENTS AND GUARANTEES, CONTINGENCIES AND LITIGATION *(continued)*

On September 19, 2000, the Company sold Gibraltar Casualty Company ("Gibraltar Casualty"), a commercial property and casualty insurer, to Everest. Upon closing of the sale, a subsidiary of the Company entered into a stop-loss reinsurance agreement with Everest whereby the subsidiary reinsured 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 to Everest. This subsidiary was subsequently sold to Liberty Mutual, as part of the sale discussed in the preceding paragraph. The $106 million of reserves at the closing date of the sale to Liberty Mutual related to the reinsurance agreement with Everest remained the direct obligation of this subsidiary. As a result, those reserves are no longer included on the Company's balance sheet. The Company has reinsured Liberty Mutual with regard to any further adverse loss development on the stop-loss reinsurance agreement with Everest and has recorded a liability for the remaining $54 million of this obligation as of December 31, 2003, which is included as part of its obligations under reinsurance contracts to Liberty Mutual disclosed in the preceding paragraph.

On an ongoing basis, the Company's internal supervisory and control functions review the quality of sales, marketing and other customer interface procedures and practices and may recommend modifications or enhancements. In certain cases, if appropriate, the Company 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, after consideration of applicable reserves, 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 received formal requests for information from regulators and governmental authorities relating to the purchase and sale of mutual fund shares and, in some cases, variable annuities. The regulators and authorities include, among others, the Securities and Exchange Commission, the NYSE, the NASD, the New Jersey Bureau of Securities, the State of New York Attorney General's Office, the United States Attorney, District of Massachusetts ("USAM") and the Securities Division of Massachusetts (the "MSD"). The Company is cooperating with all such inquiries.

The MSD filed an administrative complaint against three former brokers and two former managers of a branch office in Boston, MA (the "Boston Branch") of the retail brokerage business formerly owned by Prudential Securities, Inc. ("PSI"), alleging violations of state securities laws. The Securities and Exchange Commission has filed a similar civil action against five former brokers and one former manager of the Boston Branch in Massachusetts federal court. The Company is not a party to these actions. In addition, the Company has received subpoenas from the USAM for documents pertaining to the purchase and sale of mutual fund shares and certain former brokers and their supervisors.

The MSD also filed an administrative complaint against PSI alleging that PSI knew or should have known about alleged deceptive market timing and late trading in mutual funds in the Boston Branch, failed reasonably to supervise the conduct of the brokers in the Boston Branch and failed to implement controls designed to prevent and detect violations of Massachusetts securities law.

These matters could lead to proceedings that result in disgorgement, fines or other sanctions. The Company is unable to estimate its ultimate exposure at this time.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

20. COMMITMENTS AND GUARANTEES, CONTINGENCIES AND LITIGATION *(continued)*

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, class actions brought by policyholders and physicians 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 policyholder actions have been resolved. The class actions brought by the physicians allege, among other things, breach of contract, violations of ERISA, violations of and conspiracy to violate RICO 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. In September 2002, the court granted plaintiffs' motion for certification of a nationwide class of physicians. The Company and the other managed care defendants have appealed the certification to the United States Court of Appeals for the Eleventh Circuit. That appeal is pending.

A joint venture in which an affiliate of PSI is a participant brought an arbitration claim against Kyocera Corporation ("Kyocera") 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. In December 2003, Kyocera paid $332 million to certain subsidiaries of the Company in settlement of the arbitration award rendered against Kyocera.

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 PSI financial advisor) and PSI 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 PSI and Pickett for $11.7 million in compensatory damages and against PSI for $250 million in punitive damages. In July 2003, the court denied PSI's motion to set aside or reduce the jury verdict, and sustained the judgment in the amount of $269 million including interest and attorneys fees. PSI has appealed.

In November 2003, an action was commenced in the United States Bankruptcy Court for the Southern District of New York, *Enron Corp. v. J.P. Morgan Securities, Inc., et al*., against approximately 100 defendants, including the Company, who invested in Enron's commercial paper. The complaint alleges that Enron's October 2001 prepayment of its commercial paper is a voidable preference under the bankruptcy laws and constitutes a fraudulent conveyance. The complaint alleges that the Company received prepayments of approximately $100 million. All defendants have moved to dismiss the complaint.

The Company's litigation is subject to many uncertainties, and given its complexity and scope, its outcome 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.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

21. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The unaudited quarterly results of operations for the years ended December 31, 2003 and 2002 are summarized in the table below:

	Three months ended			
	March 31	June 30	September 30	December 31
	(in millions, except per share amounts)			
2003				
Total revenues	$ 6,785	$ 7,304	$ 6,693	$ 7,125
Total benefits and expenses	6,471	7,088	6,134	6,256
Income from continuing operations before income taxes	314	216	559	869
Net income	196	196	297	575
Basic income from continuing operations per share—Common Stock(a)	0.42	0.21	0.48	0.96
Diluted income from continuing operations per share—Common Stock(a)	0.42	0.21	0.48	0.95
Basic net income per share—Common Stock(a)	0.39	0.25	0.44	0.93
Diluted net income per share—Common Stock(a)	0.39	0.25	0.44	0.92
Basic and diluted net income (loss) per share—Class B Stock	(9.50)	30.50	29.00	39.50
2002				
Total revenues	$ 6,596	$ 6,540	$ 6,582	$ 6,585
Total benefits and expenses	6,342	6,641	6,454	6,786
Income (loss) from continuing operations before income taxes	254	(101)	128	(201)
Net income (loss)	153	(68)	302	(193)
Basic and diluted income from continuing operations per share—Common Stock	0.47	0.20	0.67	0.03
Basic and diluted net income (loss) per share—Common Stock	0.46	0.19	0.70	(0.10)
Basic and diluted net loss per share—Class B Stock	(58.50)	(88.50)	(49.50)	(67.50)

(a) Quarterly earnings per share amounts may not add to the full year amounts due to the averaging of shares.

As discussed in Note 3, on July 1, 2003, the Company completed the combination of its retail securities brokerage and clearing operations, with that of Wachovia, forming a joint venture in which the Company has a 38% ownership interest. The Company accounts for its ownership interest under the equity method of accounting; periods prior to July 1, 2003, continue to reflect the results of the Company's previously wholly-owned securities brokerage operations on a fully consolidated basis. Results for the fourth quarter of 2003 include the gain from the receipt by the Company of a $332 million settlement of an arbitration award, as discussed in Note 20. Results for the second quarter of 2003 include a $455 million loss related to the disposition of the Company's property and casualty insurance operations, as discussed in Note 3. Results for the third quarter of 2002 include a $183 million benefit from the favorable resolution of a tax issue pertaining to the 1995 disposition of a subsidiary.

PRUDENTIAL FINANCIAL, INC.

Supplemental Combining Statements of Financial Position December 31, 2003 and 2002 (in millions)

	2003			2002		
	Financial Services Businesses	Closed Block Business	Consolidated	Financial Services Businesses	Closed Block Business	Consolidated
ASSETS						
Fixed maturities:						
Available for sale, at fair value	$ 84,353	$ 44,590	$ 128,943	$ 79,230	$ 46,233	$ 125,463
Held to maturity, at amortized cost	3,068	—	3,068	2,612	—	2,612
Trading account assets, at fair value	3,302	—	3,302	3,449	—	3,449
Equity securities, available for sale, at fair value	1,119	2,282	3,401	1,286	1,521	2,807
Commercial loans	12,463	7,006	19,469	12,414	6,987	19,401
Policy loans	2,609	5,543	8,152	3,146	5,681	8,827
Securities purchased under agreements to resell	1,464	—	1,464	4,844	—	4,844
Cash collateral for borrowed securities	—	—	—	4,660	—	4,660
Other long-term investments	4,568	1,041	5,609	4,333	1,075	5,408
Short-term investments	4,052	3,581	7,633	3,158	2,579	5,737
Total investments	116,998	64,043	181,041	119,132	64,076	183,208
Cash and cash equivalents	5,791	2,158	7,949	7,470	2,428	9,898
Accrued investment income	1,046	751	1,797	1,021	769	1,790
Broker-dealer related receivables	1,098	—	1,098	5,631	—	5,631
Deferred policy acquisition costs	6,605	1,221	7,826	5,875	1,156	7,031
Other assets	14,320	563	14,883	13,486	1,017	14,503
Separate account assets	106,680	—	106,680	70,555	—	70,555
TOTAL ASSETS	$ 252,538	$ 68,736	$ 321,274	$ 223,170	$ 69,446	$ 292,616
LIABILITIES AND ATTRIBUTED EQUITY						
LIABILITIES						
Future policy benefits	$ 46,003	$ 48,842	$ 94,845	$ 42,213	$ 48,247	$ 90,460
Policyholders' account balances	44,168	5,523	49,691	40,799	5,481	46,280
Unpaid claims and claim adjustment expenses	1,687	—	1,687	3,428	—	3,428
Policyholders' dividends	1,077	3,611	4,688	918	2,757	3,675
Securities sold under agreements to repurchase	5,196	4,458	9,654	10,250	4,652	14,902
Cash collateral for loaned securities	3,571	2,215	5,786	7,517	2,714	10,231
Income taxes payable	2,234	48	2,282	1,910	23	1,933
Broker-dealer related payables	2,364	—	2,364	4,838	—	4,838
Securities sold but not yet purchased	1,598	—	1,598	1,996	—	1,996
Short-term debt	4,739	—	4,739	3,469	—	3,469
Long-term debt	3,860	1,750	5,610	3,007	1,750	4,757
Other liabilities	9,021	1,337	10,358	11,018	3,054	14,072
Separate account liabilities	106,680	—	106,680	70,555	—	70,555
Total liabilities	232,198	67,784	299,982	201,918	68,678	270,596
Guaranteed beneficial interest in Trust holding solely debentures of Parent	—	—	—	690	—	690
COMMITMENTS AND CONTINGENCIES						
ATTRIBUTED EQUITY						
Accumulated other comprehensive income	1,777	669	2,446	1,941	644	2,585
Other attributed equity	18,563	283	18,846	18,621	124	18,745
Total attributed equity	20,340	952	21,292	20,562	768	21,330
TOTAL LIABILITIES AND ATTRIBUTED EQUITY	$ 252,538	$ 68,736	$ 321,274	$ 223,170	$ 69,446	$ 292,616

See Notes to Supplemental Combining Financial Information

PRUDENTIAL FINANCIAL, INC.

Supplemental Combining Statements of Operations
Years Ended December 31, 2003 and 2002 (in millions)

	2003			2002		
	Financial Services Businesses	Closed Block Business	Consolidated	Financial Services Businesses	Closed Block Business	Consolidated
REVENUES						
Premiums	$ 9,373	$ 3,860	$ 13,233	$ 9,031	$ 4,022	$ 13,053
Policy charges and fee income	2,001	—	2,001	1,780	—	1,780
Net investment income	5,049	3,632	8,681	5,201	3,618	8,819
Realized investment gains (losses), net	(156)	426	270	(778)	(587)	(1,365)
Commissions and other income	3,658	64	3,722	3,948	68	4,016
Total revenues	19,925	7,982	27,907	19,182	7,121	26,303
BENEFITS AND EXPENSES						
Policyholders' benefits	9,250	4,174	13,424	9,073	4,305	13,378
Interest credited to policyholders' account balances	1,691	139	1,830	1,707	139	1,846
Dividends to policyholders	150	2,452	2,602	138	2,506	2,644
General and administrative expenses	6,755	847	7,602	7,427	928	8,355
Loss on disposition of property and casualty insurance operations	491	—	491	—	—	—
Total benefits and expenses	18,337	7,612	25,949	18,345	7,878	26,223
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	1,588	370	1,958	837	(757)	80
Total income tax expense (benefit)	519	131	650	83	(272)	(189)
INCOME (LOSS) FROM CONTINUING OPERATIONS	1,069	239	1,308	754	(485)	269
DISCONTINUED OPERATIONS						
Loss from discontinued operations, net of taxes	(44)	—	(44)	(75)	—	(75)
NET INCOME (LOSS)	$ 1,025	$ 239	$ 1,264	$ 679	$ (485)	$ 194

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.

The Company has outstanding 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.

The Closed Block Business was established on the date of demutualization and includes the assets and liabilities of the Closed Block (see Note 8 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 10 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. The Financial Services Businesses consist of the Insurance, Investment, and International Insurance and Investments divisions and Corporate and Other operations.

2. 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.

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.

Holders of Common Stock have no interest in a legal entity representing the Financial Services Businesses; 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.

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.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 9A. CONTROLS AND PROCEDURES

In order to ensure that the information we must disclose in our filings with the Securities and Exchange Commission is recorded, processed, summarized, and reported on a timely basis, the Company's management, including our Chief Executive Officer and Chief Financial Officer, have reviewed and evaluated the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), as of December 31, 2003. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2003, our disclosure controls and procedures were effective in timely alerting them to material information relating to us (and our consolidated subsidiaries) required to be included in our periodic SEC filings. There has been no change in our internal control over financial reporting during the quarter ended December 31, 2003, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

We have adopted a code of conduct, known as Making the Right Choices, which applies to our chief executive officer, chief financial officer and our controller, as well as to our directors and other employees. Making the Right Choices contains a code of ethics, which is posted on our website at *www.investor.prudential.com*. Our code of ethics, any amendments and any waiver under our code of ethics granted to any of our directors or executive officers will be available free of charge on our website at *www.investor.prudential.com* and in print to any shareholder who requests it from our Shareholder Services department, whose contact information is provided in Item 15.

In addition, we have adopted Corporate Governance Guidelines, which we refer to as our "Corporate Governance Principles and Practices." Our Corporate Governance Guidelines are available free of charge on our website at *www.investor.prudential.com* and in print to any shareholder who requests them from our Shareholder Services department, whose contact information is provided in Item 15.

Certain other information called for by this item is hereby incorporated herein by reference to the sections entitled "Item 1—Election of Class III Directors," "Compliance with Section 16(a) of the Exchange Act," "Committees of the Board of Directors—Audit Committee" and "Report of the Audit Committee (except to the extent that portions of such report are permitted by SEC rules not to be so incorporated)" in the Registrant's definitive proxy statement for the Annual Meeting of Shareholders to be held on June 8, 2004, to be filed by the Registrant with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after December 31, 2003 (the "Proxy Statement"). 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," "Committees of the Board of Directors," "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 Proxy Statement. Additional information called for by this Item is contained under Item 12 below of this Annual Report on form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table provides information as of December 31, 2003, regarding securities issued to all of our employees under our equity compensation plans that were in effect during fiscal 2003. All outstanding awards relate to our Common Stock. For additional information about our equity compensation plans see Note 14 to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in (a))
Equity compensation plans approved by Shareholders—Omnibus Plan—Stock Options	21,756,730	$ 30.66	(2)
Equity compensation plans approved by Shareholders—Omnibus Plan—Restricted Stock and Restricted Stock Units	1,797,937	N/A	(2)
Equity compensation plans approved by Shareholders—Omnibus Plan—Performance Shares	236,933	N/A	(2)
Total Approved by Shareholders	23,791,600	N/A	65,231,100
Equity compensation plans not approved by Shareholders—MasterShare(1)	1,000,963	N/A	445,520
Equity compensation plans not approved by Shareholders—Board of Directors(3)	N/A	N/A	87,581
Total Not Approved by Shareholders	1,000,963	N/A	533,101
Grand Total	24,792,563	N/A	65,764,201

(1) The equity compensation plan referred to is the 2002 Prudential Financial Stock Purchase Program for Eligible Employees of Prudential Securities Incorporated Participating in Various Prudential Securities Incorporated Programs, which was adopted by the Prudential Securities Board of Directors in April 2002. (the "2002 MasterShare Conversion Program") and for which 12,775,000 shares of restricted Common Stock were registered on Form S-8 by the Company in May 2002. The 2002 MasterShare Conversion Program provided participants in various compensation programs sponsored by Prudential Securities the opportunity to exchange restricted property held under such programs for shares of Prudential Financial restricted Common Stock. Upon the consummation of the Prudential Securities/Wachovia transaction, the 2002 MasterShare Conversion Program was suspended, and the majority of the unissued shares were deregistered under a Post-Effective Amendment to Form S-8 effective March 28, 2003. Prudential Securities also registered in 2003 additional shares of Common Stock for a new program to be effective in 2003. However, as a result of the transaction, no share exchanges were permitted, and the entire amount of shares registered under the 2003 program (6,000,000 shares) was also deregistered through a Post-Effective Amendment to Form S-8 on March 28, 2003.

(2) All shares of Common Stock subject to awards under the Prudential Financial, Inc. Omnibus Incentive Plan (the "Omnibus Plan") may be issued in the form of stock options, restricted stock and units, and performance shares (as well as stock appreciation rights, long-term incentive payments and other awards provided for under the Plan). The Omnibus Plan does not, by its terms, allocate any number of shares to a particular type of award.

(3) 100,000 shares of Common Stock were registered in connection with The Prudential Deferred Compensation Plan for Non Employee Directors (the "Director's Deferred Compensation Plan") on Form S-8 on January 6, 2003. Participants in the Director's Deferred Compensation Plan may receive shares of Common Stock as distributions from the Plan upon their retirement, upon termination of service with the Board of Directors for reasons other than death or under certain other circumstances while serving as a member of the Board. The actual number of shares of Common Stock necessary to satisfy such distributions in the future may exceed 100,000 shares (given the fluctuation of the value of the balances for participants in the Plan and the ability of participants to allocate deferral amounts to "Deferred Stock Units" under the Plan). In 2003, 12,419 shares of Common Stock were distributed to former participants of the Director's Deferred Compensation Plan upon their retirement from the Board of Directors, leaving a balance of 87,581 shares of Common Stock currently available for such distributions under the terms of the outstanding registration. In the event that additional shares are required, the Company will register such shares on Form S-8 in the future.

The other information called for by this item is hereby incorporated herein by reference to the sections entitled "Voting Securities and Principal Holders Thereof" in the Proxy Statement.

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 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANTS FEES AND SERVICES

The information called for by this item is hereby incorporated herein by reference to the section entitled "Item 2—Ratification of the Appointment of Independent Auditors" in the Proxy Statement.

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	111
2.	Financial Statement Schedules:	
	Schedule I—Summary of Investments Other Than Investments in Related Parties	194
	Schedule II—Condensed Financial Information of Registrant	195
	Schedule III—Supplementary Insurance Information	200
	Schedule IV—Reinsurance	203
	Schedule V—Valuation and Qualifying Accounts	204
	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 Pension Plan for Non-Employee Directors of The Prudential Insurance Company of America. Incorporated by reference to Exhibit 10.6 to the Registration Statement.
10.6	2001 Prudential Long-Term Performance Unit Plan. Incorporated by reference to Exhibit 10.7 to the Registration Statement.
10.7	Prudential Financial, Inc. Executive Change of Control Severance Program. Incorporated by reference to Exhibit 10.1 to the September 30, 2003 Quarterly Report on Form 10-Q.
10.8	Prudential Financial, Inc. Omnibus Incentive Plan. Incorporated by reference to Exhibit 99 (b) to the April 17, 2003 Current Report on Form 8-K.
10.9	The Prudential Supplemental Retirement Plan. Incorporated by reference to Exhibit 10.3 to the June 30, 2002 Quarterly Report on Form 10-Q.
10.10	The Prudential Supplemental Employee Savings Plan. Incorporated by reference to Exhibit 10.4 to the June 30, 2002 Quarterly Report on Form 10-Q.
10.11	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.
10.12	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.
10.13	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.
10.14	Prudential Financial, Inc. Compensation Plan. Incorporated by reference to Exhibit 10.18 to the December 31, 2002 Annual Report on Form 10-K.
10.15	The Prudential Deferred Compensation Plan for Non-Employee Directors. Incorporated by reference to Exhibit 10.19 to the December 31, 2002 Annual Report on Form 10-K.
10.16	Retail Brokerage Company Formation Agreement by and between Wachovia Corporation and Prudential Financial, Inc. Incorporated by reference to Exhibit 10.20 to the December 31, 2002 Annual Report on Form 10-K.
10.17	Form of Limited Liability Company Agreement of Wachovia/Prudential Financial Advisors LLC. Incorporated by reference to Exhibit 10.21 to the December 31, 2002 Annual Report on Form 10-K.
10.18	Prudential Severance Plan for Senior Executives. Incorporated by reference to Exhibit 10.1 to the June 30, 2003 Quarterly Report on Form 10-Q.
10.19	Prudential Severance Plan for Executives. Incorporated by reference to Exhibit 10.1 to the June 30, 2003 Quarterly Report on Form 10-Q.
10.20	Prudential Severance Plan. Incorporated by reference to Exhibit 10.1 to the June 30, 2003 Quarterly Report on Form 10-Q.
10.21	Stock Purchase and Asset Transfer Agreement by and among CIGNA Corporation, Connecticut General Life Insurance Company, Connecticut General Corporation, CIGNA Holdings, Inc. and Prudential Financial, Inc., dated as of November 17, 2003. We will furnish supplementally a copy of any omitted schedule to the Commission upon request.
10.22	Amendment No. 1 to Stock Purchase and Asset Transfer Agreement in Exhibit 10.21, dated as of February 2, 2004.
10.23	Amendment No. 2 to Stock Purchase and Asset Transfer Agreement in Exhibit 10.21, dated as of February 20, 2004.
10.24	Amendment No. 3 to Stock Purchase and Asset Transfer Agreement in Exhibit 10.21, dated as of February 20, 2004.
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.

31.1 Section 302 Certification of the Chief Executive Officer.

31.2 Section 302 Certification of the Chief Financial Officer.

32.1 Section 906 Certification of the Chief Executive Officer.

32.2 Section 906 Certification of the Chief Financial Officer.

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

Shareholder Services
Prudential Financial, Inc.
751 Broad Street, 22nd Floor
Newark, NJ 07102

(b) Reports on Form 8-K

During the three months ended December 31, 2003, the following Current Reports on Form 8-K were filed by the Company:

1. Current Report on Form 8-K, November 3, 2003, providing a news release announcing the sale of its personal lines property and casualty business.
2. Current Report on Form 8-K, November 12, 2003, providing a news release announcing that its Board of Directors had declared an annual dividend for 2003.
3. Current Report on Form 8-K, November 14, 2003, providing information in accordance with Regulation FD related to its results for the period ended September 30, 2003.
4. Current Report on Form 8-K, November 18, 2003, announcing that it had entered into a definitive Stock Purchase and Asset Transfer Agreement, dated as of November 17, 2003 (the “Stock Purchase Agreement”), with CIGNA Corporation (“CIGNA”) and certain of its affiliates, pursuant to which the Company will acquire CIGNA’s retirement business.
5. Current Report on Form 8-K, December 10, 2003, providing a news release announcing changes to its Board of Directors.
6. Current Report on Form 8-K, December 18, 2003, providing disclosure that it has received formal requests for information from regulators and governmental authorities relating to the purchase and sale of mutual fund shares and, in some cases, variable annuities.
7. Current Report on Form 8-K, December 23, 2003, announcing the settlement of an arbitration award whereby Kyocera Corporation agreed to pay $331.5 million to certain subsidiaries of Prudential Financial.

Table of Contents

PRUDENTIAL FINANCIAL, INC.
Schedule I
Summary of Investments Other Than Investments in Related Parties
As of December 31, 2003 (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	$ 7,023	$ 7,432	$ 7,432
States, municipalities and political subdivisions	1,815	1,985	1,985
Foreign governments	24,167	25,148	25,148
Mortgage-backed securities	3,745	3,854	3,854
Public utilities	11,841	12,996	12,996
Convertibles and bonds with warrants attached	6	7	7
All other corporate bonds	72,520	77,436	77,436
Redeemable preferred stock	76	85	85
Total fixed maturities, available for sale	$ 121,193	$ 128,943	$ 128,943
Fixed maturities, held to maturity:			
Bonds:			
United States Government and government agencies and authorities	$ —	$ —	$ —
States, municipalities and political subdivisions	—	—	—
Foreign governments	163	162	163
Mortgage-backed securities	2,593	2,598	2,593
Public utilities	—	—	—
Convertibles and bonds with warrants attached	—	—	—
All other corporate bonds	312	324	312
Redeemable preferred stock	—	—	—
Total fixed maturities, held to maturity	$ 3,068	$ 3,084	$ 3,068
Equity securities:			
Common Stocks:			
Public utilities	$ 143	$ 156	$ 156
Banks, trust and insurance companies	263	348	348
Industrial, miscellaneous and other	2,380	2,883	2,883
Nonredeemable preferred stocks	13	14	14
Total equity securities	$ 2,799	$ 3,401	$ 3,401
Commercial loans(2)	$ 19,469		$ 19,469
Policy loans	8,152		8,152
Securities purchased under agreements to resell	1,464		1,464
Trading account assets(3)	3,302		3,302
Short-term investments	7,633		7,633
Other long-term investments	5,609		5,609
Total investments	$ 172,689		$ 181,041

(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 $17,641 million and Gibraltar Life uncollateralized loans of $1,828 million.
(3) At fair value.

PRUDENTIAL FINANCIAL, INC.
Schedule II
Condensed Financial Information of Registrant
Condensed Statements of Financial Position
December 31, 2003 and 2002 (in millions)

	2003	2002
ASSETS		
Total investments	$ 649	$ 203
Cash and cash equivalents	1,150	1,615
Due from subsidiaries	216	3
Loans receivable from subsidiaries	1,187	1,030
Investment in subsidiaries	23,055	22,068
Other assets	119	24
TOTAL ASSETS	$ 26,376	$ 24,943
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Due to subsidiaries	$ 510	$ 546
Loans payable to subsidiaries	820	1,761
Short-term debt	412	—
Long-term debt	2,203	—
Other liabilities	1,139	1,306
Total liabilities	5,084	3,613
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; 584,590,320 and 584,511,144 shares issued as of December 31, 2003 and 2002, respectively)	6	6
Class B Stock ($0.01 par value; 10,000,000 shares authorized; 2,000,000 shares issued and outstanding as of December 31, 2003 and 2002 respectively)	—	—
Additional paid-in capital	19,560	19,513
Common Stock held in treasury, at cost (49,736,520 shares as of December 31, 2003 and 24,283,271 shares as of December 31, 2002)	(1,632)	(743)
Deferred compensation	(48)	(21)
Accumulated other comprehensive income	2,446	2,585
Retained earnings (deficit)	960	(10)
Total stockholders' equity	21,292	21,330
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 26,376	$ 24,943

PRUDENTIAL FINANCIAL, INC.
Schedule II
Condensed Financial Information of Registrant
Condensed Statements of Operations For the Years Ended December 31, 2003 and December 31, 2002 and the Period From December 18, 2001 Through December 31, 2001 (in millions)

	2003	2002	December 18, 2001 through December 31, 2001
REVENUES			
Net investment income	$ 16	$ 45	$ 4
Realized investment gains, net	5	57	6
Affiliated interest revenue	23	28	1
Total revenues	44	130	11
EXPENSES			
General and administrative expenses	198	163	10
Interest expense	102	67	2
Total expenses	300	230	12
LOSS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF SUBSIDIARIES	(256)	(100)	(1)
Income taxes:			
Current	(65)	(52)	(1)
Deferred	(33)	6	3
Total income tax expense (benefit)	(98)	(46)	2
LOSS BEFORE EQUITY IN EARNINGS OF SUBSIDIARIES	(158)	(54)	(3)
EQUITY IN EARNINGS OF SUBSIDIARIES	1,422	248	44
NET INCOME	$ 1,264	$ 194	$ 41

PRUDENTIAL FINANCIAL, INC.
Schedule II
Condensed Financial Information of Registrant
Condensed Statements of Cash Flows For the Years Ended December 31, 2003 and December 31, 2002 and the Period From December 18, 2001 Through December 31, 2001 (in millions)

	2003	2002	December 18, 2001 through December 31, 2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	$ 1,264	$ 194	$ 41
Adjustments to reconcile net income to cash provided by operating activities:			
Equity in earnings of subsidiaries	(1,422)	(248)	(44)
Realized investment gains, net	(5)	(57)	(6)
Dividends received from subsidiaries	762	501	2,254
Loss on divestiture	79	—	—
Change in:			
Due to/from subsidiaries, net	(49)	737	(194)
Other, net	(16)	127	(7)
Cash flows from operating activities	613	1,254	2,044
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital contributions to subsidiaries	(649)	(1,278)	(1,760)
Returns of capital contributions from subsidiaries	580	323	—
Loans to subsidiaries, net of maturities	(157)	61	(1,091)
Proceeds from the sale of fixed maturities, available for sale	410	—	—
Payments for the purchase of long-term investments	(30)	—	(12)
Acquisition of subsidiary	(1,184)	—	—
Short-term investments	(406)	7	(185)
Cash flows used in investing activities	(1,436)	(887)	(3,048)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash payments to eligible policyholders	(142)	(2,069)	—
Cash dividends paid on Common Stock	(256)	(173)	—
Cash dividends paid on Class B Stock	(19)	(19)	—
Treasury stock acquired	(1,009)	(726)	—
Treasury stock reissued for exercise of stock options	53	1	—
Proceeds from the issuance of restricted stock	54	—	—
Proceeds from the issuance of long-term debt	1,495	—	—
Repayments of long-term debt	(300)	—	—
Loans from subsidiaries	70	—	1,734
Net increase in short-term debt	412	—	—
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	358	(2,986)	5,238
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(465)	(2,619)	4,234
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,615	4,234	—
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,150	$ 1,615	$ 4,234
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid during the period for interest	$ 9	$ —	$ —
Cash paid during the period for taxes	$ 3	$ —	$ —
NON-CASH TRANSACTIONS DURING THE PERIOD			
Demutualization consideration payable to eligible policyholders	$ —	$ —	$ 3,060
Return of capital from subsidiary in the form of fixed maturities, available for sale	$ 410	$ —	$ —

Notes to Condensed Financial Information of Registrant

1. ORGANIZATION AND PRESENTATION

Prudential Financial, Inc. ("Prudential Financial") 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.

The condensed financial statements of Prudential Financial reflect its wholly owned subsidiaries using the equity method of accounting.

2. SHORT-TERM AND LONG-TERM DEBT

A summary of Prudential Financial's short-term and long-term debt is as follows:

	December 31, 2003	December 31, 2002
	(in millions)	
Short-term debt	$ 412	$ —
Long-term debt(1)	2,203	—
Total	$ 2,615	$ —

(1) As of December 31, 2003 long-term debt includes $711 million in debt associated with Prudential Financial's equity security units. In 2002, this debt was included in "Loans Payable to Affiliates." For information on the long-term debt associated with the Company's equity security units see Note 11 to the Consolidated Financial Statements.

Short-term debt as of December 31, 2003, includes commercial paper borrowings of $412 million with a weighted average interest rate of 1.15%. The weighted average interest rate on short-term debt was approximately 1.21% for the year ended December 31, 2003.

Long-term debt, other than the debt associated with the equity security units, includes $1.5 billion of debt issued under Prudential Financial's $5.0 billion shelf registration with the Securities and Exchange Commission. The details of this debt are as follows:

Date Issued	Face Amount	Coupon Rate	Scheduled Maturity
	(in millions)		
May 1, 2003	$500	3.75%	May 1, 2008
July 7, 2003	$500	4.50%	July 15, 2013
July 7, 2003	$500	5.75%	July 15, 2033

The weighted average interest rate on Prudential Financial's long-term debt, including the effect of interest rate hedging, was approximately 3.76% for the year ended December 31, 2003.

The following table summarizes payments due by period for short-term and long-term debt outstanding as of December 31, 2003:

	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
			(in millions)		
Short-term debt	$ 412	$ 412	$ —	$ —	$ —
Long-term debt	2,203	—	711	500	992
Total	$ 2,615	$ 412	$ 711	$ 500	$ 992

3. DIVIDENDS AND RETURNS OF CAPITAL

Dividends and returns of capital received by Prudential Financial during the year ended December 31, 2003 amounted to $1.342 billion, including $471 million collectively from Prudential Property and Casualty Insurance Company of New Jersey and Prudential Property and Casualty Insurance Company, $373 million received from Prudential Asset Management Holding Company and $233 million from American Skandia. In addition, Prudential Financial received a return of capital of $410 million in the form of available for sale fixed maturity securities that were received as consideration for the sale of the property and casualty insurance businesses. These fixed maturities were subsequently sold to another subsidiary of Prudential Financial for cash proceeds of $410 million. Dividends and returns of capital received by Prudential Financial during the year ended December 31, 2002 amounted to $824 million, including $324 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 10 to the Consolidated Financial Statements.

4. GUARANTEE

During 2002, Prudential Financial issued a subordinated guarantee covering a subsidiary's domestic commercial paper program. As of December 31, 2003, there was $2.8 billion outstanding under this commercial paper program.

Table of Contents

PRUDENTIAL FINANCIAL, INC.
Schedule III
Supplementary Insurance Information
As of and for the Year Ended December 31, 2003 (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	$ 3,830	$ 2,951	$ —	$ 11,460	$ 1,871	$ 861	$ 1,423	$ 253	$ 800	$ —
Group Insurance	88	3,515	150	4,568	3,068	585	3,013	3	505	—
Insurance Division	3,918	6,466	150	16,028	4,939	1,446	4,436	256	1,305	—
Investment Management	—	—	—	—	—	29	—	54	1,043	—
Financial Advisory	—	—	—	—	—	53	—	—	1,417	—
Retirement	23	12,937	—	17,632	101	2,043	1,734	10	340	—
Other Asset Management	—	—	—	—	—	26	—	—	55	—
Investment Division	23	12,937	—	17,632	101	2,151	1,734	64	2,855	—
International Insurance	2,769	27,570	51	11,591	4,902	787	3,758	284	829	—
International Investments	—	—	—	—	—	12	—	—	373	—
International Insurance and Investments Division	2,769	27,570	51	11,591	4,902	799	3,758	284	1,202	—
Corporate and Other	(105)	494	22	(6)	1,432	653	1,163	207	1,073	1,482
Total Financial Services Businesses	6,605	47,467	223	45,245	11,374	5,049	11,091	811	6,435	1,482
Closed Block Business	1,221	48,842	—	9,134	3,860	3,632	6,765	121	726	—
Total	$ 7,826	$ 96,309	$ 223	$ 54,379	$ 15,234	$ 8,681	$ 17,856	$ 932	$ 7,161	$ 1,482

Table of Contents

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	$ 837	$ 1,229	$ 485	$ 577	$ —
Group Insurance	57	3,299	132	4,893	2,973	582	2,938	(2)	495	—
Insurance Division	3,640	6,039	132	15,094	4,647	1,419	4,167	483	1,072	—
Investment Management	—	—	—	—	—	30	—	72	1,024	—
Financial Advisory	—	—	—	—	—	148	—	—	2,464	—
Retirement	28	12,835	—	16,252	148	2,090	1,857	14	356	—
Other Asset Management	—	—	—	—	—	30	—	—	45	—
Investment Division	28	12,835	—	16,252	148	2,298	1,857	86	3,889	—
International Insurance	2,158	23,586	45	10,355	4,341	682	3,390	233	709	—
International Investments	—	—	—	—	—	37	—	1	330	—
International Insurance and Investments Division	2,158	23,586	45	10,355	4,341	719	3,390	234	1,039	—
Corporate and Other	49	2,343	661	16	1,675	765	1,504	250	374	1730
Total Financial Services Businesses	5,875	44,803	838	41,717	10,811	5,201	10,918	1,053	6,374	1,730
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	$ 14,833	$ 8,819	$ 17,868	$ 1,215	$ 7,140	$ 1,730

Table of Contents

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	$ 748	$ —
Group Insurance	27	3,160	124	4,029	2,676	547	2,714	4	460	—
Insurance Division	3,788	5,696	124	12,907	4,368	1,378	3,920	357	1,208	—
Investment Management	—	—	—	—	—	42	—	76	1,140	—
Financial Advisory	—	—	—	—	—	225	—	—	2,852	—
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	2,460	1,883	79	4,426	—
International Insurance	1,615	22,005	44	10,541	3,644	450	2,746	163	626	—
International Investments	—	—	—	—	—	33	—	1	339	—
International Insurance and Investments Division	1,615	22,005	44	10,541	3,644	483	2,746	164	965	—
Corporate and Other	69	2,340	634	49	1,569	869	1,079	264	1,361	1,566
Total Financial Services Businesses	5,538	42,358	802	38,869	9,681	5,190	9,628	864	7,960	1,566
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	$ 13,931	$ 9,087	$ 16,983	$ 1,077	$ 8,739	$ 1,566

PRUDENTIAL FINANCIAL, INC.
Schedule IV
Reinsurance
For the Years Ended December 31, 2003, 2002 and 2001 (in millions)

	Gross Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percentage of Amount Assumed to Net
2003					
Life Insurance Face Amount In Force	$ 1,912,940	$ 129,845	$ 15,710	$ 1,798,805	0.9%
Premiums:					
Life Insurance	$ 11,669	$ 795	$ 98	$ 10,972	0.9%
Accident and Health Insurance	820	15	1	806	0.1%
Property & Liability Insurance	1,479	58	34	1,455	2.3%
Total Premiums	$ 13,968	$ 868	$ 133	$ 13,233	1.0%
2002					
Life Insurance Face Amount In Force	$ 1,782,053	$ 108,633	$ 18,735	$ 1,692,155	1.1%
Premiums:					
Life Insurance	$ 11,414	$ 705	$ 61	$ 10,770	0.6%
Accident and Health Insurance	597	15	4	586	0.7%
Property & Liability Insurance	1,720	61	38	1,697	2.2%
Total Premiums	$ 13,731	$ 781	$ 103	$ 13,053	0.8%
2001					
Life Insurance Face Amount In Force	$ 1,756,021	$ 86,792	$ 12,017	$ 1,681,246	0.7%
Premiums:					
Life Insurance	$ 10,411	$ 602	$ 45	$ 9,854	0.5%
Accident and Health Insurance	529	17	3	515	0.6%
Property & Liability Insurance	1,558	59	36	1,535	2.3%
Total Premiums	$ 12,498	$ 678	$ 84	$ 11,904	0.7%

PRUDENTIAL FINANCIAL, INC.
Schedule V
Valuation and Qualifying Accounts
For the Years Ended December 31, 2003, 2002 and 2001 (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
2003					
Allowance for losses on commercial loans	$ 496	$ —	$ 37(a)	$ 41(b)	$ 492
Valuation allowance on deferred tax asset	118	38	—	71(d)	85
	$ 614	$ 38	$ 37	$ 112	$ 577
2002					
Allowance for losses on commercial loans	$ 550	$ —	$ 18(a)	$ 72(c)	$ 496
Valuation allowance on deferred tax asset	77	51	—	10(d)	118
	$ 627	$ 51	$ 18	$ 82	$ 614
2001					
Allowance for losses on commercial loans	$ 240	$ —	$ 746(e)	$ 436(f)	$ 550
Valuation allowance on deferred tax asset	38	39	—	—	77
	$ 278	$ 39	$ 746	$ 436	$ 627

(a) Represents change in foreign exchange rates.
(b) Represents $34 million of release of allowance for losses and $7 million of charge-offs, net of recoveries.
(c) Represents $33 million of release of allowance for losses and $39 million of charge-offs, net of recoveries.
(d) Represents, primarily, utilization of net operating losses.
(e) Represents $739 million acquired from Gibraltar Life and $7 million due to change in foreign exchange rates.
(f) Represents $22 million of release of allowance for losses and $414 million of charge-offs, net of recoveries.

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 10th day of March, 2004.

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 10, 2004:

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
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
KARL J. KRAPEK* **Karl J. Krapek**	Director

Name	Title
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

Exhibit 10.21

CONFORMED COPY

STOCK PURCHASE AND ASSET TRANSFER AGREEMENT

by and among

CIGNA CORPORATION,

CONNECTICUT GENERAL LIFE INSURANCE COMPANY,

CONNECTICUT GENERAL CORPORATION,

CIGNA HOLDINGS, INC.

and

PRUDENTIAL FINANCIAL, INC.,

dated as of

November 17, 2003

Table of Contents

		Page
ARTICLE I INTERPRETATION		1
Section 1.1	Definitions	1
Section 1.2	Interpretation	27
ARTICLE II CLOSING		28
Section 2.1	Transfer of Assets to CIGNA Life	28
Section 2.2	Assumption of Liabilities	28
Section 2.3	Coinsurance Transactions	29
Section 2.4	Dividend of Stock of CIGNA Life to Connecticut General	30
Section 2.5	Purchase and Sale of the Acquired Stock	30
Section 2.6	Consideration	31
Section 2.7	Closing	31
Section 2.8	Purchase Price Allocation	32
Section 2.9	Statements of Net Settlement	32
Section 2.10	Third Party Accountant	34
Section 2.11	Post-Closing Adjustment	36
ARTICLE III REPRESENTATIONS AND WARRANTIES OF SELLERS		40
Section 3.1	Organization, Standing and Corporate Power	40
Section 3.2	Authority; Binding Effect	40
Section 3.3	Noncontravention	41
Section 3.4	Governmental Approvals	42
Section 3.5	Capitalization	42
Section 3.6	Financial Statements	43
Section 3.7	Seller Permits, Regulatory Agreements and Compliance with Applicable Laws	44
Section 3.8	Litigation	45
Section 3.9	Absence of Changes	46

Section 3.10	Employee Benefits	49
Section 3.11	Taxes	50
Section 3.12	Intellectual Property and IT Assets	52
Section 3.13	Material Business Contracts	54
Section 3.14	Real Property	56
Section 3.15	Affiliate Transactions	56
Section 3.16	Labor Matters	57
Section 3.17	Brokers and Finders	57
Section 3.18	Sufficiency of Assets	57
Section 3.19	Undisclosed Liabilities	58
Section 3.20	Title to Assets	58
Section 3.21	Product Administration and Compliance	58
Section 3.22	Producers	61
Section 3.23	Subject Contract Claims	61
Section 3.24	Actuarial Reports Provided to Buyer	62
Section 3.25	Reinsurance Agreements	62
Section 3.26	Policy Forms	62
Section 3.27	Company Separate Accounts and Underlying Funds	62
Section 3.28	Broker-Dealer	64
Section 3.29	Investment Advisers Act	65
Section 3.30	CIGNA Bank	66
Section 3.31	Environmental	66
Section 3.32	Corrupt Practices	67
ARTICLE IV REPRESENTATIONS AND WARRANTIES OF BUYER		67
Section 4.1	Organization, Standing and Corporate Power	67
Section 4.2	Authority; Binding Effect	67
Section 4.3	Noncontravention	68
Section 4.4	Governmental Approvals	68
Section 4.5	Financial Statements	69
Section 4.6	Litigation	69

Section 4.7	Financing	69
Section 4.8	Absence of Changes	69
Section 4.9	Brokers and Finders	70
ARTICLE V COVENANTS		70
Section 5.1	Conduct of Business in Ordinary Course	70
Section 5.2	Non-Competition	73
Section 5.3	Non-Solicitation; Non-Hire	75
Section 5.4	Reinsurance Credit Covenants	76
Section 5.5	Affected Employees	76
Section 5.6	Cooperation Regarding Governmental Entities	84
Section 5.7	Cooperation Regarding Other Third Parties	85
Section 5.8	Exclusivity	86
Section 5.9	Investigation; Maintenance of Marketplace Relationships	87
Section 5.10	Post-Closing Access	88
Section 5.11	Further Assurances	89
Section 5.12	Expenses	90
Section 5.13	Transfer Taxes; Expenses of Transfer	90
Section 5.14	Public Announcement	90
Section 5.15	Waiver of Claims	90
Section 5.16	Trademark/Trade Name Licenses Agreement	91
Section 5.17	Intercompany Agreements	91
Section 5.18	Ancillary Agreements	92
Section 5.19	Tax Matters	93
Section 5.20	New York Certificate of Authority; Rate and Form Filings	100
Section 5.21	Post-Closing Business Liabilities; Ancillary Agreements	100
Section 5.22	Seed Money; Mutual Funds	100
Section 5.23	Advisory Clients	101
Section 5.24	Mutual Fund Distribution Agreements	101
Section 5.25	Rejected Intellectual Property Contracts	101
Section 5.26	License Under Certain Intellectual Property	102

Section 5.27	Confidentiality	103
Section 5.28	Additional Assigned and Assumed Contracts	104
Section 5.29	Post-Restructuring Services	105
Section 5.30	Data Required for Sarbanes-Oxley Certification: IMR	105
Section 5.31	Transfer of Canadian Business	106
Section 5.32	DC Hedge	106
Section 5.33	Releases of Insurance-Related Liabilities	106
Section 5.34	Assignment of Right to Act as Collateral Manager	107
ARTICLE VI CONDITIONS PRECEDENT		107
Section 6.1	Conditions to Obligation of All Parties	107
Section 6.2	Additional Conditions to Obligation of Buyer	108
Section 6.3	Additional Conditions to Obligation of Sellers	109
ARTICLE VII INDEMNIFICATION		110
Section 7.1	Exclusions from Representations and Warranties	110
Section 7.2	Survival of Representations and Warranties	111
Section 7.3	Obligation to Indemnify	112
Section 7.4	Claims Notice	115
Section 7.5	Right to Contest Claims of Third Parties	115
Section 7.6	Nonduplication	118
Section 7.7	Exclusivity; Investigation	119
ARTICLE VIII TERMINATION		120
Section 8.1	Termination Prior to Closing	120
Section 8.2	Effect of Termination	120
ARTICLE IX MISCELLANEOUS PROVISIONS		121
Section 9.1	Setoff	121
Section 9.2	Disclosure Schedules	121
Section 9.3	Amendment	122
Section 9.4	Entire Agreement	122

Section 9.5	Notices	122
Section 9.6	Choice of Law	123
Section 9.7	Paragraph Headings	123
Section 9.8	Specific Performance	123
Section 9.9	Severability	124
Section 9.10	Third Party Beneficiaries	124
Section 9.11	Counterparts	124
Section 9.12	Consent to Jurisdiction	124
Section 9.13	Waiver of Jury Trial	125
Section 9.14	Assignment; Binding Agreement	125

INDEX OF EXHIBITS

Exhibit A	Administrative Services Agreement
Exhibit B	Assignment and Assumption Agreement
Exhibit C	Bank Merger Agreement
Exhibit D	Bill of Sale
Exhibit E	Coinsurance Agreement
Exhibit F	Excluded Business Administrative Services Agreement
Exhibit G	Excluded Business Coinsurance Agreement
Exhibit H	Facilities Sharing Agreement Term Sheet
Exhibit I	LINA Administrative Services Agreement
Exhibit J	LINA Modco Agreement
Exhibit K	INTENTIONALLY LEFT BLANK
Exhibit L	Master Assignment of Derivatives Agreement
Exhibit M	Master Assignment of Securities Agreement
Exhibit N	Participation Agreement
Exhibit O-1	Guaranteed Cost Administrative Services Agreement
Exhibit O-2	Guaranteed Cost Coinsurance Agreement
Exhibit O-3	CGLIC Guaranteed Cost Management Agreement
Exhibit O-4	Guaranteed Cost Business Trust Agreement
Exhibit O-5	CIGNA Life Guaranteed Cost Management Agreement
Exhibit P-1	Registered Products Administrative Services Agreement
Exhibit P-2	Registered Products Modified Coinsurance Agreement
Exhibit Q	Investment Management Agreement (Non Manager of Managers Program)
Exhibit R	Investment Management Agreement (Manager of Managers Program)
Exhibit S	Substitution and Indemnification Agreement
Exhibit T	Trademark/Trade Name Licenses Agreement
Exhibit U	Transition Services Agreement
Exhibit V-1	Legal Opinion to Buyer
Exhibit V-2	Legal Opinion to Buyer
Exhibit V-3	Legal Opinion to Buyer
Exhibit W	Legal Opinion to Sellers
Exhibit X	Investment Subadvisory Agreement
Exhibit Y	LINA Separate Account Management Agreement
Exhibit Z	Real Estate Separate Account Administrative Services Agreement
Exhibit AA	Real Estate Separate Account Coinsurance Agreement
Exhibit BB	TimesSquare Letter Agreement
Exhibit CC	Transitional Subadvisory Agreement
Exhibit DD	Transitional Subadvisory Agreement II
Exhibit EE	Transitional Subadvisory Agreement (Prudential Bank)
Exhibit FF	Transitional Subadvisory Agreement (Trust)

INDEX OF SCHEDULES

1.1(a)	Acquired Companies
1.1(b)	Acquired Companies Financial Statements
1.1(c)	Acquired Companies Liabilities
1.1(d)	Business
1.1(e)	Excluded Assets
1.1(f)	Excluded Liabilities
1.1(g)	Expert Panel Selection Procedures
1.1(h)	Investment Asset Identification Protocol
1.1(i)	Sellers Persons with Knowledge
1.1(j)	Buyer Persons with Knowledge
1.1(l)	Experience Rated Assets
1.1(m)	Person with Knowledge of Non-Experience Rated Assets
2.2	Assumed Liabilities
2.9(a)(i)	Form of Statement of Net Settlement
2.9(a)(ii)	Pro Forma Statement of Net Settlement
2.9(a)(iii)	Statement of Net Settlement Methods
3.3	Non-Contravention
3.4	Seller Required Government Approvals
3.5	Capitalization of Acquired Companies
3.6(a)	Business Financial Statements
3.6(b)	Differences between Statutory Financial Statements and Statement of Net Settlement Methods
3.6(c)	Statutory Financial Statements
3.7(a)	Exceptions to Seller Permits Representation
3.7(b)	Seller Regulatory Agreements
3.7(c)	Exceptions to CIGNA Bank Representations
3.7(e)	Exceptions to Fiduciary Status Representations
3.8	Certain Actions
3.9	Seller Exceptions to Absence of Changes
3.10(a)(i)	Employee Benefit Plans
3.10(a)(ii)	Employment Agreements
3.10(a)(iii)	Consulting Agreements
3.10(d)	Employment Claims
3.10(f)	Exceptions to Plans and Agreements Retained
3.10(g)	Orders Regarding Seller Employees or Employment Practices
3.11	Exceptions to Tax Representations
3.11(m)	Nonqualified Separate Accounts
3.12(a)(i)	Transferred IP Assets
3.12(a)(ii)	Transferred IT Hardware
3.12(a)(iii)	Intellectual Property Contracts
3.12(a)(iv)	IT Hardware Leases

3.12(a)(v)	Excluded IP Assets
3.12(a)(vi)	Claims of Infringement of Intellectual Property
3.12(b)	Sufficiency of Intellectual Property Exception
3.12(c)	Exceptions to Business Intellectual Property
3.13	Material Business Contracts
3.14(a)	Owned Real Property
3.14(b)	Real Property Leases
3.14(c)	Field Locations
3.15(a)	Intercompany Agreements
3.15(b)	Affiliate Agreements
3.16	Exceptions to Labor Representation
3.18	Sufficiency of Assets Exceptions
3.19	Undisclosed Liabilities
3.20(a)	Liens
3.20(b)(i)	Investment Assets by Portfolio
3.20(b)(ii)	Transferred Investment Assets General Account
3.21	Product Administration and Compliance Exceptions
3.21(g)	Guaranteed Investment Contracts Scheduled Payments
3.22(a)(i)	Forms of Producer Agreements
3.22(a)(ii)	Producer Agreements Forms Exceptions
3.22(b)	Exceptions to Producer Representations
3.22(c)	Producer Licensing Exceptions
3.24	Actuarial Reports
3.25	Reinsurance Agreements
3.26(a)	Policy Forms Compliance
3.26(b)	Exceptions to Policy Forms
3.27	Company Separate Account Exceptions
3.28(a)	Broker-Dealer Business
3.29(a)	Advisory Entity Representations
3.29(b)	Investment Advisory Contracts
4.4	Buyer Government Approvals
4.6	Buyer Actions
4.8	Buyer Absence of Change
5.1	Exceptions to Conduct of Business Covenant
5.1(u)	Certain Prohibited Actions
5.2	Non-Competition Exceptions
5.5(j)(3)	Retention Awards
5.9(a)	Communications Protocols
5.16	Trademarks and Tradenames
5.17(a)(i)	Terminated Intercompany Agreements
5.17(a)(ii)	Continuing Intercompany Agreements
5.17(c)(i)	Waiver Exceptions
5.17(c)(ii)	Corporate Insurance Programs
5.18(e)	Summary of Alternatives for Separate Account R

5.19(p)(i)	Section 338(h)(10) Elections
5.19(p)(ii)	Section 338(g) Elections
5.22(a)(i)	LINA Investments Separate Accounts
5.22(a)(ii)	LINA Investments in Mutual Funds
5.24	Mutual Fund Distributions
6.1(b)	Governmental Approvals Required for Closing
6.1(c)	Novation Approvals Required for Closing
6.1(d)	Other Third Party Approvals
6.2(j)	Non-Governmental Approvals
7.5(e)	Approved Counsel for Defense of Certain Matters
7.5(f)	Arbitration Provisions

STOCK PURCHASE AND ASSET TRANSFER AGREEMENT, dated as of November 17, 2003 (together with the Schedules hereto, the "Agreement"), by and among CIGNA Holdings, Inc., a Delaware corporation ("CIGNA Holdings"), Connecticut General Corporation, a Connecticut corporation and a wholly owned subsidiary of CIGNA Holdings ("Connecticut General"), Connecticut General Life Insurance Company, a specially-chartered Connecticut corporation and a wholly owned subsidiary of Connecticut General ("CGLIC") and CIGNA Corporation, a Delaware corporation ("CIGNA" and, together with Connecticut General, CIGNA Holdings and CGLIC, "Sellers") and Prudential Financial, Inc., a New Jersey corporation ("Buyer").

W I T N E S S E T H

WHEREAS, Sellers and certain of their Affiliates, including the Acquired Companies (as defined below), conduct the Business (as defined below); and

WHEREAS, Sellers and certain of their Affiliates (other than the Acquired Companies) intend to convey the Transferred Assets (as defined below) and Assumed Liabilities (as defined below) used or held by them in connection with the Business to CIGNA Life Insurance Company, a Connecticut life insurance company ("CIGNA Life"); and

WHEREAS, Sellers desire to sell, and Buyer desires to purchase, all of the issued and outstanding shares of capital stock of CIGNA Life and the other Acquired Companies owned directly or indirectly by Sellers, in order to convey to Buyer direct or indirect ownership of each of the Acquired Companies which conduct the Business; and

WHEREAS, the Boards of Directors of each Seller and of Buyer have approved this Agreement and the transactions contemplated hereby, and has determined that this Agreement and such transactions are in the best interests of their respective stockholders.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual promises and covenants set forth herein, and in reliance upon the representations, warranties, conditions and covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto, intending to be legally bound, do hereby agree as follows:

ARTICLE I
INTERPRETATION

Section 1.1 Definitions.

For purposes of this Agreement, the following terms shall have the following meanings:

"Acquired Companies" means the operating companies listed in Schedule 1.1(a).

"Acquired Companies Balance Sheet" means the unaudited consolidated GAAP balance sheets and income statements of the Acquired Companies (other than CIGNA Life) as of and for the twelve months ending December 31, 2002 and the six months ending June 30, 2003 attached hereto as Schedule 1.1(b).

"Acquired Companies Liabilities" means the following Liabilities of the Acquired Companies (other than CIGNA Life): (i) all Liabilities to the extent recorded on the Acquired Companies Balance Sheet, (ii) all Liabilities set forth on Schedule 1.1(c) and (iii) all Liabilities incurred or accrued in the ordinary course since June 30, 2003 to the extent relating to the Business that would be reflected on a balance sheet prepared as of the Closing Date in a manner consistent with the preparation of the Acquired Companies Balance Sheet.

"Acquired Stock" means all of the issued and outstanding shares of stock of CIGNA Life, Global Portfolio Strategies, Inc., CIGNA Financial Services, Inc. and CIGNA Bank.

"Action" means any action, suit, litigation, investigation or proceeding.

"Adjustment Amount" shall have the meaning set forth in Section 2.11(d)(ii).

"Administrative Services Agreement" means the Administrative Services Agreement between CGLIC and CIGNA Life substantially in the form attached hereto as Exhibit A.

"Advisory Client" means any Person for which an Advisory Entity provides investment management, investment advisory or subadvisory services.

"Advisory Entities" shall have the meaning set forth in Section 3.29(a).

"Affected Employees" shall have the meaning set forth in Section 5.5(b).

"Affiliate" of any Person means another Person that directly or indirectly controls, is controlled by, or is under common control with, such first Person, where "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of a Person, whether through the ownership of voting securities, by contract, as trustee or executor, or otherwise.

"Affiliate Agreements" shall have the meaning set forth in Section 3.15(b).

"Affiliate Owned Intellectual Property" means the Intellectual Property owned by Sellers or Affiliates of Sellers (other than the Acquired Companies) primarily used in the conduct of the Business.

"Affiliate Owned IT Hardware" means the IT Hardware owned by Sellers or Affiliates of Sellers (other than the Acquired Companies) primarily used in the conduct of the Business.

"Agreement" shall have the meaning set forth in the preamble.

"Allocable Amount" shall have the meaning set forth in Section 2.8(a).

"Amending Party" shall have the meaning set forth in Section 5.19(n).

"Ancillary Agreements" means the Administrative Services Agreement, the Assignment and Assumption Agreement, the Bank Merger Agreement, the Bill of Sale, the Ceded Business Trust Agreement, the CGLIC Separate Account Management Agreements, the CGLIC Guaranteed Cost Management Agreement, CIGNA Life Guaranteed Cost Management Agreement, the Coinsurance Agreement, the Excluded Business Administrative Services Agreement, the Excluded Business Coinsurance Agreement, the Facilities Sharing Agreement Term Sheet, the Guaranteed Cost Administrative Services Agreement, the Guaranteed Cost Coinsurance Agreement, Guaranteed Cost Business Trust Agreement, the Investment Subadvisory Agreement, the LINA Administrative Services Agreement, the LINA Modco Agreement, the LINA Separate Account Management Agreement, the Master Assignment of Derivatives Agreement, the Master Assignment of Securities Agreement, the Participation Agreement, the Real Estate Separate Account Administrative Services Agreement, the Real Estate Separate Account Coinsurance Agreement, the Registered Products Administrative Services Agreement, the Registered Products Modified Coinsurance Agreement, the Substitution and Indemnification Agreement, the TimesSquare Letter Agreement, Transitional Subadvisory Agreement, Transitional Subadvisory Agreement II, Transitional Subadvisory Agreement (Prudential Bank), Transitional Subadvisory Agreement (Trust), the Trademark/Trade Name Licenses Agreement and the Transition Services Agreement and any other agreement that specifies that it is to be an Ancillary Agreement.

"Antitrust Division" means the antitrust division of the United States Department of Justice.

"Applicable Law" means all laws, common laws, rules, regulations, codes, statutes, judgments, injunctions, orders, decrees, policies and other requirements of all Governmental Entities applicable to the Person, place and situation in question.

"Applicable Percentage" shall mean, with respect to any Eligible Liability, 20% of any Eligible Liability Identified in the first two years after Closing, 40% of any

Eligible Liability Identified after the second anniversary of the Closing but on or prior to the third anniversary of the Closing, 50% of any Eligible Liability Identified after the third anniversary of the Closing but on or prior to the fourth anniversary of the Closing and 100% of any Eligible Liability Identified after the fourth anniversary of the Closing.

"Asserted Liability" shall have the meaning set forth in Section 7.5(a).

"Assignment and Assumption Agreement" means the Assignment and Assumption Agreement among Sellers, Buyer and CIGNA Life substantially in the form attached hereto as Exhibit B.

"Assigned and Assumed Contracts" means the Contracts described on Schedule A to the Assignment and Assumption Agreement and any Contracts added to such Schedule pursuant to Section 5.28.

"Assumed Liabilities" means the following Liabilities of Sellers and their Affiliates: (i) all Insurance-Related Liabilities relating to the Business of the type reflected on the Final Statement of Net Settlement; (ii) all Non-Insurance-Related Liabilities relating to the Business to the extent recorded on the Final Statement of Net Settlement; (iii) all Liabilities constituting Reinsured Liabilities; (iv) the Assumed Portion of the Eligible Liabilities; and (v) (a) all Liabilities arising in connection with or out of the Actions, written claims or written demands set forth on Schedule 2.2, (b) all Liabilities arising out of the ownership, operation or management of Transferred Investment Assets to the extent such Transferred Investment Assets are allocated to the portfolios of the Business set forth on Schedule 1.1(l) ("Experience Rated Assets"), except to the extent any such Liabilities would not, consistent with the Subject Contracts or past practice of the Business, be borne by the holders or beneficiaries of the Subject Contracts and (c) all Liabilities arising in connection with or out of Transferred Investment Assets that are not Experience Rated Assets, except to the extent any such Liabilities (w) relate to facts, circumstances or events occurring or existing prior to the Closing which are actually known by any of the Persons listed on Schedule 1.1(m) as of the Closing, (x) relate to acts or omissions before the Closing by Sellers or any of their Affiliates or any of their employees or authorized representatives constituting a fiduciary duty breach, malfeasance, tortious interference, improper lender behavior, negligence constituting more than ordinary negligence or similar malfeasance, (y) relate to Transferred Investment Assets that are real property or to partnerships or limited liability entities whose sole property is real property as a result of the ownership, operation or management of such real property or interest in real property prior to the Closing, except for Liabilities assumed by Buyer, its Affiliates or CIGNA Life pursuant to assignment or conveyance instruments relating to the Transferred Investment Assets or (z) relate to Actions, written claims or written demands made, filed or asserted prior to the Closing but not set forth on Schedule 2.2.

"Assumed Portion of the Eligible Liabilities" means an amount equal to the Applicable Percentage applicable to any Eligible Liability multiplied by the amount

of such Eligible Liability; provided, that in no event shall the aggregate Assumed Portion of the Eligible Liabilities arising out of all Specified Common Interest Matters Identified on or prior to the fourth anniversary of the Closing exceed $100 million, and provided, further, that in no event shall the aggregate Assumed Portion of the Eligible Liabilities arising out of Eligible Liabilities Identified on or prior to the fourth anniversary of the Closing exceed $200 million.

"AVR" means asset valuation reserves required to be maintained by CGLIC or CIGNA Life, as applicable, determined in accordance with applicable Connecticut insurance laws and regulations, consistently applied.

"Bank Merger" shall have the meaning set forth in Section 2.5.

"Bank Merger Agreement" means an agreement substantially in the form of Exhibit C.

"Bill of Sale" means an agreement substantially in the form of Exhibit D.

"Books and Records" means the originals or copies of all customer lists, policies, policy information, policyholder information, insurance contract forms, administrative and pricing manuals, medical procedure code lists, claim records, sales records, underwriting records, financial records, corporate and accounting and other records (including the books of account, minute books, stock record books and other records), compliance records prepared for or filed with regulators of the Business, Tax records and any other agreements, instruments, information, data, files or records, each in the possession or control of Sellers or any of their Affiliates and related to the Business, the Acquired Companies, the Transferred Assets, the Transferred Investment Assets, the Assigned and Assumed Contracts, the Assumed Liabilities or the Subject Contracts, whether or not stored in hardcopy form or on magnetic or optical media (to the extent not subject to licensing restrictions), but excluding (i) any such lists, information and records that are subject to the attorney-client and work product privileges or prohibited from being disclosed or transferred by Applicable Law or regulatory requirements and (ii) any such information that is part of any consolidated, combined, unitary or similar Tax Return except to the extent solely related to the Business.

"Broker-Dealer Subsidiary" shall have the meaning set forth in Section 3.28(a).

"Business" has the meaning set forth on Schedule 1.1(d) hereto.

"Business Coinsurance Agreements" means the Coinsurance Agreement, the LINA Modco Agreement, the Real Estate Separate Account Coinsurance Agreement, the Registered Products Modified Coinsurance Agreement and the Guaranteed Cost Coinsurance Agreement.

"Business Day" means a Monday, Tuesday, Wednesday, Thursday or Friday on which banking institutions in the State of Connecticut or the State of New York are not authorized or obligated by Applicable Law to close.

"Business Employees" shall have the meaning set forth in Section 5.5(a).

"Business Financial Statements" shall have the meaning set forth in Section 3.6(a).

"Buyer" shall have the meaning set forth in the preamble.

"Buyer Financial Statements" shall have the meaning set forth in Section 4.5.

"Buyer Indemnitees" shall have the meaning set forth in Section 7.3(a).

"Buyer MAE" any event or development that has had a material adverse effect on the business reputation of Buyer or the "Prudential" brand in a manner that has materially and adversely affected the willingness of a material portion of clients to become and remain customers of Buyer and its subsidiaries; provided, however, that the following shall be excluded from the definition of "Buyer MAE" and from any determination as to whether such Buyer MAE has occurred or may occur: (i) the effects of changes that are generally applicable to (A) the insurance, investment management, securities and annuity industries (provided that such effect is not disproportionately more adverse with respect to Buyer or its subsidiaries, taken as a whole, than the effect on comparable businesses generally, except that, if such effect is disproportionately more adverse with respect to Buyer and its subsidiaries, taken as a whole, any assessment of whether there is, or has been, a Buyer MAE shall only take into account the incremental impact of such adverse effect on Buyer and its subsidiaries, taken as a whole, over the impact of such effect on the insurance, investment management, securities and annuity business generally) or (B) the financial, banking, currency or capital markets (either in the United States or any international market); (ii) the effects of any facts or circumstances relating to the Business, including the effects of any facts or circumstances arising out of or relating to market conduct or other business practices of the Business; (iii) the effects of any breach of any provision of this Agreement by Sellers; (iv) the execution of this Agreement or the Ancillary Agreements; and (v) the announcement of this Agreement, the Ancillary Agreements, or the transactions contemplated hereby or thereby, other than matters relating to (A) the Business which are covered by clause (ii) above and (B) the Sellers which are covered by clause (iii) above.

"Buyer Material Adverse Effect" means an effect which materially impairs or delays Buyer's ability to perform its obligations under this Agreement and the Ancillary Agreements, taken as a whole.

"Buyer Negative Condition" means a material adverse effect on the business, financial condition, operations or results of operations of Buyer and its Subsidiaries, taken as a whole.

"Buyer Practice" means any Relevant Practice which is substantially the same as a practice, method or policy employed by Buyer or its Affiliates at the Closing.

"Buyer's Severance Plans" mean the Prudential Severance Plan, the Prudential Severance Plan for Executives, and the Prudential Severance Plan for Senior Executives.

"Capital" means the capital stock component of statutory surplus, determined in accordance with applicable Connecticut insurance laws and regulations, consistently applied.

"Capitalization Amount" shall have the meaning set forth in Section 2.1(b).

"Ceded Business Trust" shall have the meaning set forth in the Coinsurance Agreement.

"Ceded Business Trust Agreement" shall have the meaning set forth in the Coinsurance Agreement.

"CFS" shall have the meaning set forth in Section 3.28(a).

"CGLIC" shall have the meaning set forth in the preamble.

"CGLIC Guaranteed Cost Management Agreement" means the investment management agreement among CGLIC, CIGNA Life and _____, as trustee, substantially in the form of Exhibit O-3.

"CGLIC Separate Account Management Agreements" means the Investment Management Agreement (Non Manager of Managers Program) between CGLIC and PIM substantially in the form attached hereto as Exhibit Q, and the Investment Management Agreement (Manager of Managers Program) between CGLIC and PRICOA substantially in the form attached hereto as Exhibit R.

"CIGNA" means CIGNA Corporation, a Delaware corporation and the ultimate parent entity of Sellers.

"CIGNA Above-Market Options" shall have the meaning set forth in Section 5.5(j)(1)(b).

"CIGNA Above-Market Remaining Value" shall have the meaning set forth in Section 5.5(j)(1)(b).

"CIGNA Above-Market Replacement Value" shall have the meaning set forth in Section 5.5(j)(1)(b).

"CIGNA Bank" means CIGNA Bank & Trust Company, FSB, a wholly owned subsidiary of Connecticut General.

"CIGNA Below-Market Options" shall have the meaning set forth in Section 5.5(j)(1)(a).

"CIGNA Below-Market Replacement Value" shall have the meaning set forth in Section 5.5(j)(1)(a).

"CIGNA Holdings" shall have the meaning set forth in the preamble.

"CIGNA Intellectual Property Holding Company" means CIGNA Intellectual Property, Inc.

"CIGNA Intrinsic Value" shall have the meaning set forth in Section 5.5(j)(1)(b).

"CIGNA Life" shall have the meaning set forth in the Recitals.

"CIGNA Life Guaranteed Cost Management Agreement" means the investment management agreement among CGLIC, CIGNA Life and _____, as trustee, substantially in the form of Exhibit O-5.

"CIGNA LTIP" shall have the meaning set forth in Section 5.5(j)(1)(a).

"CIGNA Restricted Stock" shall have the meaning set forth in Section 5.5(j)(1)(c).

"CIGNA Stock Plan" shall have the meaning set forth in Section 5.5(j)(1)(a).

"CIGNA Stock Plans" shall have the meaning set forth in Section 5.5(j)(1)(a).

"CII" means CIGNA Investment, Inc.

"Claims Notice" shall have the meaning set forth in Section 7.4.

"Closing" shall have the meaning set forth in Section 2.7(a).

"Closing Date" shall have the meaning set forth in Section 2.7(a).

"Closing Statement of Net Settlement" shall have the meaning set forth in Section 2.9(c).

"Code" means the Internal Revenue Code of 1986, as amended, and the Treasury Regulations promulgated thereunder.

"Coinsurance Agreement" means the Coinsurance and Assumption Agreement between CGLIC and CIGNA Life substantially in the form attached hereto as Exhibit E.

"Commissions" means any and all commissions, expense allowances, and other fees and compensation payable to producers of the Business.

"Company Separate Account" shall have the meaning set forth in Section 3.27.

"Competing Business" shall have the meaning set forth in Section 5.2(a).

"Computer Software" means all computer software and databases (including without limitation source code, object code, and all related documentation).

"Confidentiality Agreement" shall mean the Confidentiality Agreement, dated as of June 20, 2003, between CIGNA and Buyer.

"Connecticut General" shall have the meaning set forth in the preamble.

"Connecticut SAP" shall have the meaning set forth in Section 3.6.

"Consulting Agreement" shall have the meaning set forth in Section 3.10(a).

"Continued Practice" means any Relevant Practice which is continued in substantially the same manner by Buyer or any of its Affiliates, including the Acquired Companies, for at least eighteen (18) months following the Closing, other than conduct that is inconsistent with established policies of Buyer or its Affiliates.

"Contract" means any loan or credit agreement, note, bond, mortgage, indenture, Lease, Lien or other agreement, legally binding obligation or instrument; provided, however, for purposes of this definition in no event shall a "Subject Contract" constitute a Contract.

"Controlling Party" shall have the meaning set forth in Section 5.19(k)(ii).

"Data Input Inaccuracy" shall have the meaning set forth in Section 2.11(d)(i).

"Deductible" shall have the meaning set forth in Section 7.3(c).

"Department of Labor" means the United States Department of Labor.

"Derivative" means any rate swaps, basis swaps, forward rate transactions, commodity swaps, commodity options, equity or equity index swaps, equity or equity index options, bond options, credit swaps, options or options on swaps or other credit derivatives, interest rate options, foreign exchange transactions, cap transactions, floor transactions, collar transactions, forward transactions, currency swap transactions, cross currency rate swap transactions, currency options or any other similar transaction (including any option with respect to any of these transactions) or any combination thereof, whether linked to one or more interest rates, foreign currencies, commodity prices, equity prices or other financial measures.

"Determined Practice" means any accounting, sales or other business practice, method or policy which is determined by an Expert Panel to be a Relevant Practice which is consistent with the practices, methods or policies of roughly half, or more, of the participants in the relevant business segment (measured by volume of business or otherwise), taking into account the product, the method of distribution and all other relevant criteria relating to the practice in question at the time in question; provided, however, that (i) in making such determination, the members of the Expert Panel shall be entitled to rely upon their own experience, knowledge and understanding of the industry rather than only the evidence presented by the parties, it being agreed and acknowledged that such determination is not intended to be a strict formulaic calculation, calculation based on specific percentages or other mathematical exercise; (ii) the Expert Panel shall have no power to award any relief other than determining whether a practice (or portion of a practice) is a Determined Practice; and (iii) the Expert Panel shall not make any determination contrary to the explicit terms hereof or of the Purchase Agreement.

"Eligible Liability" means any Liability arising out of any Industry Practice or Specified Common Interest Matters to the extent related to the conduct of the Business prior to the Closing. Each Eligible Liability shall be treated in the same manner as a claim for indemnification under Section 7.5 of the Agreement and, subject to Section 7.5(e), Buyer shall be treated for procedural purposes only as the Indemnifying Party with regard to such matter. For the avoidance of doubt, in no event shall Section 7.3(c) be deemed to apply to any such indemnification.

"Employment Agreement" shall have the meaning set forth in Section 3.10(a).

"Environmental Law" means any law, regulation, order, decree or agency requirement relating to pollution, contamination, hazardous wastes, hazardous substances, noise, odor, lead, polychlorinated biphenyls, asbestos, black mold or the protection of the environment or to occupational, health and safety.

"Equity Interest" means any capital stock, partner interests, member interests, beneficial interests or any other equity or ownership interests, any instruments convertible or exchangeable for any such interests, or any other rights, warrants, options, agreements, commitments, arrangements or understandings of any kind, contingently or otherwise, to acquire or dispose of any of the foregoing.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and all rules and regulations of the Department of Labor thereunder.

"ERISA Affiliate" shall have the meaning set forth in Section 3.10(a).

"Estimated Statement of Net Settlement" shall have the meaning set forth in Section 2.9(b).

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and all rules and regulations of the SEC thereunder.

"Excluded Assets" means those assets listed on Schedule 1.1(e), the Excluded IP Assets, the Contracts which are not Assigned and Assumed Contracts and the Investment Assets other than the Transferred Investment Assets.

"Excluded Business" means the business of CIGNA Life which is to be coinsured and administered by CGLIC pursuant to the Excluded Business Coinsurance Agreement and Excluded Business Administrative Services Agreement, respectively.

"Excluded Business Administrative Services Agreement" means the Administrative Services Agreement between CGLIC and CIGNA Life substantially in the form attached hereto as Exhibit F.

"Excluded Business Coinsurance Agreement" means the Indemnity Coinsurance Agreement between CGLIC and CIGNA Life substantially in the form attached hereto as Exhibit G, pursuant to which all liabilities of CIGNA Life unrelated to the Business will be coinsured by CGLIC.

"Excluded Employees" shall have the meaning set forth in Section 5.3(b).

"Excluded Investment Employees List" shall have the meaning set forth in Section 5.5(d).

"Excluded IP Assets" means those assets listed on Schedule 3.12(a)(v).

"Excluded Liabilities" means (i) the Retained ECOs (as defined in the Business Coinsurance Agreements); (ii) all Liabilities of Sellers, the Acquired Companies or any other Affiliate of Sellers other than the Assumed Liabilities and the Acquired Companies Liabilities; and (iii) the Liabilities listed on Schedule 1.1(f).

"Excluded Retirement Services Employees List" shall have the meaning set forth in Section 5.5(d).

"Experience Rated Assets" shall have the meaning set forth in the definition of Assumed Liabilities.

"Expert Panel" means a panel selected in accordance with the procedures set forth on Schedule 1.1(g).

"Facilities Sharing Agreements" shall have the meaning set forth in Section 5.18(b).

"Facilities Sharing Agreement Term Sheet" means the term sheet attached hereto as Exhibit H.

"Field Locations shall have the meaning set forth in Section 3.14.

"Final Settlement Date" shall have the meaning set forth in Annex 2 to Schedule 1.1(h).

"Final Statement of Net Settlement" shall have the meaning set forth in Sections 2.9(d) and 2.10(a).

"FRB" shall have the meaning set forth in Section 3.30(a).

"GAAP" means generally accepted accounting principles in effect in the United States of America at the time of determination, consistently applied.

"General Account" means the assets of an insurance company, other than Separate Account Assets and associated Reserves held in the Separate Accounts (in each case whether or not for variable life insurance).

"General Account Policy Reserves" shall have the meaning set forth in the Coinsurance Agreement.

"General Account Reinsurance Premium" means General Account Reinsurance Premium Assets with an aggregate statutory carrying value determined in accordance with the Statement of Net Settlement Methods equal to one-hundred percent (100%) of the amount set forth on the line item "Net Settlement Liability due to CIGNA Life" reflected on the applicable Statement of Net Settlement.

"General Account Reinsurance Premium Assets" means investment portfolios held in CGLIC's General Account and selected in accordance with the Investment Asset Identification Protocol.

"General Account Subject Contracts" means the "General Account Subject Contracts," as such term is defined in the Coinsurance Agreement.

"Governing Advisory Authorities" shall have the meaning set forth in Section 3.29(a)(ii)(A).

"Governmental Approvals" shall have the meaning set forth in Section 6.1(b).

"Governmental Entity" shall have the meaning set forth in Section 3.4.

"GPS" shall have the meaning set forth in Section 3.29(a).

"Guaranteed Cost Administrative Services Agreement" means the Guaranteed Cost Business Administrative Services Agreement between CGLIC and CIGNA Life substantially in the form attached hereto as Exhibit O-1.

"Guaranteed Cost Business Trust" shall have the meaning set forth in the Guaranteed Cost Coinsurance Agreement.

"Guaranteed Cost Business Trust Agreement " means the Trust Agreement between CGLIC, CIGNA Life and _____, as trustee, substantially in the form attached hereto as Exhibit O-4.

"Guaranteed Cost Coinsurance Agreement" means the Guaranteed Cost Coinsurance and Assumption Agreement between CGLIC and CIGNA Life substantially in the form attached hereto as Exhibit O-2.

"Guaranteed Cost Reinsurance Premium" means General Account Reinsurance Premium Assets with an aggregate statutory carrying value determined in accordance with the Statement of Net Settlement Methods equal to one-hundred percent (100%) of the amount set forth on the line item "Guaranteed Cost Net Settlement Liability due to Modco Account" reflected on the applicable Statement of Net Settlement.

"HSR Act" shall have the meaning set forth in Section 3.4.

"Identified", when used with respect to any Eligible Liability, means that any third party, including any Governmental Entity, has either (i) communicated in writing an intention to seek any recovery for any Industry Practice or Specified Common Interest Matter from any of Sellers or their Affiliates, CIGNA Life or Buyer or its Affiliates or (ii) instituted, or communicated in writing an intention to institute, any Action against Sellers or their Affiliates, CIGNA Life or Buyer or its Affiliates for any Industry Practice or Specified Common Interest Matter. Each of Seller and Buyer agrees to notify the other promptly in the event any such written communications are received by it or its Affiliates.

"IMR" means interest maintenance reserves required to be maintained by CGLIC or CIGNA Life, as applicable, determined in accordance with applicable Connecticut insurance laws and regulations, consistently applied.

"IMR Adjustment" means an amount equal to the excess, if any, of (i) $90,461,830 over (ii) the actual IMR for the Business as of June 30, 2003 as recalculated by Sellers in accordance with Connecticut SAP and verified by CIGNA's independent, external auditors after eliminating any changes between (i) and (ii) resulting from changes in the IMR of Separate Accounts of the Business, other than the Business' guaranteed investment contracts Separate Accounts.

"Inactive Employees" shall have the meaning set forth in Section 5.5(b).

"Included Agreement" means any Ancillary Agreement that is not a Transfer Agreement.

"Indemnified Party" shall have the meaning set forth in Section 7.4.

"Indemnifying Party" shall have the meaning set forth in Section 7.4.

"Industry Practice" means any accounting, sales or other business practice, method or policy which is a Buyer Practice, a Continued Practice or a Determined Practice.

"Insurance-Related Liabilities" means those Liabilities of a type or kind identified as "Insurance-Related Liabilities" on the Final Statement of Net Settlement which correlate to the line items for "Insurance-Related Liabilities" on the Pro-Forma Statement of Net Settlement.

"Intellectual Property" means, collectively, all United States and foreign registered, unregistered and pending (i) Trademarks, (ii) Computer Software, (iii) copyrights (including those in Computer Software, and all registrations and applications therefor), (iv) Patents, (v) Trade Secrets, (vi) all moral rights, rights of publicity, rights of privacy, and (vii) all other intellectual property rights and rights of a similar nature.

"Intellectual Property Contracts" means all license, assignment, distribution, Computer Software (including maintenance), trademark consent, trademark coexistence, non-assertion or other Contracts relating to Intellectual Property to which (i) the Acquired Companies are a party (or under which they otherwise derive or grant Intellectual Property rights), or (ii) Sellers or Affiliates of Sellers (other than the Acquired Companies) are a party (or under which they otherwise derive or grant Intellectual Property rights) primarily used in the Business.

"Intellectual Property Office" shall have the meaning set forth in Section 3.12(a).

"Intercompany Agreements" shall have the meaning set forth in Section 3.15(a).

"Investment Advisers Act" means the Investment Advisers Act of 1940 and all rules and regulations of the SEC thereunder.

"Investment Advisory Contract" means any Contract pursuant to which an Advisory Entity provides investment management, investment advisory or subadvisory services.

"Investment Asset Identification Protocol" means the guidelines attached hereto as Schedule 1.1(h) for identifying Investment Assets to be transferred (or maintained in Modco Accounts) pursuant to Section 2.1(b), 2.3 or 2.11.

"Investment Assets" means any interest in bonds, notes, debentures, mortgage loans, real estate, collateral loans and all other instruments of indebtedness, stocks, partnership or joint venture interests and all other equity interests, certificates issued by or interests in trusts, Derivatives or other assets acquired for investment purposes.

"Investment Company Act" means the Investment Company Act of 1940 and all rules and regulations of the SEC thereunder.

"Investment Employees" shall have the meaning set forth in Section 5.5(a).

"Investment Employees List" shall have the meaning set forth in Section 5.5(a).

"Investment Subadvisory Agreement" means the Investment Subadvisory Agreement between PIM and TimesSquare substantially in the form attached hereto as Exhibit X.

"IT Assets" means computers, Computer Software, firmware, middleware, servers, workstations, routers, hubs, switches, data communications lines, and all other information technology equipment, and all associated documentation.

"IT Hardware" means IT Assets which are not Computer Software.

"IT Hardware Lease" means a Contract pursuant to which (i) the Acquired Companies are a party (or under which they otherwise derive rights relating to IT Hardware) and use, lease or otherwise have access to IT Hardware, or (ii) Sellers or Affiliates of Sellers (other than Acquired Companies) are a party (or under which they otherwise derive rights relating to IT Hardware) and use, lease or otherwise have access to IT Hardware primarily used in the conduct of the Business.

"Knowledge" of a Person means: (a) in the case of Sellers, or any of them, the actual knowledge of any Person listed on Schedule 1.1(i), subject to the subject matter limitations set forth on such schedule, or (b) in the case of Buyer, the actual knowledge of any Person listed on Schedule 1.1(j), subject to the subject matter limitations set forth on such schedule.

"Leases" shall have the meaning set forth in Section 3.14.

"Liability" means, with respect to any Person, any liability or obligation of such Person of any kind, character or description, whether known or unknown, absolute or contingent, accrued or unaccrued, disputed or undisputed, liquidated or unliquidated, secured or unsecured, joint or several, due or to become due, vested or unvested, executory, determined, determinable or otherwise.

"Lien" means any and all liens, charges, security interests, claims, judgments, mortgages, pledges, voting trusts or agreements, obligations, understandings or arrangements restricting title or transfer of any nature whatsoever.

"LINA" means Life Insurance Company of North America, a Pennsylvania life insurance company.

"LINA Administrative Services Agreement" means the Administrative Services Agreement between LINA and CIGNA Life substantially in the form attached hereto as Exhibit I.

"LINA Modco Account" shall mean the Modco Account as defined in the LINA Modco Agreement.

"LINA Modco Agreement" means the LINA Separate Account Modified Coinsurance Agreement between LINA and CIGNA Life substantially in the form attached hereto as Exhibit J.

"LINA Modco Reserves" shall mean the Separate Account Policy Reserves, as defined in the LINA Modco Agreement.

"LINA Separate Account Management Agreement" means the LINA Separate Account Management Agreement between LINA and PIM substantially in the form attached hereto as Exhibit Y.

"Loss" shall have the meaning set forth in Section 7.3(a).

"Master Assignment of Derivatives Agreement" means an agreement substantially in the form of Exhibit L.

"Master Assignment of Securities Agreement" means an agreement substantially in the form of Exhibit M.

"Material Business Contracts" shall have the meaning set forth in Section 3.13.

"Material Negative Condition" shall have the meaning set forth in Section 5.6.

"Modco Accounts" means the "Modco Accounts," as such term is defined in the Coinsurance Agreement, the Guaranteed Cost Coinsurance Agreement, the LINA Modco Agreement and the Excluded Business Coinsurance Agreement.

"Moody's" means Moody's Investors Service.

"NASD" means NASD, Inc.

"Net Data Adjustment Amount" shall have the meaning set forth in Section 2.11(d)(iii).

"Net Reserve Release Amount" means the net amount in Insurance-Related Liabilities due to the STAT items identified on Attachment 1 to Schedule 3.9 (aggregating $53.133 million on a pre-tax basis) or similar special adjustments which are recorded in the SAP statements of CGLIC or CIGNA Life after June 30, 2003 through the Closing Date or the effect of which is reflected on the Final Statement of Net Settlement.

"Non-Amending Party" shall have the meaning set forth in Section 5.19(n).

"Non-Insurance-Related Liabilities" means those Liabilities of a type or kind identified as "Non-Insurance-Related Liabilities" on the Final Statement of Net Settlement which correlate to the line items for Non-Insurance-Related Liabilities on the Pro-Forma Statement of Net Settlement.

"Notice of Demand" shall have the meaning set forth in Section 2.11(d)(viii).

"Novation Approvals" means the approval of the relevant state insurance departments for the novation of the Subject Contracts by CIGNA Life.

"OFAC" shall have the meaning set forth in Section 3.32.

"Offsetting Data Input Inaccuracies Amount" shall have the meaning set forth in Section 2.11(d)(iv).

"Omnibus Plan" shall have the meaning set forth in Section 5.5(j)(1).

"Optional Retirement Services Employees" shall have the meaning set forth in Section 5.5(e).

"Order" means any award, decision, injunction, judgment, charge, decree, settlement, order, subpoena or verdict (whether temporary, preliminary or permanent) entered, issued, made or rendered by any Governmental Entity.

"Organizational Documents" shall have the meaning set forth in Section 3.1

"OTS" shall have the meaning set forth in Section 3.7(c).

"Owned Intellectual Property" means all Intellectual Property owned by the Acquired Companies.

"Owned IT Hardware" means all IT Hardware owned by the Acquired Companies.

"Participate Fully" shall have the meaning set forth in Section 7.5(c).

"Participating Party" shall have the meaning set forth in Section 7.5(c).

"Participation Agreement" means the Master Loan Sale, Participation and Servicing Agreement substantially in the form attached hereto as Exhibit N.

"Patents" means all utility and design patents, registered designs and invention disclosures (including, without limitation, those relating to Computer Software), and all grants, registrations and applications therefor.

"PBGC" shall have the meaning set forth in Section 3.10(c).

"Permitted Factors" shall have the meaning set forth in Section 2.9(d).

"Permitted Liens" means the following of the Business: (a) Liens for Taxes or assessments or charges or levies by Governmental Entities, including those arising by operation of law, which are not yet due or delinquent or which are being contested in good faith and subject to the establishment of appropriate reserves therefor; (b) statutory deposits; (c) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business and securing obligations that are not due or which are being contested in good faith and subject to the establishment of appropriate reserves therefor; (d) pledges and deposits made in the ordinary course of business in compliance with workers' compensation, unemployment insurance and other social security laws or regulations; and (e) zoning restrictions, easements, rights of way, restrictions on use of real property, other similar encumbrances

and other Liens which, in the aggregate, are not substantial in amount and except in immaterial respects do not detract from the value of the property as used by the Business subject thereto or interfere with the ordinary conduct of the Business as currently conducted.

"Person" means an individual, corporation, partnership, joint venture, association, limited liability company, trust, unincorporated organization, Governmental Entity or other entity.

"PIM" means Prudential Investment Management, Inc.

"Plans" shall have the meaning set forth in Section 3.10(a).

"Positive Data Input Inaccuracies Amount" shall have the meaning set forth in Section 2.11(a)(v).

"Post-Closing Business Liabilities" mean all (i) Liabilities to the extent arising out of the conduct of Business on or after the Closing, (ii) Liabilities assumed by Buyer or its Affiliates (including the Acquired Companies) to pay or perform obligations pursuant to any Ancillary Agreement and (iii) Liabilities to the extent arising pursuant to the Assigned and Assumed Contracts and the Transferred Assets on or after the Closing.

"Post-Closing Period" shall have the meaning set forth in Section 5.19(b).

"Pre-Closing Period" shall have the meaning set forth in Section 5.19(a).

"Preliminary Remaining Gain" shall have the meaning set forth in Annex 2 to Schedule 1.1(h).

"Preparer" shall have the meaning set forth in Section 5.19(c).

"PRICOA" means The Prudential Insurance Company of America, a wholly owned subsidiary of Buyer.

"Pro-Forma Statement of Net Settlement" shall have the meaning set forth in Section 2.9(a).

"Producer" shall have the meaning set forth in Section 3.22(a).

"Producer Agreements" shall have the meaning set forth in Section 3.22(a).

"Prudential Bank" means The Prudential Savings Bank, FSB.

"Prudential Options" shall have the meaning set forth in Section 5.5(j)(1)(a).

"Prudential Restricted Stock" shall have the meaning set forth in Section 5.5(j)(1)(c).

"PTCE 84-14" shall have the meaning set forth in Section 3.7(d).

"Purchase Price" shall have the meaning set forth in Section 2.6.

"Ratings Event" means a reduction in the financial strength rating of CGLIC to (i) BBB+ or below by Standard & Poor's or (ii) Baa1 or below by Moody's.

"Real Estate Separate Account Administrative Services Agreement" means the Real Estate Separate Account Administrative Services Agreement between CGLIC and CIGNA Life substantially in the form attached hereto as Exhibit Z.

"Real Estate Separate Account Coinsurance Agreement" means the Real Estate Separate Account Coinsurance Agreement between CGLIC and CIGNA Life substantially in the form attached hereto as Exhibit AA.

"Registered Products Administrative Services Agreement" means the Registered Products Administrative Services Agreement between CGLIC and CIGNA Life substantially in the form attached hereto as Exhibit P-1.

"Registered Products Modified Coinsurance Agreement" means the Registered Products Modified Coinsurance Agreement between CGLIC and CIGNA Life substantially in the form attached hereto as Exhibit P-2.

"Regulatory Agreement" shall have the meaning set forth in Section 3.7(b).

"Reinsured Liabilities" shall mean all of the "Reinsured Liabilities," as such term is defined in each of the Business Coinsurance Agreements.

"Relevant Practice" means any accounting, sales or other business practice, method or policy that is particularly applicable to the retirement services business, rather than a practice applicable to businesses generally.

"Remaining Gain Adjustment Amount" shall have the meaning set forth in Annex 2 to Schedule 1.1(h).

"Reserve Adjustment" means an amount equal to 0.65 times the greater of (A)(i) the Net Reserve Release Amount minus (ii) $53 million and (B) $0.

"Reserves" shall mean reserves, funds or provisions for losses, claims, premiums, policy benefits, costs and expenses in respect of (a) insurance obligations (including life benefit reserves, life claim reserves, IMR, unearned premium reserves, premium deposit fund liabilities or otherwise) or (b) reinsurance collectibles.

"Restructuring" shall have the meaning set forth in Section 2.7(b).

"Retention Awards" shall have the meaning set forth in Section 5.5(j)(3).

"Retirement Services Employees" shall have the meaning set forth in Section 5.5(a).

"Retirement Services Employees List" shall have the meaning set forth in Section 5.5(a).

"Reviewer" shall have the meaning set forth in Section 5.19(c).

"SAP" means, with respect to any Person, the statutory accounting principles and practices prescribed or permitted by the domiciliary state of such Person at the time of determination, consistently applied.

"SAP Disallowance" shall have the meaning set forth in Section 5.32.

"Schedules" means the disclosure schedules hereto prepared and delivered simultaneously with the execution hereof.

"SEC" shall have meaning set forth in Section 3.28(a).

"Section 338(h)(10) Election" shall have the meaning set forth in Section 5.19(p).

"Securities Act" means the Securities Act of 1933, as amended.

"Seller Indemnitees" shall have the meaning set forth in Section 7.3(b).

"Seller-Licensed Intellectual Property" shall have the meaning set forth in Section 5.26(a).

"Seller Material Adverse Effect" means a material adverse effect on the business, financial condition, operations or results of operations of the Business, the Acquired Companies, the Transferred Assets, the Transferred Investment Assets and the Subject Contracts, taken as a whole; provided, however, that the following shall be excluded from the definition of "Seller Material Adverse Effect" and from any determination as to whether such Seller Material Adverse Effect has occurred or may occur: (i) the effects of changes that are generally applicable to (A) the insurance or annuity industries (provided that such effect is not disproportionately more adverse with respect to the Business, taken as a whole, than the effect on comparable insurance and annuity businesses generally, except that, if such effect is disproportionately more adverse with respect to the Business, any assessment of whether there is, or has been, a Seller Material Adverse Effect shall only take into account the incremental impact of such adverse effect on the Business, taken as a whole, over the impact of such effect on

the insurance and annuity business generally) or (B) the financial, banking, currency or capital markets (either in the United States or any international market); (ii) the effects of any facts or circumstances relating to Buyer or its existing or former Affiliates, including the effects of any facts or circumstances arising out of or relating to market conduct or other business practices of the Buyer or its former or existing Affiliates; (iii) the effects of any breach of any provision of this Agreement by Buyer; (iv) the rating of any of CGLIC's Affiliates other than CIGNA Life, provided that if CIGNA Life's Moody's rating is "A3" or higher and its Standard & Poor's financial strength rating is "A-" or higher than CIGNA Life's rating, any change in CIGNA Life's rating and the effects of such ratings or change in ratings shall also be excluded pursuant to this clause (iv); (v) the execution of this Agreement or the Ancillary Agreements; (vi) the identity of the Buyer; (vii) the announcement of this Agreement, the Ancillary Agreements, or the transactions contemplated hereby or thereby, other than matters relating to Buyer which are covered by clauses (ii) and (iii) above; (viii) if CGLIC's Moody's rating is at least "Baa1" and Standard & Poor's financial strength rating is at least "BBB+", CGLIC's rating, any change in CGLIC's rating and the effects of such ratings or change in ratings shall also be excluded pursuant to this clause (viii); and (ix) the effects of any facts or circumstances relating to the absence for CIGNA Life of either (A) an A.M. Best, Standard & Poor's or Moody's rating or (B) a rating by Standard & Poor's, Moody's or another rating agency which is separate from the rating of CGLIC, provided, in the case of this clause (B), that CGLIC's Moody's rating is at least "Baa1" and Standard & Poor's financial strength rating is at least "BBB+". Notwithstanding anything to the contrary set forth in the foregoing, in the event of the occurrence after the date of this Agreement of a Buyer MAE, it is understood and agreed that Buyer shall have the burden of proof in establishing that any such adverse effect did not result from and was not caused by the matters covered by clauses (ii), (v), (vi) and (vii).

"Seller Permits" shall have the meaning set forth in Section 3.7(a).

"Sellers" shall have the meaning set forth in the preamble.

"Separate Account" means a separate account established and maintained pursuant to Section 38a-433 or Section 38a-459 of the Connecticut General Statutes, including any such separate account to the extent guaranteed by CGLLC's General Account.

"Separate Account Assets" means investment portfolios held in CGLIC's Separate Accounts and identified in accordance with the Investment Asset Identification Protocol.

"Separate Account Subject Contracts" shall mean all of the "Separate Account Subject Contracts" as such term is defined in each of the Business Coinsurance Agreements.

"Services" shall have the meaning set forth in Section 1.2(b) of the Transition Services Agreement

"60-Day Treasury Rate" means the annual yield rate, on the date to which the 60-Day Treasury Rate relates, of actively traded U.S. Treasury securities having a remaining term to maturity of two months, as such rate is published under "Treasury Constant Maturities" in Federal Reserve Statistical Release H.15(519).

"Specified Common Interest Matter" means those matters described in writing by CIGNA to Buyer prior to the date of this Agreement and as to which the parties have agreed they have a common interest.

"Specified Data Input Factors" shall have the meaning set forth in Section 2.11(d)(vi).

"Specified Data Input Factors Amount" shall have the meaning set forth in Section 2.11(d)(vii).

"Specified Judgment" shall have the meaning set forth in Section 2.9(d).

"SPU" shall have the meaning set forth in Section 5.5(j)(2).

"Standard & Poor's" means Standard & Poor's Ratings Services, Inc., a division of the McGraw-Hill Companies, Inc.

"Statement of Net Settlement" shall have the meaning set forth in Section 2.9(a).

"Statement of Net Settlement Methods" means the methodologies, procedures, judgments, assumptions and estimates described in Schedule 2.9(a)(iii).

"Statutory Financial Statements" shall have the meaning set forth in Section 3.6(c).

"Straddle Period" shall have the meaning set forth in Section 5.19(b).

"Subject Contracts" means the "Subject Contracts," as such term is defined in the Business Coinsurance Agreements.

"Substitution and Indemnification Agreement" means the Substitution and Indemnification Agreement substantially in the form attached hereto as Exhibit S.

"Summary Plan Description" means, with respect to any Plan that is subject to the requirements of ERISA, any document or documents that satisfy the requirements of Department of Labor Regulations Section 2520.104b-2.

"Surplus" means total statutory surplus less Capital, adjusted for the par value of any treasury stock, determined in accordance with applicable Connecticut insurance laws and regulations, consistently applied.

"Tax Audit" shall have the meaning set forth in Section 5.19(k)(i).

"Tax Authority" means any domestic, foreign, federal, national, state, county or municipal or other local government, any subdivision, agency, commission or authority thereof, or any quasi-governmental body exercising regulatory authority with respect to Taxes.

"Tax Return" shall mean any report, return, document, declaration or other filing required to be supplied to any Tax Authority or jurisdiction with respect to Taxes.

"Taxes" means any and all taxes, charges, fees, levies or other assessments, including, without limitation, income, gross receipts, excise, real or personal property, sales, withholding, social security, insurance premium, retaliatory, occupation, use, service, service use, value added, license, net worth, payroll, franchise, transfer and recording taxes, fees and charges, imposed by the United States Internal Revenue Service or any Tax Authority, whether computed on a separate, consolidated, unitary, combined or any other basis, and any and all entries in accounts maintained in respect of such amounts; and such term shall include any interest, penalties or additional amounts attributable to, or imposed upon, or with respect to, any such taxes, charges, fees, levies or other assessments.

"Termination Date" shall have the meaning set forth in Section 8.1(b).

"Third Party Accountant" means an independent accounting firm which is mutually acceptable to Sellers and Buyer, or, if Sellers and Buyer cannot agree on such an accounting firm, an independent accounting firm selected pursuant to the provisions of Article XIII of the Coinsurance Agreement.

"Third Party Accountant Report" shall have the meaning set forth in Section 2.10(a).

"Third Party Actuary" shall have the meaning set forth in Section 2.11(d)(xi).

"Third Party Claimant" shall have the meaning set forth in Section 7.5(a).

"TimesSquare" means TimesSquare Capital Management, Inc.

"TimesSquare Letter Agreement" means the Letter Agreement from TimesSquare to CGLIC, CIGNA Life and PRICOA substantially in the form attached hereto as Exhibit BB.

"Trade Secrets" means all trade secrets, inventions, processes, formulae, know how, and other proprietary and confidential business information and data, concepts, ideas, research and development, designs, business plans, strategies, marketing and customer lists.

"Trademarks" means all trade names, trade dress, trademarks, service marks, assumed names, business names and logos, slogans, internet domain names, and all registrations and applications therefor, together with all goodwill symbolized thereby.

"Trademark/Trade Name Licenses Agreement" means the Trademark/Trade Name Licenses Agreement between CIGNA Intellectual Property Inc. and CIGNA Life substantially in the form attached hereto as Exhibit T.

"Transfer Agreements" means the Master Assignment of Derivatives Agreement, the Master Assignment of Securities Agreement, the Participation Agreement or other conveyance documents required by Annex IV to the Investment Asset Identification Protocol or Section 5.18(e) and any conveyancing documents executed and delivered pursuant to any of the foregoing.

"Transaction" means the transactions contemplated by this Agreement.

"Transfer Taxes" shall have the meaning set forth in Section 5.13.

"Transferred Assets" means all assets, properties and rights, real, personal or mixed, tangible and intangible, of every kind and description, wherever located, other than the Acquired Stock, used or held for use by Sellers or any of their Affiliates (other than the Acquired Companies) primarily in the Business, including the Books and Records, the Transferred IP Assets, the Transferred IT Hardware, the Assigned and Assumed Contracts, the Intellectual Property Contracts and the IT Hardware Leases, but not including any of the Transferred Investment Assets, Reserves relating to the Subject Contracts or the Excluded Assets.

"Transferred Investment Assets" means all Investment Assets which are transferred to CIGNA Life, Buyer, any of its Affiliates or any Ceded Business Trust (or held in the Modco Accounts or any Separate Account relating to the Business) pursuant to the Investment Asset Identification Protocol, but excluding Transferred Assets.

"Transferred IP Assets" means all Owned Intellectual Property and Affiliate Owned Intellectual Property.

"Transferred IT Hardware" means all Owned IT Hardware and Affiliate Owned IT Hardware.

"Transferred IT Items" means all Transferred IT Hardware, Transferred IP Assets which are Computer Software, and Computer Software which is the subject of the Intellectual Property Contracts and the IT Hardware Leases.

"Transition Services" shall have the meaning set forth in the Transition Services Agreement.

"Transition Services Agreement" means the Transition Services Agreement between CGLIC and CIGNA Life substantially in the form attached hereto as Exhibit U including its Schedule 1 to be supplemented in accordance with Sections 5.9(b) and 5.18.

"Transitional Subadvisory Agreement" means the Transitional Subadvisory Agreement between PIM and TimesSquare substantially in the form attached hereto as Exhibit CC.

"Transitional Subadvisory Agreement II" means the Transitional Subadvisory Agreement between PIM and CII substantially in the form attached hereto as Exhibit DD.

"Transitional Subadvisory Agreement (Prudential Bank)" means the Transitional Subadvisory Agreement between PIM and CII substantially in the form attached hereto as Exhibit EE.

"Transitional Subadvisory Agreement (Trust)" means the Transitional Subadvisory Agreement between PIM and CII substantially in the form attached hereto as Exhibit FF.

"Treasury Regulations" means the Treasury Regulations, including temporary regulations, promulgated under the Code.

"20-Day CIGNA Average" shall have the meaning set forth in Section 5.5(j)(1)(a).

"20-Day Prudential Average" shall have the meaning set forth in Section 5.5(j)(1)(a).

"Unassigned Funds" shall have the meaning set forth in Section 3.6(c).

"Unaudited Interim Buyer Financial Statements" shall have the meaning set forth in Section 4.5.

"Withheld Capital Loss Amount" means an amount equal to 0.65 multiplied by the sum of: (I) (W)(a) $26 million, minus (b) the greater of: (i) the amount as of the Closing of the Withheld Capital Loss Balance attributable to the Defined Benefit portion of the Business and (ii) zero; minus (X) the portion of any difference between

(W)(a) and (W)(b) above that has been transferred since June 30, 2003 to the IMR of CGLIC and/or CIGNA Life, determined in accordance with Connecticut SAP; plus (II) (Y)(a) $46 million, minus (b) the greater of (i) the amount as of the Closing of the Withheld Capital Loss Balance attributable to the Defined Contribution Non-Pooled portion of the Business and (ii) zero; minus (Z) the portion of any difference between (Y)(a) and (Y)(b) above that has been transferred since June 30, 2003 to the IMR of CGLIC and/or CIGNA Life, determined in accordance with Connecticut SAP; provided, that in no event may the sum of (I) and (II) above be less than zero.

"Withheld Capital Loss Balance" means the balance of net realized capital losses recorded on the books of account as a charge to contract-holder liabilities, determined in accordance with CIGNA's accounting practice, consistently applied with the Business Financial Statements.

Section 1.2 Interpretation.

(a) The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

(b) When a reference is made in this Agreement to a section or article, such reference shall be to a section or article of this Agreement unless otherwise clearly indicated to the contrary.

(c) Whenever the words "include," "includes" or "including" are used in this Agreement they shall be deemed to be followed by the words "without limitation."

(d) The words "hereof," "herein" and "herewith" and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole and not to any particular provision of this Agreement, and article, section, paragraph, Exhibit and schedule references are to the articles, sections, paragraphs, exhibits and schedules of this Agreement unless otherwise specified.

(e) The meaning assigned to each term defined herein shall be equally applicable to both the singular and the plural forms of such term, and words denoting any gender shall include all genders. Where a word or phrase is defined herein, each of its other grammatical forms shall have a corresponding meaning.

(f) A reference to any party to this Agreement or any other agreement or document shall include such party's successors and permitted assigns.

(g) The parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement.

ARTICLE II
CLOSING

Section 2.1 Transfer of Assets to CIGNA Life.

(a) Upon the terms and subject to the conditions set forth in this Agreement, at the Closing Sellers shall convey, transfer and deliver, and shall cause their Affiliates (other than the Acquired Companies) to convey, transfer and deliver, to CIGNA Life, and CIGNA Life shall accept all of Sellers' and their Affiliates' right, title and interest in, to and under the Transferred Assets, free and clear of all Liens, except Permitted Liens, pursuant to the Assignment and Assumption Agreement and the Bill of Sale.

(b) At the Closing, Connecticut General shall contribute an amount equal to approximately (i) $840,000,000 (Eight Hundred and Forty Million Dollars) plus (ii) the Withheld Capital Loss Amount, plus (iii) the Reserve Adjustment, plus (iv) the IMR Adjustment, plus (v) the Preliminary Remaining Gain if it is a positive number, minus (vi) the absolute value of the Preliminary Remaining Gain if it is a negative number, minus (vii) CIGNA Life's surplus, valued in accordance with the Statement of Net Settlement Methods, without giving effect to the transactions contemplated by this Article II, minus (viii) CIGNA Life's AVR as of immediately prior to giving effect to the transactions contemplated by this Article II, (the aggregate of (i) through (viii), the "Capitalization Amount"). The Capitalization Amount shall be contributed in cash and/or Investment Assets in accordance with the Investment Asset Identification Protocol to CIGNA Life and valued in accordance with the Statement of Net Settlement Methods. For purposes of this Section 2.1(b)(iv), "surplus" shall have its ordinary insurance meaning but asset and liability values to determine such surplus shall be determined in accordance with the Statement of Net Settlement Methods (provided, that deferred tax assets shall be valued at $4 million).

(c) On the Final Settlement Date, CIGNA Life shall pay to Sellers the Remaining Gain Adjustment Amount (if such amount is a negative number) or Sellers shall pay to CIGNA Life the Remaining Gain Adjustment Amount (if such amount is a positive number). The Remaining Gain Adjustment Amount shall be paid in cash and/or Investment Assets in accordance with the Investment Asset Identification Protocol and valued in accordance with the Statement of Net Settlement Methods.

Section 2.2 Assumption of Liabilities.

At the Closing, immediately following the consummation of the transactions set forth in Section 2.1, CIGNA Life shall assume from Sellers and their Affiliates (other than the Acquired Companies) all of the Assumed Liabilities, pursuant to

the Assignment and Assumption Agreement. At the Closing, Sellers, CIGNA Life and Buyer shall execute and deliver, and Sellers shall cause their Affiliates to execute and deliver, the Assignment and Assumption Agreement and the Bill of Sale and such other documents and instruments as may be necessary in order to effect the conveyance of the Transferred Assets and the assumption of the Assumed Liabilities.

Section 2.3 Coinsurance Transactions.

(a) Upon the terms and subject to the conditions set forth in this Agreement, at the Closing and simultaneously with the consummation of the transactions set forth in Sections 2.1 and 2.2, CGLIC, as ceding company, and CIGNA Life, as coinsurer and administrator, will enter into the Coinsurance Agreement, the Administrative Services Agreement, the Ceded Business Trust Agreement and the Separate Account Management Agreement, and LINA, as ceding company, and CIGNA Life, as coinsurer and administrator, will enter into the LINA Modco Agreement, the LINA Administrative Services Agreement and the LINA Separate Account Management Agreement.

(b) At the Closing in accordance with Section 4.1 of the Coinsurance Agreement, CGLIC (on behalf of CIGNA Life, the grantor of the Ceded Business Trust established pursuant to the Ceded Business Trust Agreement) shall transfer to such Ceded Business Trust the General Account Reinsurance Premium due to CIGNA Life reflected on the Estimated Statement of Net Settlement (as defined in Section 2.9(b)).

(c) At the Closing, in accordance with Section 5.1 of the Coinsurance Agreement, CGLIC shall maintain the Separate Account Assets relating to Separate Account Subject Contracts in Modco Accounts.

(d) Upon the terms and subject to the conditions set forth in this Agreement, at the Closing and simultaneously with the consummation of the transactions set forth in Sections 2.1 and 2.2, CIGNA Life, as ceding company, and CGLIC, as coinsurer and administrator, will enter into the Excluded Business Coinsurance Agreement and the Excluded Business Administrative Services Agreement.

(e) At the Closing, in accordance with Section 4.1 of the LINA Modco Agreement, CGLIC shall maintain the Separate Account Assets relating to Separate Account Subject Contracts in the LINA Modco Account.

(f) Upon the terms and subject to the conditions set forth in this Agreement, at the Closing and simultaneously with the consummation of the transactions set forth in Sections 2.1 and 2.2, CGLIC, as ceding company, and CIGNA Life, as coinsurer and administrator, will enter into the Guaranteed Cost Coinsurance Agreement, the Guaranteed Cost Administrative Services Agreement, the Guaranteed Cost Business Trust Agreement and the CGLIC Guaranteed Cost Management Agreement.

(g) At the Closing in accordance with Section 4.1 of the Guaranteed Cost Coinsurance Agreement, CGLIC, the grantor of the Guaranteed Cost Business Trust established pursuant to the Guaranteed Cost Business Trust Agreement, shall transfer to such Guaranteed Cost Business Trust the Guaranteed Cost Reinsurance Premium (to be retained therein pursuant to the modified coinsurance arrangement under the Guaranteed Cost Coinsurance Agreement) reflected on the Estimated Statement of Net Settlement (as defined in Section 2.9(b)).

(h) Upon the terms and subject to the conditions set forth in this Agreement, at the Closing and simultaneously with the consummation of the transactions set forth in Sections 2.1 and 2.2, CGLIC, as ceding company, and CIGNA Life, as coinsurer and administrator, will enter into the Registered Products Modified Coinsurance Agreement and the Registered Products Administrative Services Agreement.

(i) At the Closing, in accordance with Section 4.1 of the Registered Products Modified Coinsurance Agreement, CGLIC shall maintain the Separate Account Assets relating to Separate Account Subject Contracts in the Modco Account established under the Registered Products Modified Coinsurance Agreement.

(j) Upon the terms and subject to the conditions set forth in this Agreement, at the Closing and simultaneously with the consummation of the transactions set forth in Sections 2.1 and 2.2, CGLIC, as ceding company, and CIGNA Life, as coinsurer and administrator, will enter into the Real Estate Separate Account Coinsurance Agreement and the Real Estate Separate Account Administrative Services Agreement.

Section 2.4 Dividend of Stock of CIGNA Life to Connecticut General.

At least three (3) Business Days prior to the consummation of the transactions set forth in Sections 2.1, 2.2 and 2.3, CGLIC shall dividend to Connecticut General all of the issued and outstanding shares of stock of CIGNA Life.

Section 2.5 Purchase and Sale of the Acquired Stock.

Upon the terms and subject to the conditions set forth in this Agreement, at the Closing and prior to the transactions set forth in clause (b) below, (a) CIGNA Bank shall be merged with and into Prudential Bank, with Prudential Bank being the surviving entity in such merger, pursuant to the Bank Merger Agreement (the "Bank Merger") and (b) Sellers shall convey, transfer and deliver to Buyer, and Buyer shall acquire and accept from Sellers, all of their right, title and interest in, to and under the Acquired Stock (other than CIGNA Bank), free and clear of all Liens, except for transfer restrictions arising under the Securities Act and similar Applicable Laws. Sellers shall deliver to Buyer all of the Acquired Stock (other than CIGNA Bank) free and clear of any Lien, duly assigned to Buyer and duly endorsed in blank or accompanied by stock powers duly executed.

Section 2.6 Consideration.

(a) The consideration (the "Purchase Price") for the Transferred Assets, the Acquired Stock (other than CIGNA Bank) and the Bank Merger shall be a cash amount equal to (i) $2,100,000,000 (Two Billion One Hundred Million Dollars) minus (ii) only if a Ratings Event shall have occurred, $250,000,000. The Purchase Price shall be paid by Buyer to Sellers at the Closing by wire transfer of immediately available funds to an account or accounts designated in writing by Sellers no less than five (5) Business Days prior to the Closing Date.

(b) Any dispute over the amount or value of cash and/or Investment Assets paid pursuant to Section 2.1(b) shall be determined by the Third Party Accountant at the same time and, to the extent applicable in the same manner as provided in Sections 2.10 and 2.11 with respect to the Final Statement of Net Settlement, provided that (i) any amount contributed to CIGNA Life pursuant to Section 2.1(b) in excess of the Capitalization Amount shall be payable by CIGNA Life to Connecticut General in cash and/or Investment Assets in accordance with the Investment Asset Identification Protocol to CIGNA Life and valued in accordance with the Statement of Net Settlement Methods, together with interest on such amount from and including the Closing Date up to but not including the date of payment accrued at the 60-Day Treasury Rate, and (ii) in the event that the amount contributed to CIGNA Life pursuant to Section 2.1(b) is less than the Capitalization Amount, such amount shall be payable by Connecticut General to CIGNA Life in cash and/or Investment Assets in accordance with the Investment Asset Identification Protocol, together with interest on such amount from and including the Closing Date up to but not including the date of payment accrued at the 60-Day Treasury Rate. In the event of any dispute over the Withheld Capital Loss Amount or the Reserve Adjustment, such dispute shall be determined by the Third Party Accountant at the same time as provided in Sections 2.10 and 2.11 but determining the appropriate Withheld Capital Loss Amount in accordance with the terms of this Agreement under GAAP applied on a basis consistent with the Business Financial Statements as of June 30, 2003.

Section 2.7 Closing.

(a) The closing of the Transaction (the "Closing") will take place at 10:00 A.M., New York time, on the last day of the month in which the last unfulfilled and unwaived condition to be satisfied prior to the Closing set forth in Article VI hereof shall be fulfilled or waived in accordance with the terms of this Agreement; provided, that if Sellers notify Buyer on or before February 1, 2004 that Sellers determine that they cannot accurately prepare the necessary financial and other information for Closing as of a month end that is not a quarter end, the Closing shall take place on the last day of the calendar quarter on which such condition is satisfied (such time, the "Closing Date") at the offices of Skadden, Arps, Slate, Meagher & Flom LLP, 4 Times Square, New York, NY 10036, or such other place as the parties may agree. Closing shall be effective as of 12:01 a.m. on the next day.

(b) Notwithstanding anything in this Agreement or any Ancillary Agreement to the contrary, Sellers may implement the transactions contemplated by Sections 2.4 and 2.1, 2.2, or 2.3 hereof (the "Restructuring") as of any month end that is reasonably expected to be more than thirty-one (31) days prior to the Closing Date, provided, that (i) Buyer shall be permitted to participate fully with Sellers in all communications with Governmental Entities relating to the Restructuring unless Sellers conclude in their reasonable judgment that (A) there is a substantial risk that the Transaction will not be completed and (B) as to a particular communication, the full participation of Buyer in such communication would reveal either sensitive confidential information about Sellers' business plans in the event the Transaction is not completed or information about Sellers proposed response to the risk of the Transaction not being completed and (ii) Sellers shall consult and confer with Buyers regarding developments relating to the implementation of the Restructuring and keep Buyer fully informed of any proposals made to and any conditions discussed with, requested by or imposed by Governmental Entities in connection with implementation of the Restructuring, and such Restructuring is effected on terms and conditions that would not, individually or in the aggregate, reasonably be expected to have a Material Negative Condition; and provided further, that if the Restructuring is implemented prior to the Closing, Sellers, jointly and severally, agree to indemnify, defend and hold harmless Buyer Indemnitees from any Losses by any Buyer Indemnitees that would not have been incurred had such implementation occurred at Closing (taking into account any economic concessions by Sellers in connection with such implementation). Buyer Indemnitees shall exercise the indemnification rights provided in this Section 2.7(b) as if such rights were exercised pursuant to Section 7.3(a)(i), provided that such indemnification shall not be subject to the third sentence of Section 7.3(c). Notwithstanding the foregoing and without limitation to Section 5.6, if the Restructuring is to be implemented as of or immediately prior to the Closing Date, Sellers shall consult and confer with Buyer regarding any aspects of the implementation of the Restructuring differing from those provided for by the Ancillary Agreements and obtain the approval of Buyer for any such aspect, such approval not to be unreasonably withheld, conditioned or delayed. Sellers agree that in implementing the Restructuring they shall cooperate with Buyer and endeavor to avoid any negative effect upon the Unassigned Funds.

Section 2.8 Purchase Price Allocation.

Sellers and Buyer will allocate the Purchase Price and other applicable consideration (the "Allocable Amount") in accordance with the requirements of sections 1060 and 338 of the Code for all Tax purposes. As soon as practicable after the Closing Date, Buyer shall prepare a schedule reflecting the allocation of the Allocable Amount and shall submit it to Sellers.

Section 2.9 Statements of Net Settlement.

(a) Attached hereto as (i) Schedule 2.9(a) (i) is a form of statement of the Liabilities of the Business, including the Reinsured Liabilities and Assumed

Liabilities but excluding the Excluded Liabilities, and related Separate Account Assets and General Account Reinsurance Premium Assets (the "Statement of Net Settlement") and (ii) as Schedule 2.9(a)(ii) is a pro-forma Statement of Net Settlement as of June 30, 2003 (the "Pro-Forma Statement of Net Settlement").

(b) CGLIC shall cause to be prepared and delivered to Buyer at least five (5) days prior to the Closing Date a proposed Statement of Net Settlement estimated as of the Closing Date in accordance with the Statement of Net Settlement Methods. Buyer shall be given an opportunity to review and comment on the proposed Statement of Net Settlement and Sellers shall provide Buyer with access to such information and personnel as Buyer may reasonably request in connection with such review and comment. Buyer shall provide any comments on the proposed Statement of Net Settlement at least one (1) day prior to the Closing Date and Buyer and CGLIC shall negotiate in good faith a resolution of any differences in the amounts stated on the proposal. The Statement of Net Settlement prepared by CGLIC, as revised to reflect any revisions thereto agreed to by CGLIC and Buyer, shall be the "Estimated Statement of Net Settlement"; provided, however, that if any differences between CGLIC and Buyer as to such Statement of Net Settlement are not resolved by the Closing Date, the Statement of Net Settlement estimated as of the Closing Date and prepared by CGLIC and revised by CGLIC to reflect any revisions thereto agreed to by CGLIC and Buyer, but not any of Buyer's comments not agreed to by CGLIC, shall be the "Estimated Statement of Net Settlement".

(c) Within ninety (90) days following the Closing Date, CGLIC shall prepare and deliver to Buyer a Statement of Net Settlement as of the Closing Date (the "Closing Statement of Net Settlement") in accordance with the Statement of Net Settlement Methods.

(d) Buyer, on behalf of itself and CIGNA Life, shall review the Closing Statement of Net Settlement solely to determine whether in the preparation of the Closing Statement of Net Settlement (i) CGLIC appropriately utilized the Statement of Net Settlement Methods, (ii) CGLIC has not committed any arithmetic error in the calculation of any of the line items on the Closing Statement of Net Settlement, (iii) Data Input Inaccuracies affected one or more line items in the Closing Statement of Net Settlement, (iv) if the manner of making any judgment involved in the calculation of any line item in the Closing Statement of Net Settlement is not provided for by the Statement of Net Settlement Methods, such judgment is made consistently with either (x) CGLIC's historical practices used in preparing the Pro-Forma Statement of Net Settlement or (y) if it cannot be made consistently with such historical practices, with SAP consistently applied with the Statutory Financial Statements or (z) if not made consistently with SAP or such historical practices, with sound industry practices (each of (x), (y) and (z), a "Specified Judgment") (clauses (i) through (iv) being the "Permitted Factors"), and Buyer shall not consider any other matter, including the valuation of any Investment Assets reflected in the Closing Statement of Net Settlement. If Buyer and CGLIC are able to agree within one-hundred twenty (120) days of Buyer's receipt of the Closing Statement

of Net Settlement, or earlier as mutually agreed to, that (A) the methodologies, procedures, judgments, assumptions and estimates used in the preparation of the Closing Statement of Net Settlement conform to the Statement of Net Settlement Methods, (B) CGLIC has not committed any arithmetic error in the calculation of any of the numerical data underlying the line items on the Closing Statement of Net Settlement, (C) Data Input Inaccuracies did not affect any line items of the Closing Statement of Net Settlement and (D) if any judgment involved in the calculation of any line item in the Closing Statement of Net Settlement is not addressed by the Statement of Net Settlement Methods, that such judgment is in accordance with the applicable Specified Judgment, then the Closing Statement of Net Settlement shall be deemed to be the "Final Statement of Net Settlement" for purposes of Section 2.11.

(e) If the parties are not able to agree to the matters set forth in the previous paragraph within one-hundred twenty (120) days of Buyer's receipt of the Closing Statement of Net Settlement, then the Closing Statement of Net Settlement shall be promptly submitted for resolution to the Third Party Accountant pursuant to Section 2.10.

(f) Buyer, on behalf of itself and CIGNA Life, agrees that following the Closing Date CGLIC shall have such access to CIGNA Life's books and records, including internal accounting records relating to the Business, and employees involved with the Business and the Subject Contracts as CGLIC may reasonably request for the preparation of the Closing Statement of Net Settlement or Buyer's objections thereto. CIGNA, on behalf of itself and the other Sellers, agrees that following the Closing Date CIGNA Life and Buyer shall have such access to the books and records, including internal accounting records relating to the Business, and employees involved with the Business and Subject Contracts as Buyer or CIGNA Life may reasonably request for the review of the Closing Statement of Net Settlement or Buyer's objections thereto.

(g) Transfer Taxes incurred in connection with the conveyance of the Subject Contracts shall be paid in accordance with Section 5.13 hereof and shall not be reflected as an asset or a liability on any Statement of Net Settlement Liability.

Section 2.10 Third Party Accountant.

(a) Within forty-five (45) days after the delivery of the Closing Statement of Net Settlement to the Third Party Accountant pursuant to Section 2.9(e), the Third Party Accountant shall review the Closing Statement of Net Settlement and render a written report thereon to Buyer, CIGNA Life and CGLIC (the "Third Party Accountant Report"). The parties hereto acknowledge and agree that such review by the Third Party Accountant and the Third Party Accountant Report shall be limited to, and only to, a determination by the Third Party Accountant as to the Permitted Factors. In conducting its review, the Third Party Accountant shall take into consideration submissions made by Buyer and CGLIC with regard to the Permitted Factors, and the basis for the parties' respective views. The Third Party Accountant Report shall include a reasonably detailed

description of any change to the Closing Statement of Net Settlement that results from the Third Party Accountant's review of the Closing Statement of Net Settlement and a restatement by the Third Party Accountant of the Closing Statement of Net Settlement which reflects any changes made by the Third Party Accountant (such statement to be deemed the "Final Statement of Net Settlement" for purposes of Section 2.11), provided, however, that each individual adjustment reflected on the Final Statement of Net Settlement, if there are any, must be based solely upon a finding by the Third Party Accountant that (A) CGLIC utilized methodologies, procedures, judgments, assumptions and estimates that were not provided for in the Statement of Net Settlement Methods, (B) CGLIC committed any arithmetic error in the calculation of any line item on the Closing Statement of Net Settlement, (C) Data Input Inaccuracies affected one or more line items in the Closing Statement of Net Settlement, or (D) if any judgment involved in the calculation of any line item in the Closing Statement of Net Settlement is not provided for by the Statement of Net Settlement Methods, such judgment is not in accordance with the applicable Specified Judgment. The dollar amount of each such individual adjustment to the total liabilities as shown on the Closing Statement of Net Settlement shall not be greater than the dollar amount which corresponds to the underlying finding set forth in the foregoing clauses (A), (B), (C) or (D) which the Third Party Accountant used to justify such adjustment. The fees, costs and expenses of the Third Party Accountant shall be shared equally by CGLIC and CIGNA Life.

(b) Notwithstanding anything to the contrary contained in this Agreement or in any of the Ancillary Agreements, each of the parties hereto acknowledges and agrees that (i) the Third Party Accountant shall not be authorized to make any adjustments to the Closing Statement of Net Settlement which are not based solely upon the Permitted Factors and (ii) the Third Party Accountant shall not review or make any adjustment (A) to a line item on or other matter involving the Closing Statement of Net Settlement not challenged pursuant to Section 2.9(e) or (B) based on the valuation of any Transferred Investment Assets reflected in the Closing Statement of Net Settlement.

(c) Following the Closing Date, the Third Party Accountant shall have access to any of Sellers', CIGNA Life's, Buyer's and their respective Affiliates' accounting records relating to the Business and Subject Contracts and employees involved with the Business and Subject Contracts, including with respect to the preparation by CGLIC, and the review by Buyer of the Estimated Statement of Net Settlement, and the preparation by CGLIC, and the review by CIGNA Life, of the Closing Statement of Net Settlement.

(d) Any (i) determination made by the Third Party Accountant pursuant to this Section 2.10 or (ii) agreement by the parties pursuant to the last sentence of Section 2.9(d) shall be final and binding on Buyer, CIGNA Life and Sellers. For purposes hereof, "final and binding" shall mean that the aforesaid determination or agreement, as the case may be, shall have the same preclusive effect for all purposes as a determination embodied in a final judgment, no longer subject to appeal and entered by a court of competent jurisdiction after full and fair litigation on the merits.

Section 2.11 Post-Closing Adjustment.

(a) In the event that (i) the General Account Reinsurance Premium determined by reference to the Final Statement of Net Settlement exceeds the General Account Reinsurance Premium determined by reference to the Estimated Statement of Net Settlement, then Sellers shall transfer to the Ceded Business Trust assets (selected in accordance with Investment Asset Identification Protocol) with an aggregate statutory carrying value determined in accordance with the Statement of Net Settlement Methods equal to such excess within five (5) Business Days of the delivery of the Final Statement of Net Settlement, plus interest on such amount from and including the Closing Date up to but not including the date of payment accrued at the 60-Day Treasury Rate, or (ii) the General Account Reinsurance Premium determined by reference to the Final Statement of Net Settlement is less than the General Account Reinsurance Premium determined by reference to the Estimated Statement of Net Settlement, then CIGNA Life, directly or from the Ceded Business Trust, as determined in accordance with the Coinsurance Agreement and the Ceded Business Trust Agreement, shall return to CGLIC assets (selected in accordance with the Investment Asset Identification Protocol) previously transferred by CGLIC to the Ceded Business Trust with an aggregate statutory carrying value determined in accordance with the Statement of Net Settlement Methods equal to such shortfall within five (5) Business Days of the delivery to the Buyer of the Final Statement of Net Settlement, plus interest on such amount from and including the Closing Date up to but not including the date of payment accrued at the 60-Day Treasury Rate. The foregoing shall apply to the Guaranteed Cost Reinsurance Premium, provided that any adjustment to the Guaranteed Cost Reinsurance Premium shall be transferred to the Guaranteed Cost Business Trust by CGLIC or from the Guaranteed Cost Business Trust by the trustee thereof to CGLIC, as the case may be.

(b) On the Closing Date all Separate Account Assets as of such date shall be retained in the corresponding Modco Account. In the event any Separate Account Assets are not retained in the appropriate Modco Account at Closing, Sellers shall cause such assets to be transferred thereto promptly after discovery thereof, together with any interest, dividends or other earnings after the Closing Date in respect of such assets.

(c) Notwithstanding any other provision of this Agreement to the contrary, in the event CGLIC (i) fails to transfer to CIGNA Life or to the Ceded Business Trust, as the case may be, an asset reflected on either the Estimated Statement of Net Settlement or the Final Statement of Net Settlement, or (ii) erroneously transfers an Investment Asset to CIGNA Life which was not reflected on either the Estimated Statement of Net Settlement or the Final Statement of Net Settlement (and which was not to be transferred pursuant to this Agreement or any Ancillary Agreement), the parties agree to correct such error by effectuating a transfer or return, as the case may be, of the

assets in question (or cash equal to the fair market value of such asset) promptly upon receipt of a written notice from the other party describing the error. All written notice of any such error shall be provided on or before the second anniversary of the Closing Date.

(d) (i) In the event that (A) there are inaccuracies or omissions in the factual data inputs utilized in the calculation of Insurance-Related Liabilities or the value of Transferred Investment Assets not addressed by Section 2.11(c) (such as inputting the wrong CUSIP number or interest rate), including data (and the omission of data) relating to the inventory of policies in force, the terms of such policies, the relevant information related to the holders or annuitants of such policies and activities related thereto, CUSIP numbers, interest rates, principal amounts, the terms of loan documents and organizational documents, the terms of leases, lease abstracts and rent rolls, or such factual data inputs are coded, compiled or aggregated inaccurately, other than omissions in the factual data inputs utilized in the calculation of the Insurance-Related Liabilities resulting from reasonable judgments by an actuary or other financial professional as to the scope of factual data inputs (or omissions of factual data inputs) (a "Data Input Inaccuracy"); (B) such Data Input Inaccuracy has resulted in a demonstrable error in the aggregate Insurance-Related Liabilities reflected on the Final Statement of Net Settlement or in the aggregate statutory carrying value (determined in accordance with the Statement of Net Settlement Methods) of the Transferred Investment Assets, and (C) Buyer has transmitted to Sellers a Notice of Demand (as defined below) with respect to such Data Input Inaccuracy prior to the second anniversary of the Closing Date, then the requirements of this Section 2.11(d) shall be applicable.

(ii) "Adjustment Amount" shall be any amount, positive or negative, equal to (A)(x) 0.5 multiplied by (y) the Specified Data Input Factors Amount; provided that such amount, when cumulated with all prior amounts pursuant to this Section 2.11(d)(ii), shall not be greater than an aggregate amount of $100 million or be less than an aggregate amount of negative $100 million; provided further that if such amount is positive the Adjustment Amount shall be increased by the amount, if any, that the aggregate Losses incurred by Buyer Indemnities pursuant to Section 7.3(a)(i) hereof and this Section 2.11(d) (treating any positive amount under this Section 2.11(d)(ii) as Losses solely for purposes of the third sentence of Section 7.3(c)) are less than the Deductible, but only to the extent of the product of (A)(x) multiplied by A(y).

(iii) "Net Data Adjustment Amount" shall be the amount, positive or negative, equal to the Positive Data Input Inaccuracies Amount minus the Offsetting Data Input Inaccuracies Amount minus the Adjustment Amount.

(iv) "Offsetting Data Input Inaccuracies Amount" means the absolute value of the amount of the aggregate decrease in Insurance-Related Liabilities reflected on the Final Statement of Net Settlement plus the amount of the aggregate increase in the statutory carrying value (determined in accordance with the Statement of Net Settlement Methods) of the Transferred Investment Assets resulting from Data Input Inaccuracies (excluding any excess in the Transferred Investment Assets resulting from the decrease in the Insurance-Related Liabilities).

(v) “Positive Data Input Inaccuracies Amount” means the amount of the aggregate increase in Insurance-Related Liabilities reflected on the Final Statement of Net Settlement plus the absolute value of the amount of the aggregate decrease in the statutory carrying value (determined in accordance with the Statement of Net Settlement Methods) of the Transferred Investment Assets resulting from Data Input Inaccuracies (excluding any shortfall in the Transferred Investment Assets resulting from the increase in the Insurance-Related Liabilities).

(vi) “Specified Data Input Factors” means (A) errors and omissions in any information provided by the holder of, or annuitant under, Subject Contracts or by any Person who is not an Affiliate or employee of Sellers and (B) the design features and functioning of, and defects in, any software or hardware.

(vii) “Specified Data Input Factors Amount” shall be an amount, positive or negative, equal to (A) the portion of Positive Data Input Inaccuracies Amount resulting from Specified Data Input Factors minus (B) the portion of Offsetting Data Input Inaccuracies Amount resulting from Specified Data Input Factors.

(viii) At any time prior to the second anniversary of the Closing Date, Buyer may transmit to Sellers a written notice stating that one or more Data Input Inaccuracies have resulted in a demonstrable error in the aggregate Insurance-Related Liabilities reflected on the Final Statement of Net Settlement or in the aggregate statutory carrying value (determined in accordance with the Statement of Net Settlement Methods) of all the Transferred Investment Assets, which identifies with reasonable specificity the (A) relevant Data Input Inaccuracy or Data Input Inaccuracies, (B) the effect of such Data Input Inaccuracy or Data Input Inaccuracies on the aggregate Insurance-Related Liabilities reflected on the Final Statement of Net Settlement or the aggregate statutory carrying value (determined in accordance with the Statement of Net Settlement Methods) of the Transferred Investment Assets, and (C) the Positive Data Input Inaccuracies Amount and, if any, the Offsetting Data Input Inaccuracies Amount and Adjustment Amount (a “Notice of Demand”).

(ix) In the event that Buyer transmits a Notice of Demand to Sellers pursuant to Section 2.11(d)(viii), as a condition precedent to any payment under Section 2.11(d)(xii) Sellers shall have access for a reasonable period of time not to exceed nine (9) months to CIGNA Life’s, Buyer’s and its Affiliates’ books and records, including internal accounting records, and employees as Sellers may reasonably request, for purposes of verifying the information provided to Sellers in the Notice of Demand and identifying any Offsetting Data Input Inaccuracies. Any information provided to Sellers pursuant to the previous sentence shall be kept confidential by Sellers. Any verification, examination or interview by or on behalf of Sellers or access pursuant to this Section 2.11(d)(ix) shall be conducted or occur at reasonable times, during regular business

hours, upon reasonable prior written notice and in a manner that does not unreasonably interferes with the Business or operations of Buyer or its Affiliates (or their successors). Buyer and its Affiliates and employees shall cooperate fully and in good faith in providing Sellers such access and information.

(x) Buyer and Sellers shall endeavor to agree as to the correct Offsetting Data Input Inaccuracies Amount, Adjustment Amount and Positive Data Input Inaccuracies Amount and the effects of any Specified Data Input Factors.

(xi) In the event of any dispute between the parties relating to the matters set forth in this Section 2.11(d), once Sellers have completed their review of the Buyer's Notice of Demand and any Offsetting Data Input Inaccuracies, Sellers and Buyer shall retain an independent actuarial firm mutually acceptable to Sellers and Buyer or, if they are unable to agree, designated by The American Arbitration Association ("Third Party Actuary") who shall review the Buyer's Notice of Demand, together with any supporting information thereto provided by the Buyer, together with Seller's response to the Buyer's Notice of Demand, together with any supporting information thereto provided by the Sellers. The parties hereto acknowledge and agree that such review by the Third Party Actuary shall be limited to, and only to, a determination by the Third Party Actuary as to the correct Net Data Adjustments Amount, Positive Data Input Inaccuracies Amount, Offsetting Data Input Inaccuracies Amount, Specified Data Input Factors Amount and Adjustment Amount in accordance with Section 2.11(d). In conducting its review, the Third Party Actuary shall take into consideration submissions made by Sellers and Buyer and the basis for the parties' respective views. Any determination made by the Third Party Actuary pursuant to this Section 2.11(d)(xi) shall be final and binding (as such term is defined in Section 2.10(d) of this Agreement) on Sellers and Buyer.

(xii) Within ten (10) days following either agreement by the parties as to the matters set forth in paragraph (x) or the determination of the Third Party Actuary pursuant to paragraph (xi), Sellers shall pay to Buyer any positive Net Data Adjustment Amount or Buyer shall pay to Sellers the absolute value of any negative Net Data Adjustment Amount. Payment shall be made by payment of cash or cash equivalents in immediately available funds. In the event of multiple adjustments pursuant to this Section 2.11(d) as a result of the issuance of more than one Notice of Demand, the aggregate Positive Data Input Inaccuracies Amounts, Offsetting Data Input Inaccuracies Amounts and Adjustment Amounts and net amounts paid pursuant to this Section 2.11(d) shall be cumulated so that any settlement pursuant to this paragraph takes into account all such Net Data Adjustment Amounts, Positive Data Input Inaccuracies Amounts, Offsetting Data Input Inaccuracies Amounts, Specified Data Input Factors Amounts, Adjustment Amounts and the net amounts previously paid.

(xiii) In no event shall any of the provisions of this Section 2.11(d) apply to the Insurance Related Liabilities associated with the Guaranteed Cost Coinsurance Agreement, the Subject Contracts thereunder or the Transferred Investment Assets supporting such Insurance-Related Liabilities.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF SELLERS

Subject to Section 7.1, and except as set forth on the Schedules, Sellers hereby represent and warrant to Buyer on the date of this Agreement and the Closing Date (or if another date is specified in the representation or warranty, on such date) as follows:

Section 3.1 Organization, Standing and Corporate Power.

(a) Each Seller and each Affiliate of a Seller engaged in the Business is a corporation or other legal entity duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is organized and has the requisite corporate or other power, as the case may be, and authority to carry on its business as now being conducted. Each Seller and each Affiliate of a Seller engaged in the Business is duly qualified or licensed to do business and is in all material respects in good standing in each jurisdiction in which the nature of its business or the ownership, leasing or operation of its properties makes such qualification or licensing necessary. Each Seller and each Affiliate of a Seller engaged in the Business has full corporate power and authority and necessary to carry on the businesses in which it is engaged and to own and use the properties owned and used by it, except as such matters may be otherwise addressed in Section 3.7.

(b) Sellers have made available to Buyer prior to the execution of this Agreement true and correct copies of the certificate of incorporation and bylaws (or comparable organizational documents) (as amended to date, the "Organizational Documents") for each of the Acquired Companies (each as amended to date). None of Sellers or the Acquired Companies is in material default under or in material violation of any provision of its Organizational Documents and the Organizational Documents for each of the Acquired Companies as made available to Buyer are in full force and effect. The minute books (containing the records of meetings of the stockholders, the board of directors, and any committees of the board of directors), the stock certificate books, and the stock record books of each Seller and each Affiliate of a Seller engaged in the Business are correct and complete in all material respects.

Section 3.2 Authority; Binding Effect.

Each Seller has all requisite power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. Each Seller and its Affiliates which are parties hereto or to an Ancillary Agreement have all requisite power and authority to execute and deliver this Agreement, the Ancillary Agreements and the other agreements, documents and instruments to be executed and delivered in connection

with this Agreement or the Ancillary Agreements and to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement by Sellers and the consummation by Sellers of the transactions contemplated hereby, and the execution and delivery of the Ancillary Agreements and the other agreements, documents and instruments to be executed and delivered in connection with this Agreement or the Ancillary Agreements by Sellers and their Affiliates which are parties thereto and the consummation of the transactions contemplated thereby, have been duly authorized by all necessary action on the part of each such Person. This Agreement has been duly executed and delivered by Sellers and, assuming the due authorization, execution and delivery of this Agreement by Buyer, constitutes a legal, valid and binding obligation of Sellers, enforceable against Sellers in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, equitable subordination and similar laws of general applicability affecting creditors' rights generally and to general principles of equity. The Ancillary Agreements and the other agreements, documents and instruments to be executed and delivered in connection with this Agreement or the Ancillary Agreements, when duly executed and delivered by Sellers and their Affiliates which are a party thereto, assuming the due authorization, execution and delivery of such other agreements, documents and instruments by each of the other parties thereto, constitute legal, valid and binding obligations of Sellers and their Affiliates which are parties thereto, enforceable against each such Person in accordance with their terms, subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, equitable subordination and similar laws of general applicability affecting creditors' rights generally and to general principles of equity.

Section 3.3 Noncontravention.

Except as set forth in Schedule 3.3, the execution and delivery of this Agreement does not and the Ancillary Agreements will not, and the consummation of the transactions contemplated by this Agreement and the Ancillary Agreements will not (a) result in the creation of any Lien upon (i) any of the Acquired Stock or (ii) any of the Transferred Assets, or any properties or assets of any of the Acquired Companies, (b) violate, contravene or conflict with the Organizational Documents of any Seller or any Affiliate of a Seller engaged in the Business or with any resolutions adopted by the board of directors of any Seller, any Acquired Company or any of their Affiliates, (c) conflict with, or result in the breach, violation, right of termination, or prepayment of, or constitute a default under (whether with notice or lapse of time or both), or accelerate or permit the acceleration of the performance required by, or alter any rights or obligations under, or require the giving of notice under, any (x) Contract, (y) Subject Contract or (z) award, decision, injunction, judgment, charge, decree, settlement, order, process, ruling, subpoena or verdict (whether temporary, preliminary or permanent) entered, issued, made or rendered by any Governmental Entity (as defined below) (any of the items enumerated in this clause (y), an "Order"), in each case relating to the Business, (d) subject to the governmental filings and other matters referred to in Section 3.4, contravene, conflict with, or constitute or result in a breach or violation of, or a default

under, any provision of, or give any Governmental Entity the right to revoke, withdraw, suspend, cancel, terminate or modify, any Seller Permit (as defined in Section 3.7(a)) issued, granted, given or otherwise made available by or under the authority of any Governmental Entity or pursuant to any Applicable Law that is held by any Seller, any Affiliate of a Seller engaged in the Business or that otherwise relates to the Business or (e) subject to the governmental filings and other matters referred to in Section 3.4, constitute a violation of any Applicable Law, other than, in the case of clause (a)(ii), (c) or (d) of this Section 3.3 as would not, individually result in a Loss to the Business in excess of $50,000.

Section 3.4 Governmental Approvals.

Except as set forth in Schedule 3.4, no consent, approval, order, authorization or licensing of, action by or in respect of, or registration, declaration, notice, report, filing or expiry of any waiting period with, any federal, state, local or foreign government, any court, administrative, regulatory or other governmental agency, commission or authority or any non-governmental United States or foreign self-regulatory agency, commission or authority or any arbitral tribunal (each, a "Governmental Entity") is required by any Seller, any Acquired Company or any of their Affiliates in connection with the execution and delivery of this Agreement by Sellers or the execution and delivery of the Ancillary Agreements by Sellers or their Affiliates which are a party thereto or the consummation by Sellers and such Affiliates of the transactions contemplated hereby or thereby, except for such filings with Governmental Entities to satisfy the applicable requirements of state securities or "blue sky" laws or similar foreign laws and approval under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act").

Section 3.5 Capitalization.

Schedule 3.5 accurately sets forth, with respect to each Acquired Company (i) the number of and designation of all authorized Equity Interests and (ii) the number of issued and outstanding Equity Interests, the names of the holders thereof and the number of Equity Interests held by each such holder. All such Equity Interests have been validly issued and are fully paid and, to the extent applicable, non-assessable and have been issued in compliance with all foreign, federal and state securities laws. One or more of the Sellers or an Acquired Company are and shall be on the Closing Date the sole record and beneficial owners and holders of good and valid title to each of the outstanding Equity Interests of the Acquired Companies, free and clear of all Liens. Except as listed on Schedule 3.5, no legend or other reference to any purported encumbrance appears on any certificate representing Equity Interests of any Acquired Company. Except as listed in Schedule 3.5, none of the Acquired Companies owns any Equity Interests in any Person, except for Equity Interests owned as investments in the ordinary course of business and consistent with past practice. There are no outstanding options, warrants, calls, preemptive or similar rights, commitments or agreements of any kind to which Sellers or any of their subsidiaries or any of the Acquired Companies is a

party, or by which any of Sellers, any of their subsidiaries or any of the Acquired Companies is bound, relating to the sale, issuance or voting of, or the granting of rights to acquire, all or a portion of the Equity Interests of any of the Acquired Companies, or any securities convertible or exchangeable into or evidencing the right to purchase all or a portion of the Equity Interests in any of the Acquired Companies. There are no outstanding stock appreciation, phantom stock, profit participation, or similar rights with respect to any Acquired Company. There are no voting trusts or other agreements or understandings to which Sellers, any of their subsidiaries, or any of the Acquired Companies is a party with respect to the voting of the Equity Interests of any of the Acquired Companies. There are no outstanding bonds, debentures, notes or other obligations the holders of which have the right to vote (or convertible into or exercisable for securities having the right to vote) with the holders of Equity Interests of the Acquired Companies on any matter.

Section 3.6 Financial Statements.

(a) Attached hereto as Schedule 3.6(a) are copies of the unaudited pro-forma GAAP balance sheets and income statements of the Business as of and for the twelve months ending December 31, 2002 and the six months ending June 30, 2003 (such financial statements, together with the notes thereto, being hereinafter collectively referred to as the "Business Financial Statements"). Except as set forth in the notes to the Business Financial Statements, the Business Financial Statements (i) were prepared in accordance with GAAP applied on a consistent basis with the audited consolidated financial statements of CIGNA and its subsidiaries for the year ended as of December 31, 2002, and the unaudited consolidated financial statements of CIGNA and its subsidiaries for the six months ended June 30, 2003, respectively, (ii) were prepared using the Books and Records of CGLIC and its Affiliates, (iii) were prepared using the same data with respect to the Business as was used in preparing the audited consolidated financial statements of CIGNA and its subsidiaries for the year ended as of December 31, 2002, and the unaudited consolidated financial statements of CIGNA and its subsidiaries for the six months ended June 30, 2003, respectively, and (iv) fairly present in all material respects the combined financial position and the results of operations of the Business for the periods indicated.

(b) Except as set forth in Schedule 3.6(b), the Pro-Forma Statement of Net Settlement was prepared in all material respects in accordance with the Statement of Net Settlement Methods. Except as set forth in Schedule 3.6(b), the Statement of Net Settlement Methods is consistent in all material respects with the methodologies and procedures utilized by Sellers to prepare the Statutory Financial Statements.

(c) Attached hereto as Schedule 3.6(c) are copies of the unaudited pro-forma statutory statements for the portion of the Business contained in CGLIC as of and for the twelve months ending December 31, 2002 and the six months ending June 30, 2003 (such statutory statements, together with the notes thereto, being hereinafter collectively referred to as the "Statutory Financial Statements"). Except as set forth in the

notes to the Statutory Financial Statements, the Statutory Financial Statements (i) were prepared in accordance with statutory accounting principles prescribed or permitted by the Connecticut Insurance Department ("Connecticut SAP") applied on a consistent basis with the statutory financial statements of CGLIC for the year ended as of December 31, 2002 and the six month period ended June 30, 2003, (ii) were prepared using the Books and Records of CGLIC and (iii) fairly present in all material respects the statutory results of operations and financial condition of the portion of the Business contained in CGLIC for the periods indicated; provided, that this representation and warranty shall not be breached with respect to the IMR amount if the IMR of the Business as of June 30, 2003 is within $50 million of the $55 million current estimate of the recalculated IMR Amount. As of the date of this Agreement the unassigned funds of CIGNA Life calculated in accordance with Connecticut SAP (the "Unassigned Funds") is greater than zero.

Section 3.7 Seller Permits, Regulatory Agreements and Compliance with Applicable Laws.

(a) Except as set forth in Schedule 3.7(a), (i) each of Sellers and Affiliates of Sellers (in each case, to the extent relating to the Business) hold and maintain in full force and effect all permits, licenses, variances, exemptions, orders, registrations and approvals of all Governmental Entities which are material for the operation of the Business as currently conducted (collectively, the "Seller Permits"), (ii) each of Sellers and Affiliates of Sellers (in each case, to the extent relating to the Business) are, and at all times have been, in compliance in all material respects with the terms of the Seller Permits and all Applicable Laws, (iii) none of Sellers nor any Affiliate of Sellers (in each case, to the extent relating to the Business) has received, at any time since January 1, 2002, any written notice or other written communication from any Governmental Entity regarding (A) any actual or alleged violation of, or failure on the part of any Seller or Affiliate of any Seller to comply in any material respect with, any Applicable Law (in the case of any Seller or Affiliate of any Seller, to the extent relating to the Business) or any term or requirement of any Seller Permit or (B) any actual or potential revocation, withdrawal, suspension, cancellation, termination of, or material modification to, any Seller Permit, and (iv) all applications required to have been filed for the renewal of each such Seller Permit have been duly filed on a timely basis with the appropriate Governmental Entity, or the Seller Permit nevertheless has been renewed, re-issued or otherwise resolved without material negative consequence to the Business, and all other material filings required to have been made with respect to each such Seller Permit have been duly made on a timely basis with the appropriate Governmental Entity, or if not filed on a timely basis, the lapse did not cause a material negative consequence to the Business.

(b) Except as set forth in Schedule 3.7(b), none of Sellers or Affiliates of any Seller (in each case, to the extent relating to the Business), or any of the Transferred Assets, the Transferred Investment Assets or assets of the Acquired Companies is subject to any outstanding Order or is a party to any written agreement,

consent agreement or memorandum of understanding with, or is a party to any commitment letter or similar undertaking to, or is subject to any order or directive by, or is a recipient of any supervisory letter from or has adopted any resolutions at the request of any Governmental Entity that by its terms restricts in any material respect the conduct of, or that otherwise relates to, the Business (each, a "Regulatory Agreement"), nor has any Seller or Affiliates of any Seller (in each case, to the extent relating to the Business) been advised since January 1, 2002 by any Governmental Entity that it is considering issuing or requesting any such Regulatory Agreement.

(c) CIGNA Bank has filed all material reports, registrations and statements, together with any amendments required to be made with respect thereto, that they were required to file since December 31, 2000 with or pursuant to the requirements of (i) the Federal Reserve Board, (ii) the Federal Deposit Insurance Corporation, (iii) the Office of Thrift Supervision ("OTS"), and (iv) any other Governmental Entity, and has paid all fees and assessments due and payable in connection therewith. Except for examinations conducted by a Governmental Entity in the regular course of the business of CIGNA Bank, and except as set forth in Schedule 3.7(c), no Governmental Entity has initiated any proceeding or, to the Knowledge of Sellers, investigation into the business or operations of the CIGNA Bank since December 31, 2000. Except as set forth in Schedule 3.7(c), there is no unresolved material violation or material criticism asserted or made by any Governmental Entity contained in any report or statement relating to any examination of CIGNA Bank.

(d) To the extent any Seller or Affiliate of a Seller has relied on ERISA Prohibited Transaction Class Exemption 84-14 ("PTCE 84-14"), it has not, to the Knowledge of Sellers, failed to satisfy, or taken any action or failed to take any action which could cause an impending or potential failure in any material respect to satisfy, all of the relevant requirements for the maintenance of its status as a "qualified professional asset manager" under PTCE 84-14, including, but not limited to, the conviction or impending conviction of any Affiliate of any Seller, or any of the Affected Business Employees who are officers of any Seller or any of the Affiliates of any Seller and are responsible for the Business, or any offense enumerated under Section 411 of ERISA or the relevant provisions of PTCE 84-14.

(e) Except as set forth in Schedule 3.7(e), neither Sellers nor any of their Affiliates accept, under the terms of any contracts related to the Business, the status of, or responsibility as, a "fiduciary" (as such term is defined under ERISA Section 3(21)(A) or the parallel provisions of the Code) with respect to the Business.

Section 3.8 Litigation.

Except as set forth on Schedule 3.8, as of the date of this Agreement no material Action by any Governmental Entity or other Person is pending, or, to the Knowledge of Sellers, threatened against or with respect to any of Sellers or their Affiliates (in each case, to the extent relating to the Business), the Acquired Companies,

the Business, the Transferred Assets or the Subject Contracts. As of the date of this Agreement, no Action, written claim or written demand by any Governmental Entity or other Person is pending or, to the Knowledge of Sellers, threatened that seeks to enjoin, or would reasonably be expected to have the effect of preventing, delaying, making illegal or otherwise interfering with, any of the transactions contemplated by this Agreement or the Ancillary Agreements. Except as set forth in Schedule 3.8, as of the date of this Agreement, no Person or Governmental Entity has brought or, to the Knowledge of Sellers, threatened any material Action against the Sellers or any of the Acquired Companies pertaining to the Business Employees arising out of any law governing labor, employment, employment practices or employment discrimination.

Section 3.9 Absence of Changes.

Except as set forth in Schedule 3.9, as contemplated by Section 2.7(b) or as required by this Agreement or by any Ancillary Agreement, (a) from June 30, 2003 to the date of this Agreement, Sellers have conducted the Business in all material respects only in the usual and ordinary course consistent with past practice, and (b) since June 30, 2003, there has not been any event that individually or in the aggregate with all other events has had, or could reasonably be expected to have, a Seller Material Adverse Effect. Without limiting the generality of the foregoing, except as set forth in Schedule 3.9, from June 30, 2003 to the date of this Agreement, none of the Sellers or the Acquired Companies has:

(i) entered into, amended in any material respect or extended any Material Business Contract or other Contract that would have been a Material Business Contract had it been entered into, amended or extended, in each case, outside the ordinary course of business consistent with past practice;

(ii) other than Investment Assets and other than acquisitions, dispositions or transfers in the ordinary course of business consistent with past practice, acquired, disposed of or transferred any asset relating to the Business or that presently does or would constitute part of the Transferred Assets, in each case, with a value in excess of $1,000,000 per such asset or $5,000,000 in the aggregate;

(iii) paid, discharged or satisfied any material claim or Liability relating to the Business other than the payment, discharge or satisfaction of claims and Liabilities reserved against in the Business Financial Statements, subject to reimbursement by insurance or indemnity, or accrued in the ordinary course of business consistent with past practice since the date of the Business Financial Statements;

(iv) declared, set aside, made or paid any dividend or other distribution in respect of any Equity Interests of any Acquired Company or otherwise purchased or redeemed, directly or indirectly, any Equity Interests of any Acquired Company;

(v) other than in connection with the management of Investment Assets associated with the Business or in the ordinary course of business consistent with past practice, (A) incurred indebtedness for borrowed money or guaranteed such indebtedness of another Person in excess of $1,000,000, (B) made any loans or advances of borrowed money or capital contributions to, or equity investments in, any other Person or group of related loans, and advances or contributions in excess of $1,000,000 or (C) issued or sold any debt securities, in each case, with respect to the Business;

(vi) issued, sold, granted, conferred, awarded, pledged, or otherwise encumbered any Equity Interests of any Acquired Company;

(vii) other than in connection with the management of Investment Assets acquired (by merger, consolidation, acquisition of stock or assets or otherwise) any Person or assets comprising a business in connection with the Business or made in connection with the Business any material investment, either by purchase of any Equity Interests, or contribution to capital, in or of any other Person in an amount, in cash or property, in excess of $5,000,000;

(viii) promised, granted or agreed to grant any bonus or increased the contributions to benefit plans, the compensation or benefits of any Business Employee, other than in the ordinary course of business consistent with past practice and other than as required by Applicable Law;

(ix) (A) made any material change with respect to the Business in any (1) accounting or financial reporting principles, practices, methods or policies, except as may be required by Applicable Law, GAAP or SAP or (2) method of calculating any bad debt contingency or other reserve for accounting, financial reporting or Tax purposes, except, in each case, as may be appropriate to conform to Applicable Law, GAAP or SAP, or (B) except in the ordinary course of business consistent with past practice, made any change with respect to the Business in any pricing, employment, practices, methods or policies;

(x) made or determined to make any material addition to or material release from Reserves for future insurance policy or reinsurance Contract benefits, or other insurance policy claims and benefits related to the Business, other than (i) as a result of new business produced, (ii) in the ordinary course of business consistent with past practice or (iii) as is otherwise consistent with the Statement of Net Settlement Methods;

(xi) made any material change in the actuarial, investment (including allocation of investments among segments of CGLIC's general account and derivatives transactions), reserving, hedging, underwriting or claims administration policies, practices or principles with respect to the Business, except as may be appropriate to conform to Applicable Law, GAAP or SAP;

(xii) made any material changes, other than in the ordinary course of business consistent with past practice, in the terms or policies with respect to, the appointment of Producers or the payment of commissions to any Producer, to the extent related to the Business;

(xiii) disposed of or failed to keep in effect any material rights in, to, or for the use of any of the Intellectual Property except for rights which expire or terminate in accordance with their terms;

(xiv) made or authorized with respect to the Business any single capital expenditure in excess of $1,000,000 or capital expenditures in excess of $5,000,000 in the aggregate;

(xv) other than in the ordinary course of business consistent with past practice or in an amount in excess of $1,000,000, with respect to the Business, forgiven, cancelled, compromised, waived or released any debts, claims or rights;

(xvi) amended the Organizational Documents of any Acquired Company, or adopted or entered into a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of any Acquired Company;

(xvii) undertaken any write down in the book value of (A) any Investment Assets by an amount in excess of $1,000,000 or (B) any other Transferred Assets by an amount in excess of $1,000,000, except in each case as is otherwise consistent with the Statement of Net Settlement Methods;

(xviii) agreed to any material change in the schedule of fees charged to customers pursuant to outstanding Separate Account Subject Contracts;

(xix) terminated, assigned or attempted to assign any Investment Advisory Contracts; or

(xx) agreed in writing or otherwise taken any of the actions described above in clauses (i) through (xix) of this Section 3.9.

Section 3.10 Employee Benefits.

(a) Schedule 3.10(a)(i) contains a true and correct list, as of the date of this Agreement, of: each deferred compensation plan, incentive compensation plan, bonus compensation plan, profit sharing plan, stock option or other equity compensation plan, "employee welfare benefit plan," fund or program (within the meaning of Section 3(1) of ERISA); each "employee pension benefit plan," fund or program (within the meaning of Section 3(2) of ERISA); each employment, termination, retention, change of control or severance plan, program or policy; and each other employee benefit plan, fund, program, or arrangement, in each case, in which any two or more employees or former employees of the Business participate and is sponsored, maintained or contributed to or required to be contributed to by any of the Sellers or any of their Affiliates or by any trade or business, whether or not incorporated (an "ERISA Affiliate"), that together with Sellers or any of their Affiliates would be deemed a "single employer" within the meaning of Section 4001(b) of ERISA, or to which any of the Sellers or any of their Affiliates or any ERISA Affiliate is party, for the benefit of any employee or former employee of the Business (the "Plans"). Schedule 3.10(a)(ii) contains a true and correct list, as of the date of this Agreement, of each individual employment, termination, retention, change of control or severance agreement, in each case, to which any current employee of the Business or any of the Acquired Companies are parties (collectively the "Employment Agreements"). Schedule 3.10(a)(iii) contains a true and correct list, as of the Closing Date, of (A) each individual consultant or independent contractor who provides services to the Business and (B) each person employed by an entity that provides technology consulting services with respect to the Business, (collectively the "Consulting Agreements"). Schedule 3.10(a)(iii) does not include agreements with third party vendors to provide non-technology services or temporary employee services, or agreements that may be terminated upon no more than 30 days advance notice.

(b) With respect to each Plan and Employment Agreement, Sellers have heretofore made available to Buyer true, correct and complete copies of each of the following documents, to the extent applicable: a copy of each Plan, Employment Agreement and any amendments thereto; and a copy of the most recent Summary Plan Description to the extent required under ERISA. Sellers shall make available to Buyer true, correct and complete copies of each Consulting Agreement and any amendments thereto no later than 45 days after the date of this Agreement.

(c) No Liability under Section 412 of the Code or Section 302 or Title IV of ERISA has been incurred by Sellers or any of their ERISA Affiliates that has not been satisfied in full, other than Liability for premiums due the Pension Benefit Guaranty Corporation (the "PBGC") which premiums have been paid when due and neither Sellers nor any of their ERISA Affiliates is the subject of any outstanding funding waiver. The PBGC has not instituted proceedings to terminate any Plan that is subject to Section 302 or Title IV of ERISA.

(d) Each of the Plans, Employment Agreements and Consulting Agreements have been operated and administered in all material respects in compliance with its terms and all Applicable Laws. Except as set forth in Schedule 3.10(d), there are no material pending or, to the Knowledge of Sellers, threatened claims by or on behalf of any employee or beneficiary under any Plan, Employment Agreement or Consulting Agreement, or otherwise involving any such Plan, Employment Agreement or Consulting Agreement, or the assets of any Plan (other than routine claims for benefits).

(e) Neither the execution of this Agreement nor the transactions contemplated hereby will (i) entitle any employee of the Sellers or any of their Affiliates to severance pay or any increase in severance pay upon any termination of employment after the date hereof or (ii) accelerate the time of payment or vesting or result in any payment or funding of compensation or benefits under, increase the amount payable or result in any other material obligation pursuant to, any of the Plans.

(f) Unless specifically provided for in Schedule 3.10 (f) or under the terms of Section 5.5, the Sellers shall retain all Plans, Employment Agreements and Consulting Agreements, and the Buyers shall not be liable for any claims for benefits or other Liabilities, financial or otherwise (whether or not arising out of litigation or arbitration) arising under or with respect to such Plans, Employment Agreements or Consulting Agreements and Buyer shall not assume, shall not be obligated to continue, and shall not be responsible or liable for, any Seller severance practice (whether written or unwritten) with respect to such Affected Employees.

(g) Schedule 3.10(g) sets forth any outstanding Order or directive, any written agreement, consent agreement or memorandum of understanding, any commitment letter or similar undertaking, any supervisory letter from any Governmental Entity and any resolutions adopted at the request of any Governmental Entity, in each case, related to the Business Employees or the Business' employment practices.

Section 3.11 Taxes.

Except as set forth in Schedule 3.11:

(a) Each of the Acquired Companies and, to the extent it relates, in whole or in part, to the Business, each of Sellers has (i) timely filed or caused to be filed all material Tax Returns required to be filed by them, and all such Tax Returns were true and correct in all material respects when filed and (ii) paid or accrued (in accordance with generally accepted accounting principles consistently applied) all Taxes shown to be due on such Tax Returns. All material Taxes required to be withheld by or on behalf of the Acquired Companies and, to the extent it relates, in whole or in part, to the Business, by or on behalf of the Sellers have been timely paid to the proper Tax Authority or properly set aside in accounts for such purpose.

(b) No material federal, foreign, state or local audits or other administrative proceedings have formally commenced or are presently pending with regard to any Taxes or Tax Returns of the Acquired Companies, and, to the extent relating, in whole or in part, to the Business, Sellers, and no notification has been received in writing that such an audit or other proceeding is pending or threatened with respect to any Taxes.

(c) There are no outstanding written requests, agreements, consents or waivers to extend the statutory period of limitations applicable to any Tax Returns of the Acquired Companies or, to the extent relating, in whole or in part, to the Business, Sellers.

(d) There are no Liens for Taxes (other than Permitted Liens) upon the assets of any of the Acquired Companies and, to the extent relating, in whole or in part, to the Business, Sellers.

(e) None of the Acquired Companies or, to the extent relating, in whole or in part, to the Business, Sellers, is a party to or has any obligations or liabilities arising pursuant to any Tax sharing, funding, allocation, indemnification or similar Tax agreement.

(f) No claim has been asserted in writing by any Tax Authority that any of the Acquired Companies or, to the extent relating, in whole or in part, to the Business, Sellers, is liable for any Taxes based on Section 482 of the Code or comparable provisions of other Applicable Law.

(g) Books and Records in respect of the Business and the Acquired Companies have been maintained in all material respects in accordance with Revenue Procedure 98-25.

(h) To the best Knowledge of Sellers, no closing agreements, private letter rulings, technical advice memoranda or similar agreements or rulings (other than local, negotiated economic incentive zone rulings) have been entered into with or issued by any Tax Authority with respect to any of the Acquired Companies or, to the extent relating, in whole or in part, to the Business, Sellers (i) within the past ten (10) years or (ii) that would reasonably be expected to have a material effect on any Taxes for which Buyer is liable pursuant to this Agreement.

(i) Each Acquired Company is a member of the affiliated group (within the meaning of Section 1504(a)(1) of the Code) for which CIGNA Corporation files a consolidated return as the common parent.

(j) The Buyer will not be required to deduct and withhold any amount pursuant to Section 1445 of the Code in connection with the transactions contemplated by this Agreement.

(k) None of the Acquired Companies is, or has been, a passive foreign investment company within the meaning of Section 1297 of the Code.

(l) None of the Acquired Companies, or to the extent it relates, in whole or in part, to the Business, Sellers has "participated in" (as described in Treasury Regulation Section 1.6011-4(c)(3)(i)(A)) a transaction that either constitutes a "listed transaction" (as described in Treasury Regulation Section 1.6011-4(b)(2)) or would have constituted a listed transaction if current law had been in effect at the time of such participation except, in either case, to the extent that the statute of limitations period for the final Tax Return reflecting the transaction (as described in Treasury Regulation Section 1.6011-4(e)(2)(i)) has already expired.

(m) Each Separate Account, to the extent it relates in whole or in part to the Business, has at all times been organized, operated and reported so that it qualifies as a segregated asset account for purposes of Subchapter L of the Code, excluding those Separate Accounts listed on Schedule 3.11(m) that are not subject to Code Sections 817 or 817A.

(n) None of the Acquired Companies is subject to Tax outside its country of incorporation.

Section 3.12 Intellectual Property and IT Assets.

(a) Schedule 3.12(a) sets forth a true and complete list of all (i) Transferred IP Assets that are any of the following: (A) material Computer Software; (B) Trademarks which are the names of products and services; and (C) the subject of an application or registration with the United States Patent and Trademark Office, the United States Copyright Office or any other authority in the United States, or an Internet register (each, an "Intellectual Property Office"), identifying each as a Patent, Trademark, Copyright, Computer Software, or otherwise, and specifying for each its title or subject matter, application or registration number, filing date, issue date, owner, but for Internet domain names specifying for each its registrant and administrative contact names, addresses and other contact information, the administering register, registration date, expiration date, and whether it is active (i.e., hosting a website); (ii) Transferred IT Hardware (identifying each item's purpose and owner); (iii) Intellectual Property Contracts (identifying for each its title, the parties and date, provided that no breach shall be deemed to have occurred for inadvertent failure prior to the date of this Agreement to list any immaterial Intellectual Property Contract after having made reasonable efforts to do so notwithstanding any obligation to list pursuant to Section 3.13(l); (iv) IT Hardware Leases (identifying for each its title, the parties and date,); and (v) Excluded IP Assets (identifying for each the information for an asset or Contract, as applicable, consistent

with the requirements set forth above in this Section 3.12(a)). Except as otherwise specifically identified in Schedule 3.12(a) or as the direct result of an Intellectual Property Office's negligence, no item required to be listed on Schedule 3.12(a)(i) has lapsed, expired or been abandoned or cancelled, or is subject to any pending, or to the Knowledge of Sellers threatened, opposition, cancellation, interference, Intellectual Property Office public protest, domain name dispute or other proceeding before an Intellectual Property Office, and no item required to be identified on Schedule 3.12(a)(i)(C) requires that any maintenance fee be paid, affidavit of use be filed, or any other action required to maintain such item be taken within six (6) months immediately following the date of this Agreement. Except as otherwise specifically identified in Schedule 3.12(a)(vi), there is no claim asserted, or to the Knowledge of Sellers threatened in writing, against any Seller or any Affiliate of any Seller concerning the ownership, validity, registrability, enforceability, infringement, use or licensed right to use any Transferred IP Asset, or the infringement, use or licensed right to use any Intellectual Property in connection with the Business. All Transferred IP Assets are valid, subsisting, enforceable and not subject to any outstanding order adversely affecting the use thereof or rights thereto.

(b) (i) Except as otherwise specifically identified in Schedule 3.12(b), the Sellers and their Affiliates own all Transferred IP Assets and all Transferred IT Hardware, which are freely transferable to the Buyer (directly or indirectly) and will be transferred to Buyer (directly or indirectly) and will survive unchanged upon the consummation of the transactions contemplated by this Agreement, and have the valid right to use all Transferred IP Assets and rights under Intellectual Property Contracts as used in the Business as currently conducted. Except as otherwise specifically identified in Schedule 3.12(b), to the Knowledge of Sellers, the conduct of the Business as currently conducted and for the three (3) year period immediately preceding the date of this Agreement does not and did not infringe or otherwise violate the Intellectual Property rights of any third Person.

(ii) Except as otherwise specifically identified in Schedule 3.12(b), to the Knowledge of Sellers, no third Person infringes or otherwise violates any Seller's or any Affiliate of any Seller's rights in the Transferred IP Assets or their exclusive rights (if any) under the Intellectual Property Contracts.

(iii) Except as otherwise specifically identified in Schedule 3.12(b), there are no claims asserted or threatened by Sellers or Affiliates of Sellers, or decided by any Sellers or Affiliates of Sellers to be asserted or threatened, that (A) a third Person infringes or otherwise violates or for the three (3) year period immediately preceding the date of this Agreement has infringed or otherwise violated, any of Seller's or any Affiliate of any Seller's rights in the Transferred IP Assets or their exclusive rights (if any) under the Intellectual Property Contracts; or (B) a third Person's owned or claimed Intellectual Property interferes with, infringes, dilutes or otherwise harms any Seller's or any Affiliate of any Seller's rights in the Transferred IP Assets or their exclusive rights (if any) under the Intellectual Property Contracts.

(c) Except as otherwise specifically identified in Schedule 3.12(c) or as set forth in the respective Intellectual Property Contracts and IT Hardware Leases, each such Intellectual Property Contract and IT Hardware Lease is free of Liens and will be transferred to Buyer (directly or indirectly) upon the consummation of the transactions contemplated by this Agreement. To the Knowledge of Sellers, all exclusive Intellectual Property rights licensed pursuant to an Intellectual Property Contract are valid, subsisting and enforceable. Seller and Affiliates of Seller have not been informed in writing that any Intellectual Property rights licensed pursuant to an Intellectual Property Contract are subject to any outstanding order adversely affecting use thereof or rights thereto.

(d) The Sellers and their Affiliates have taken reasonable measures to protect the secrecy and confidentiality of all Trade Secrets that are part of the Transferred IP Assets or that are provided pursuant to Intellectual Property Contracts or IT Hardware Leases. To the Knowledge of Sellers, such Trade Secrets which are material have not been used or disclosed by any person except pursuant to valid and appropriate non-disclosure and/or license agreements which have not been breached. All Sellers and Affiliates of Sellers have on or about March 2000 implemented the "CIGNA Information Protection Policy" (a copy of which Seller has provided to Buyer for review), have provided notice to their employees of such policy and have reasonably enforced such policy.

(e) Sellers and Affiliates of Sellers have all rights necessary to grant the licenses granted to Buyer and the Acquired Companies pursuant to the transactions contemplated by this Agreement (including without limitation the Transition Services Agreement and the Trademark/Trade Name Licenses Agreement).

(f) The Transferred IT Items operate and perform in all material respects in accordance with their operation and performance prior to the date of this Agreement. Seller and Affiliates of Seller have implemented reasonable controls to prevent the introduction into and use of any devices that (A) enable or assist any person to access without authorization the Transferred IT Items, or (B) otherwise significantly adversely affect such Transferred IT Items' functionality. To the Knowledge of Sellers, no Person has gained unauthorized access to the Transferred IT Items.

Section 3.13 Material Business Contracts.

Other than Subject Contracts, reinsurance Contracts and Investment Assets, Schedule 3.13 sets forth, as of the date of this Agreement, each (a) noncompetition or nonsolicitation Contract which by its terms expressly restricts the right of any Seller or any Affiliate of any Seller (in each case, to the extent relating to the Business) or any Acquired Company to compete with other entities, engage in any line of business or solicit employees; (b) Contract constituting a Transferred Asset, asset of any Acquired Company, Assumed Liability or Acquired Company Liability which evidences indebtedness for borrowed money in excess of $1 million or pursuant to which any Seller, Affiliate of a Seller or Acquired Company has guaranteed (including guarantees

by way of acting as surety, co-signer, endorser, co-maker, indemnitor or otherwise) any obligation in excess of $1 million of any other Person; (c) Contract providing for the acquisition or disposition of any portion of the Business or Transferred Assets or assets of the Acquired Companies having a book value in excess of $1 million; (d) Contract providing for an irrevocable power of attorney on behalf of any Seller or any Affiliate of any Seller (in each case, to the extent related to the Business) or any Acquired Company; (e) investment management and sub-advisor Contract relating to the Manager of Managers Program; (f) Contract with mutual fund complexes whose shares are held in Separate Accounts; (g) Contract that is a partnership agreement, joint venture agreement or similar agreement to which any Seller or any Affiliate of any Seller (in each case, to the extent relating to the Business) or any Acquired Company is a party; (h) Contract that contains a guarantee over a period of greater than 30 months of the rates charged by any Seller or any Affiliate of any Seller (in each case, to the extent relating to the Business) or any Acquired Company to any customer; (i) Contract for capital expenditures in excess of $1 million to be made after the date of this Agreement by any Seller or any Affiliate of any Seller (in each case, to the extent relating to the Business) or any Acquired Company, which Contract constitutes a Transferred Asset, assets of any Acquired Company, Assumed Liability or Acquired Company Liability, other than Contracts which are terminable on less than sixty (60) days' prior notice without payment of any penalty; (j) lease or sublease (other than a Lease constituting a Transferred Asset, asset of any Acquired Company, Assumed Liability or Acquired Company Liability) having annual payments in excess of $500,000; (k) collective bargaining agreements to which any Seller or any Affiliate of any Seller (in each case, to the extent relating to the Business) or any Acquired Company is a party; (l) Intellectual Property Contract or IT Hardware Lease; (m) Contract with any Governmental Entity (other than Contracts under which such Governmental Entity is a customer of any Seller, Affiliate of any Seller or any Acquired Company); (n) Investment Advisory Contract or any other Contract relating to investment management, investment advisory or subadvisory services to which any Seller or Affiliate of any Seller (in each case, to the extent related to the Business) or any Acquired Company is a party, as service provider; (o) amendment, supplement and modification (whether oral or written) in respect of the foregoing; and (p) other Contract pursuant to which the Business receives or is reasonably expected to receive payments, or makes or is reasonably expected to make payments, of at least $1 million per calendar year or $5 million over any five-year period (clauses (a) through (p), collectively, the "Material Business Contracts"). With respect to each Material Business Contract, assuming the due authorization, execution and delivery thereof by the other party or parties thereto, (i) each Material Business Contract is valid, binding and enforceable in accordance with its terms and is in full force and effect, (ii) Sellers, Affiliates of Sellers and the Acquired Companies are not and, to the Knowledge of Sellers, no other party thereto is, in default in the performance, observance or fulfillment of any obligation, covenant or condition contained in each of the Material Business Contracts, and (iii) no Seller, Affiliate of any Seller or Acquired Company has given to or received from any other Person, at any time since January 1, 2002, any notice or other communication (whether written or oral) regarding any actual or potential material violation or breach of,

or material default under, any Material Business Contract, other than, in the case of clauses (i), (ii) and (iii) with respect to any particular Material Business Contract, where any such failure to be valid and binding and in full force and effect and defaults would not individually result in a Loss to the Business in excess of $50,000.

Section 3.14 Real Property.

(a) None of the Acquired Companies owns or has ever owned any real property. Except for Investment Assets and as set forth on Schedule 3.14(a), none of Sellers nor any Affiliate of any Seller owns any real property which is used in the conduct of the Business.

(b) Schedule 3.14(b) sets forth a true and correct list, as of the date of this Agreement, of all leases, subleases and occupancy agreements for real property which are primarily used in the conduct of the Business (such leases, subleases and occupancy agreements being hereinafter collectively referred to as "Leases"), and setting forth the address, the name of landlord, the name of the tenant and whether the real property is used exclusively by the Business or is shared with other businesses operated by any Seller or any Affiliates of any Seller for each Lease.

(c) Schedule 3.14 (c) sets forth a true and correct list, as of the date of this Agreement, of all leased properties (other than the properties covered by the Leases) used in the Business (the "Field Locations"). Sellers have delivered to Buyer correct and complete copies of the Leases (as amended or supplemented). As of the date of this Agreement, there are no security deposits held in connection with the Leases nor are there any subleases except as provided on Schedule 3.14(b). To the Knowledge of Sellers: (i) each Lease is legal, valid, binding, in full force and effect and enforceable in accordance with its respective terms against the parties thereto; (ii) there does not exist under any Lease any material default, violation or breach by the parties thereto; (iii) no event has occurred and is continuing that constitutes or, with notice or the passage of time or both, would constitute a material default, violation or breach under any Lease; and (iv) the tenant in each Lease has a valid leasehold interest under its respective Leases free and clear of any Liens, other than as provided under such Lease and Permitted Liens. Each tenant enjoys peaceful and undisturbed possession under its respective Leases for the use of such property in the conduct of the Business.

Section 3.15 Affiliate Transactions.

(a) Schedule 3.15(a) contains a complete and correct list of all Contracts, transfers of assets or Liabilities, provision of goods or services or other commitments or transactions (whether or not reduced to writing) (i) between any Acquired Company, on the one hand, and any Seller or any Affiliate of any Seller (other than any Acquired Company), on the other hand, and (ii) between any Seller or any Affiliate of any Seller, on the one hand, and any Seller or any Affiliate of any Seller, on the other hand, relating to the Business (collectively, "Intercompany Agreements").

(b) Schedule 3.15(b) contains a complete and correct list of all Contracts (i) between any Acquired Company, on the one hand, and any officer, director, employee or consultant (in each case, who is not a Business Employee) of any Seller or any Affiliate of any Seller (other than any Acquired Company), or any Person related by blood or marriage to such natural Person, on the other hand, and (ii) any Seller or any Affiliate of any Seller (other than any Acquired Company), on the one hand, and any Business Employee, on the other hand, (collectively, "Affiliate Agreements").

Section 3.16 Labor Matters.

The Business Employees are not, and during the last five years have not been, members of a bargaining unit covered by a collective bargaining agreement or similar agreement with any labor organization to which any Seller or any of their Affiliates is a party. Except as set forth in Schedule 3.16, none of Sellers or any of their Affiliates (in each case to the extent relating to the Business) are, or during the last five years have been, the subject of any union organizing effort, representation petition, strike, slowdown, stoppage or lockout or other labor dispute or problem involving the Business Employees. None of the Business Employees are the subject of any representation petition before the National Labor Relations Board.

Section 3.17 Brokers and Finders.

Except for Goldman, Sachs & Co., whose fees and expenses shall be paid by Sellers in accordance with Sellers' agreement with such firm, no broker, investment banker, financial advisor or other Person is entitled to any broker's, finder's, financial advisor's or similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Sellers.

Section 3.18 Sufficiency of Assets.

Except (i) as set forth in Schedule 3.18 and except for (ii) (A) those assets listed on Schedule 1.1(e), (B) the Excluded IP Assets, (C) each Contract which Buyer elects not to have treated as an Assigned and Assumed Contract (in each case, as of the applicable date on which such election is made), (D) the Intercompany Agreements listed on Schedule 5.17(a)(i), (E) the Investment Assets other than the Transferred Investment Assets, (F) CGLIC's Capital, Surplus and AVR (other than the Capitalization Amount transferred to CIGNA Life pursuant to Article II hereof) and (G) the Excluded Services (as defined in the Transition Services Agreement), and each other service which Buyer elects not to be a Transition Service (in each case, as of the applicable date on which such election is made) (and related assets to be utilized in providing any such services), the properties, assets and rights owned by the Acquired Companies, the Transferred Assets, the Transferred Investment Assets, the Assigned and Assumed Contracts (in each case, as of the applicable date on which such Contract is designated as an Assigned and Assumed Contract), the Intercompany Agreements set forth on Schedule 5.17(a)(ii), the rights licensed to Buyer pursuant to the Trademark/Trade Name Licenses Agreement, the rights

licensed to Buyer pursuant to Section 5.26 and the Transition Services (in each case, as of the applicable date on which such service is designated as a Transition Service) constitute all of the properties, assets and rights material to the Business which are owned by Sellers and their Affiliates and used to conduct the Business as it is currently conducted by the Sellers and their Affiliates, and such properties, assets and rights are sufficient for Buyer, as of the Closing, to conduct the Business in all material respects as currently conducted by the Sellers and their Affiliates.

Section 3.19 Undisclosed Liabilities.

Except for (i) Liabilities set forth in Schedule 3.19, (ii) Retained ECOs (iii) Assumed Liabilities and (iv) Post-Closing Business Liabilities, to the Knowledge of Sellers, as of the date of this Agreement, there are no material Liabilities of the Business which are of a type which would be reasonably likely to recur following the Closing Date.

Section 3.20 Title to Assets.

(a) The Sellers and the Acquired Companies are in possession of and have good and marketable title to, or valid leasehold interests in or valid rights under Contract to use, all tangible personal property used or held for use in the conduct of the Business, including all tangible personal property reflected on the Business Financial Statements and all tangible personal property acquired since the date of the Business Financial Statements (other than tangible personal property disposed of in the ordinary course of business consistent with past practice and custom since the date of the Business Financial Statements) and all tangible personal property reflected in the Final Statement of Net Settlement. All such tangible personal property is free and clear of all Liens, except for Permitted Liens and as set forth on Schedule 3.20(a).

(b) Schedule 3.20(b)(i) sets forth a true and complete list of all Investment Assets of the Business, by portfolio, as of the date of the Statutory Financial Statements, with information included therein as to the statutory carrying value thereof as of the date of the Statutory Financial Statements. Schedule 3.20(b)(ii) sets forth as of the date of this Agreement, by sub-account of the General Account and Separate Account, the following information relating to the Transferred Investment Assets supporting Insurance-Related Liabilities to become Assumed Liabilities under this Agreement: (i) sub-account name, (ii) statutory carrying value of assets by asset class.

Section 3.21 Product Administration and Compliance.

Except as set forth in Schedule 3.21:

(a) There are no nonexempt prohibited transactions within the meaning of Section 4975 of the Code or Section 406 of ERISA or violations of Section 404 of ERISA with respect to such Subject Contracts.

(b) All Subject Contracts, employee benefit plan documents sold or provided by the business and products and services relating to employee benefit plans that are sold, issued or administered by the Acquired Companies or the Sellers (in each case, to the extent relating to the Business) are materially in compliance with and to the extent administered by the Acquired Companies or the Sellers are substantially administered within the terms of such Subject Contracts, products and services, and Applicable Law.

(c) As it relates to the Business, Sellers have provided to Buyer full and complete copies of Sellers' logs of customer complaints received through state insurance departments or by CIGNA Financial Services, Inc. or summaries or copies of such complaints received from January 1, 2001 to December 31, 2002.

(d) Sellers have submitted to Buyer all requested written tax operational policies and procedures with respect to Subject Contract administration and such tax operational policies and procedures are consistent in all material respects with the manner in which the Subject Contracts, policies and plans have been administered. All system tax testing results, including screen prints, submitted by Sellers are true and unaltered results from the test scenarios submitted by Buyer. All results were obtained from the administration systems without manual intervention, unless otherwise noted in writing in the test scenarios or written comments provided to Buyer, and represent the current workflow of the administrative systems.

(e) Sellers and their Affiliates (in each case, to the extent relating to the Business) make available to certain of their customers a payroll deduction Section 529 program known as the CollegeBoundfund Employee Payroll Direct Deposit Program.

(f) Other than guaranteed investment contracts referred to in Section 3.21 (g) below, the minimum guaranteed crediting rate of all Subject Contracts which have a minimum guaranteed crediting rate specified therein is 0%; provided, that with respect to Subject Contracts sold to plans or programs organized pursuant to Sections 403(b) or 408 of the Code, or Subject Contracts that are intended to be sold in connection with nonqualified plans that are not subject to the requirements of Section 401(a) of Code (x) such Subject Contracts have outstanding reserves as of June 30, 2003 not in excess of $1,200,000,000 and (y) such Subject Contracts have a provision specifying a minimum guaranteed crediting rate and no such Subject Contract has a minimum guaranteed crediting rate exceeding 4%.

(g) Schedule 3.21(g) sets forth the scheduled payments required to be made under Subject Contracts that are guaranteed investment contracts.

(h) No Separate Account Subject Contract that is guaranteed by investment portfolios held in CGLIC's General Account has been issued for delivery in California or Minnesota unless it was issued in compliance with Applicable Law.

(i) Sellers and their Affiliates (in each case, to the extent related to the Business) and the relevant Acquired Companies have materially complied with all applicable reporting, withholding and disclosure requirements under the Code, ERISA and similar state laws with respect to Subject Contracts issued, entered into, sold, or administered by the Sellers and their Affiliates (in each case, to the extent related to the Business) and the relevant Acquired Companies.

(j) There are no "hold harmless," Tax sharing or indemnification agreements respecting the Tax qualification or treatment of any product, contract, or employee benefit plan document issued, sold, or administered by any of the Sellers or their Affiliates (in each case, to the extent related to the Business) or the relevant Acquired Companies.

(k) There are no currently pending federal, state, local or foreign audits or other administrative or judicial proceedings in which either the Sellers or any of their Affiliates (in each case, to the extent related to the Business) or any of the relevant Acquired Companies is a party in which the Tax treatment of any Subject Contract issued, sold, or administered by any of the Sellers or their Affiliates (in each case, to the extent related to the Business) or the relevant Acquired Companies is at issue.

(l) Sellers and their Affiliate (in each case, to the extent relating to the Business) are treated, for federal Tax purposes, as the owner of the assets underlying the Subject Contract issued, entered into or sold by such company (whether developed by, administered by or reinsured with any unrelated third party) which is provided under or connected with either (1) a plan described in Section 401, 403, 408 or 457 or any similar provision of the Code; (2) any employee benefit plan within the meaning of ERISA; or (3) any Subject Contract subject to Section 817 of the Code.

(m) For the avoidance of doubt, the Tax provisions set forth in Section 3.11 and Section 5.19 shall not apply to any of the products or matters referred to in this Section 3.21; provided, however, if there is a failure of any representation or warranty set forth in this Section 3.21 and the subject matter of such failure becomes the subject matter of a contest, claim, audit or similar proceeding initiated by a Tax Authority against the Buyer or any of its Affiliates (including the Acquired Companies), then such proceeding and Sellers' indemnification obligations, if any, with respect thereto shall be governed in all respects by the provisions of Section 5.19, and, to the extent governed by Section 5.19, for purposes of the survival periods of the representations and warranties set forth in Section 7.2, such representation or warranty shall be treated as a representation or warranty set forth in Section 3.11.

(n) None of the Subject Contracts are governed by Code Sections 7702 or 7702(A).

Section 3.22 Producers.

(a) Schedule 3.22(a)(i) sets forth the standard forms of agreements (collectively, the "Producer Agreements") being utilized, as of the date of this Agreement, by Sellers or their Affiliates (in each case, to the extent relating to the Business) or any Acquired Company with respect to their respective producers, third-party administrators, agents, brokers and broker-dealers (each, a "Producer"). Except as set forth in Schedule 3.22(a)(ii), all of the Contracts in effect between Sellers or their Affiliates (in each case, to the extent relating to the Business) or any Acquired Company and the Producers are in all material respects in the form of one of the Producer Agreements.

(b) Except as set forth in Schedule 3.22(b), no such Producer has binding authority on behalf of any Seller or any Affiliates of any Seller (in each case, to the extent relating to the Business) or any Acquired Company. Each of the Contracts between any of Sellers or any Affiliates of any Seller (in each case, to the extent relating to the Business) or any Acquired Company and their respective Producers, is valid, binding and in full force and effect in accordance with its terms. Except as set forth in Schedule 3.22(b), none of Sellers or their Affiliates (in each case, to the extent relating to the Business), nor any Acquired Company, nor, to the Knowledge of Sellers, any other party to any such Contract, is in default in any material respect with respect to any such Contract.

(c) To the Sellers' Knowledge, (i) except as set forth on Schedule 3.22(c), each insurance Producer at the time such Producer marketed, wrote, sold, produced, administered or managed business for any Seller or any Affiliate of any Seller (in each case, to the extent relating to the Business), was duly licensed and appointed (for the type of business marketed, written, sold, produced, administered or managed by such Producer) in the particular jurisdiction in which such Producer marketed, wrote, sold, produced or managed such business for such Seller or Affiliate of any Seller; (ii) all compensation paid to each such Producer was paid in accordance with Applicable Law, Seller Appointments and Seller Permits; and (iii) no such Producer violated (or with or without notice or lapse of time or both would have violated) any term or provision of any Applicable Law or Order applicable to any aspect (including, but not limited to, the marketing, writing, sale, production, administration or management) of the business of such Seller or Affiliate of any Seller (in each case, to the extent relating to the Business).

Section 3.23 Subject Contract Claims.

All benefits claimed by any Person under any Subject Contract issued by any Seller or any Affiliate of any Seller (in each case, to the extent relating to the Business) have in all material respects been paid (or provision for payment thereof has been made) in accordance with the terms of the Subject Contracts under which they arose, such payments were not materially delinquent and were paid (or will be paid)

without fines or penalties (and with interest as required by contract or Applicable Law), except for any such claim for benefits for which the affected company reasonably believes or believed that there is a reasonable basis to contest payment.

Section 3.24 Actuarial Reports Provided to Buyer.

The Sellers have delivered to Buyer a complete and accurate copy of the actuarial reports listed on Schedule 3.24 prepared in connection with CGLIC's statutory annual filings relating to the Business since December 31, 2001, and all attachments, addenda, supplements and modifications thereto.

Section 3.25 Reinsurance Agreements.

Schedule 3.25 contains, as of the date of this Agreement, a true and complete list of all reinsurance or coinsurance treaties or agreements, including retrocessional agreements, to which any of Sellers or their Affiliates (in each case, to the extent relating to the Business) is a party or under which any of Sellers or their Affiliates has any existing rights, obligations or liabilities related to the Business. Except as set forth in Schedule 3.25, all such treaties or agreements as set forth in such Schedule 3.25 are in full force and effect. Except as set forth in Schedule 3.25, none of Sellers or their Affiliates, nor, to the Knowledge of Seller, any other party to any such reinsurance or coinsurance treaty or agreement, is in default as to any material provision thereof.

Section 3.26 Policy Forms.

Except as set forth on Schedule 3.26, to the extent required under Applicable Law, (a) all policy forms, and certificates used in the Business as of the date of this Agreement, all policy forms and certificates on which Subject Contracts in force on the date of this Agreement were written and all amendments, endorsements and riders thereto (collectively, "Policy Forms") and (b) all applications, brochures and marketing materials pertaining thereto have been, in all material respects, approved by all applicable Governmental Entities or filed with and not objected to by such Governmental Entities within the period provided by Applicable Law for objection. All Policy Forms currently being issued, and all Policy Forms on which Subject Contracts in force on the date of this Agreement which comprise any material portion of the Business were written, have been provided previously to Buyer. Except as set forth on Schedule 3.26, each Subject Contract in force on the date of this Agreement conforms in all material respects to one of the Policy Forms.

Section 3.27 Company Separate Accounts and Underlying Funds.

(a) Except as set forth in Schedule 3.27, (i) each segregated asset account of Sellers or their Affiliates that is included in the Business (each, a "Company Separate Account") is duly and validly established and maintained in all material respects under the Applicable Laws and that portion of the assets of each Company Separate

Account equal to the Reserves and other contract liabilities with respect to each such Company Separate Account is not chargeable with Liabilities arising out of any other business that such company establishing the separate account may conduct; (ii) each Company Separate Account at all times has been operated and is currently operating in compliance in all material respects with Applicable Law and Seller Permits; (iii) each private placement memorandum, offering document, sales brochure, sales literature, or advertising material, as amended or supplemented, relating to any Company Separate Account, as of their respective mailing dates or dates of use (A) contained no untrue statement of material fact and did not omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, and (B) complied in all material respects with Applicable Law including but not limited to federal and state securities laws and state insurance laws; (iv) to the Knowledge of Sellers, no examinations, investigations, inspections, and formal or informal inquiries, including, without limitation, periodic regulatory examinations of the Company Separate Accounts' affairs and condition, civil investigative demands and market conduct examinations, by any Governmental Entity have been conducted since January 1, 2001 or are being conducted; and (v) no notice has been received from and no investigation, inquiry or review is pending or threatened by any Governmental Entity which has jurisdiction over the Company Separate Accounts (A) with respect to any alleged violation by Sellers or their Affiliates (in each case, to the extent relating to the Business) of any Applicable Law which, if proven, could reasonably be expected to have a material adverse effect on the Business, or (B) with respect to any alleged failure to have, or any threatened revocation of, any Seller Permits required in connection with the operation of the business of the Company Separate Accounts.

(b) (i) Each Company Separate Account that is required to be registered with the SEC as an investment company under the Investment Company Act is so registered and each such registration is in full force and effect; (ii) each registered Company Separate Account has been operated and is currently operating in compliance in all material respects with the Investment Company Act and with applicable regulations, rules, releases and orders of the SEC; (iii) interests in each registered Company Separate Account or the variable contracts through which such interests are issued have been sold pursuant to an effective registration statement filed under the Securities Act and any applicable state securities laws; (iv) such registration statements, at the time that each became effective, contained no untrue statement of a material fact, and did not omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading; (v) each prospectus, statement of additional information, or private placement memorandum, as amended or supplemented, relating to any registered Company Separate Account and all supplemental advertising material relating to any registered Company Separate Account, as of their respective mailing dates or dates of use (A) contained no untrue statement of material fact and did not omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, and (B)

complied in all material respects with Applicable Law including but not limited to, federal and state securities laws and state insurance laws, rules of the NASD, the Securities Act and the Investment Company Act; and (vi) all advertising or marketing materials relating to each registered Company Separate Account that were required to be filed with any other Governmental Entity have been timely filed therewith.

Section 3.28 Broker-Dealer.

(a) CIGNA Financial Services, Inc. ("CFS") is the only Acquired Company that conducts activities of a broker or dealer, as such terms are defined in Section 3(a) of the Exchange Act and required to be registered under Section 15 of the Exchange Act (the "Broker-Dealer Subsidiary"). Schedule 3.28(a) lists a description of the nature of its business and, as of the date of this Agreement, a listing of all Seller Permits it possesses, and all registration statements it has filed with the United States Securities and Exchange Commission or any successor agency (the "SEC") or any other Governmental Entity since January 1, 2001.

(b) The Broker-Dealer Subsidiary is registered as a broker-dealer with the SEC and with each other Governmental Entity with which it is required to register in order to conduct its business as currently conducted, and has been so registered since January 1, 2001 or, if later, the date when the conduct of its business required it to be so registered except where failure to do so would not result in a Seller Material Adverse Effect. Set forth in Schedule 3.28(b) is a true and complete list of such registrations as of the date of this Agreement.

(c) The Broker-Dealer Subsidiary is a member organization of the NASD and such other organizations in which its membership is required in order to conduct its business as now conducted, and has been a member of NASD and each such other organization since January 1, 2001 or, if later, the date when the conduct of its business first required it to become a member.

(d) The Broker-Dealer Subsidiary is and has been since January 1, 2001 in compliance with all Applicable Laws (including the Blue Sky laws and the rules of each self-regulatory organization of which it is a member) except where failure to do so would not result in a Seller Material Adverse Effect.

(e) The Broker-Dealer Subsidiary is not, nor is any "associated person" of it, subject to a "statutory disqualification" (as such terms are defined in the Exchange Act) or subject to a disqualification that would be a basis for censure, limitations on the activities, functions or operations of, or suspension or revocation of the registration of the Broker-Dealer Subsidiary as broker dealer, municipal securities dealer, government securities broker or government securities dealer under Section 15, Section 15B or Section 15C of the Exchange Act and, to the Knowledge of Sellers, as of the date of this Agreement there are no material proceedings or investigations pending by any Governmental Entity that is reasonably expected to result in any such censure, limitations, suspension or revocations.

Section 3.29 Investment Advisers Act.

(a) (i) Global Portfolio Strategies, Inc. ("GPS") and CFS (collectively, the "Advisory Entities") are the only Acquired Companies that are registered as investment advisers under the Investment Advisers Act. No Advisory Entity provides investment advice to any vehicle for collective investment (in whatever form of organization, including in the form of a corporation, company, limited liability company, partnership (limited or general), association, trust or other entity and including each separate portfolio of any of the foregoing), whether or not required to be registered under the Investment Company Act. Schedule 3.29(a) sets forth a description of the business of each of the Advisory Entities and a listing of all Seller Permits each possesses, and all registration statements each has filed with the SEC or any other Governmental Entity since January 1, 2001. No other Acquired Company is required to be registered under the Investment Advisers Act.

(ii) (A) Each Advisory Entity has provided investment advisory services to all accounts for which its acts as investment adviser in compliance in all material respects with the terms of the governing documents, prospectuses or other offering or disclosure documents, instructions of clients and Applicable Law ("Governing Advisory Authorities"); (B) none of Sellers or Affiliates of any Seller or the Acquired Companies nor, to the Knowledge of Sellers, any of their respective directors, officers, members, managers, partners or employees, has committed any material breach of any Governing Advisory Authority with respect to any account for which such Advisory Entity acts as investment adviser; (C) each Advisory Entity has adopted a written code of ethics, complete and accurate copies of which have been made available to Buyer; (D) true and complete copies of each of the registration statements set forth on Schedule 3.29(a) have been made available to Buyer; and (E) neither of the Advisory Entities nor, to the Knowledge of Sellers, any Affiliate or "associated person" (within the meaning of the Investment Advisers Act) of either of them, is ineligible pursuant to Section 203(e) of the Investment Advisers Act to serve as a registered investment adviser or as an associated person of a registered investment adviser.

(b) The Advisory Entities are, to the Knowledge of Sellers, in compliance in all material respects with the terms of each Investment Advisory Contract to which each is a party, and are not currently in default in any material respect under any of the terms of any such Investment Advisory Contract, a true and complete list of which, as of the date of this Agreement, is set forth on Schedule 3.29(b).

(c) The accounts of each Advisory Client that are subject to ERISA have been managed in compliance in all material respects with all applicable requirements of ERISA.

Section 3.30 CIGNA Bank.

(a) CIGNA Bank is "well capitalized" as defined in 12 C.F.R. § 565.4(b)(1) and is "well managed" as defined in 12 U.S.C. § 1841(o)(9). CIGNA Bank received a rating of "satisfactory" or better under its most recent examination by the OTS pursuant to the Community Reinvestment Act of 1977 and Sellers are not aware of any facts or circumstances likely to affect adversely such rating. In transactions with its Affiliates, CIGNA Bank has complied in all material respects with Section 23A and Section 23B of the Federal Reserve Act, and Regulation W promulgated thereunder by the Board of Governors of the Federal Reserve System (the "FRB"), all as administered by the OTS or the FRB.

(b) CIGNA Bank has not and will not make any dividends or distributions on its outstanding stock: (i) without receiving appropriate permission of the OTS, if required, to make the proposed distribution, and (ii) that would result in CIGNA Bank not being "well capitalized" as defined in 12 C.F.R. § 565.4(b)(1) or result in CIGNA Bank not meeting any other capital adequacy requirements specifically imposed or suggested by the OTS, whichever capital standards are higher.

(c) In making investments on behalf of its clients and customers (as trustee, fiduciary, advisor or otherwise), CIGNA Bank has complied in all material respects with all Applicable Laws, including laws related to the exercise of fiduciary powers.

(d) CIGNA Bank does not conduct a lending business. CIGNA Bank has no loans outstanding to, or guaranties outstanding on behalf of, any of its Affiliates.

Section 3.31 Environmental.

Except with respect to Investment Assets, each of Sellers and their Affiliates (in each case, to the extent related to the Business)has complied in all material respects since December 31, 1999 with all Environmental Laws and have not: (i) to Seller's Knowledge, violated or incurred any material Liability under any Environmental Law; (ii) to Seller's Knowledge, owned, occupied, leased or operated property which could reasonably be expected to require investigation or remediation under any Environmental Law; or (iii) received any written claims or notices alleging Liability relating to any Environmental Laws. Except with respect to Investment Assets, no existing Environmental Law requires any material expenditures with respect to the Transferred Assets or the assets of the Acquired Companies to comply with such Law.

Section 3.32 Corrupt Practices.

None of Sellers or any of their Affiliates (in each case, to the extent relating to the Business) has, directly or indirectly, (i) entered into any transaction that violates any anti-money laundering Applicable Law, and there has been no action by any Person, or any internal investigation, relating thereto, (ii) made political contributions or expenditure except in accordance with Applicable Law, or (iii) offered or provided any unlawful remuneration, entertainment or gifts to any Person, including any official of any Governmental Entity. Each of Sellers and their Affiliates (in each case, to the extent related to the Business) has complied in all material respects with all applicable "know-your-customer" rules. No plan sponsor is listed on any published list of blocked Persons maintained by the Office of Foreign Assets Control of the U.S. Department of Treasury ("OFAC"). Each of Sellers and their Affiliates (in each case, to the extent related to the Business) have taken commercially reasonable steps to insure that no plan participant in or annuitant of any account is listed on any published list of blocked Persons maintained by OFAC.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF BUYER

Except as set forth on the Schedules, Buyer hereby represents and warrants to Sellers on the date of this Agreement and the Closing Date (or if another date is specified in the representation or warranty, on such date) as follows:

Section 4.1 Organization, Standing and Corporate Power.

Buyer is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is organized and has the requisite corporate power and authority to carry on its business as now being conducted. Buyer is duly qualified or licensed to do business and is in good standing in each jurisdiction in which the nature of its business or the ownership, leasing or operation of its properties makes such qualification or licensing necessary, except for those jurisdictions where the failure to be so qualified or licensed or to be in good standing individually or in the aggregate would not result in a Buyer Material Adverse Effect. Buyer has made available to Sellers prior to the execution of this Agreement true and correct copies of the certificate of incorporation and by-laws of Buyer.

Section 4.2 Authority; Binding Effect.

Buyer has all requisite power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. Buyer and each of its Affiliates which are a party hereto or to an Ancillary Agreement have all requisite power and authority to execute and deliver this Agreement, the Ancillary Agreements and the other agreements, documents and instruments to be executed and delivered in connection with this Agreement or the Ancillary Agreements and to consummate the transactions

contemplated thereby. The execution and delivery of this Agreement by Buyer and the consummation by Buyer of the transactions contemplated hereby, and the execution and delivery of the Ancillary Agreements and the other agreements, documents and instruments to be executed and delivered in connection with this Agreement or the Ancillary Agreements by Buyer and its Affiliates which are a party thereto and the consummation of the transactions contemplated thereby, have been duly authorized by all necessary action on the part of each such Person. This Agreement has been duly executed and delivered by Buyer and, assuming the due authorization, execution and delivery of this Agreement by Sellers, constitutes a legal, valid and binding obligation of Buyer, enforceable against Buyer in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, equitable subordination and similar laws of general applicability affecting creditors' rights generally and to general principles of equity. The Ancillary Agreements and the other agreements, documents and instruments to be executed and delivered in connection with this Agreement or the Ancillary Agreements when duly executed and delivered by Buyer and its Affiliates which are a party thereto, assuming the due authorization, execution and delivery of such other agreements, documents and instruments by each of the other parties thereto, constitute legal, valid and binding obligations of Buyer and its Affiliates which are a party thereto, enforceable against each such Person in accordance with their terms, subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, equitable subordination and similar laws of general applicability affecting creditors' rights generally and to general principles of equity.

Section 4.3 Noncontravention.

The execution and delivery of this Agreement and the Ancillary Agreements do not, and the consummation of the transactions contemplated by this Agreement and the Ancillary Agreements will not, conflict with, or result in any violation of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or loss of a benefit under, or result in the creation of any Lien upon any of the properties or assets of Buyer or its subsidiaries under, (a) Organizational Documents of Buyer or, (b) subject to the governmental filings and other matters referred to in Section 4.4, any Applicable Law, other than, in the case of clause (b), any such conflicts, violations, defaults, rights, losses or Liens that individually or in the aggregate would not result in a Buyer Material Adverse Effect.

Section 4.4 Governmental Approvals.

Except as set forth in Schedule 4.4, no consent, approval, order, authorization or licensing of, action by or in respect of, or registration, declaration, notice, report, filing or the expiry of any waiting period with, any Governmental Entity is required by Buyer or any of its Affiliates in connection with the execution and delivery of this Agreement by Buyer or the execution and delivery of the Ancillary Agreements by Buyer and its Affiliates which are a party thereto or the consummation by Buyer and such

Affiliates of the transactions contemplated hereby or thereby, except for such filings with Governmental Entities to satisfy the applicable requirements of state securities or "blue sky" laws or similar foreign laws and approval under the HSR Act.

Section 4.5 Financial Statements.

On or prior to the date of this Agreement, Buyer has made available to Sellers true and correct copies of its audited financial statements for the year ending December 31, 2002 and its unaudited interim consolidated financial statements for the six months ended June 30, 2003 (the "Unaudited Interim Buyer Financial Statements" and together with the December 31, 2002 financial statements, the "Buyer Financial Statements"). The Buyer Financial Statements have been prepared in accordance with GAAP (subject, in the case of the Unaudited Interim Buyer Financial Statements, to year-end adjustments), and fairly present in all material respects the consolidated financial position and results of operations of Buyer as of the dates and for the periods indicated therein, with such exceptions that individually or in the aggregate would not reasonably be expected to result in a Buyer Material Adverse Effect.

Section 4.6 Litigation.

Except as set forth in Schedule 4.6, as of the date of this Agreement, no Action by any Governmental Entity or other Person is pending or, to the Knowledge of Buyer, threatened that seeks to enjoin, or would reasonably be expected to have the effect of preventing, delaying, making illegal or otherwise interfering with, any of the transactions contemplated by this Agreement or the Ancillary Agreements, except as would not, individually or in the aggregate, reasonably be expected to result in a Buyer Material Adverse Effect.

Section 4.7 Financing.

Buyer has, or will at Closing have, sufficient surplus and funds available (through existing credit arrangements or otherwise) to pay the Purchase Price, satisfy its obligations under Section 2.4(c), and pay all fees, expenses and amounts related to the transactions contemplated by this Agreement and the Ancillary Agreements. Notwithstanding anything to the contrary in this Agreement or in any of the Ancillary Agreements, Buyer acknowledges and agrees that its obligation to effect the transactions contemplated by this Agreement and the other Ancillary Agreements is not subject to the availability to Buyer or any of its Affiliates of any debt or equity or other financing in any amount whatsoever.

Section 4.8 Absence of Changes.

Except as set forth in Schedule 4.8, from June 30, 2003 to the date of this Agreement, there has not been any event that individually or in the aggregate with all other events has had, or could reasonably be expected to have, a Buyer Material Adverse Effect.

Section 4.9 Brokers and Finders.

Except for Lehman Brothers Inc., whose fees and expenses shall be paid by Buyer in accordance with Buyer's agreement with such firm, no broker, investment banker, financial advisor or other Person is entitled to any broker's, finder's, financial advisor's or similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Buyer.

ARTICLE V
COVENANTS

Section 5.1 Conduct of Business in Ordinary Course.

Except (i) as set forth on Schedule 5.1, (ii) as expressly required by this Agreement or any Ancillary Agreement, or (iii) with the prior written consent of Buyer, which consent will not be unreasonably withheld or delayed, during the period from the date of this Agreement to the Closing Date, Sellers shall, and shall cause their Affiliates to, conduct the Business in all material respects in the ordinary course of business consistent with past practice. Without limiting the generality of the immediately preceding sentence and except as set forth on Schedule 5.1 or as contemplated by the Investment Asset Identification Protocol, to the extent relating to the Business during the period from the date of this Agreement to the Closing Date, Sellers shall not, and shall cause their Affiliates not to, (except with the prior written consent of Buyer, which consent will not be unreasonably withheld or delayed):

(a) enter into, amend in any material respect or extend any Material Business Contract or other Contract that would have been a Material Business Contract had it been entered into, amended or extended, prior to the date of this Agreement except to the extent Sellers or their Affiliates reasonably and in good faith conclude that such action is necessary to comply with Applicable Law;

(b) other than Investment Assets and other than acquisitions, dispositions or transfers in the ordinary course of business consistent with past practice, acquire, dispose of or transfer any asset relating to the Business or that presently does or would at the Closing constitute part of the Transferred Assets, in each case, with a value in excess of $1,000,000 per such asset or $5,000,000 in the aggregate;

(c) pay, discharge or satisfy any material claims or Liabilities associated with the Business, other than the payment, discharge or satisfaction of claims or Liabilities reserved against in the Business Financial Statements subject to reimbursement by insurance or indemnity or incurred in the ordinary course of business consistent with past practice since the date of the Business Financial Statements;

(d) declare, set aside, make or pay any dividend or other distribution in respect of any Equity Interests of any Acquired Company or otherwise purchase or redeem, directly or indirectly, any Equity Interests of any Acquired Company;

(e) other than in connection with the management of Investment Assets associated with the Business or in the ordinary course of business consistent with past practice, (i) incur any indebtedness for borrowed money or guarantee such indebtedness of another Person in excess of $1,000,000, (ii) make any loans or advances of borrowed money or capital contributions to, or equity investments in, any other Person or group of related loans, advances or contributions in excess of $1,000,000 or (iii) issue or sell any debt securities, in each case, with respect to the Business;

(f) issue, sell, grant, confer, award, pledge or otherwise encumber, any Equity Interests of any Acquired Company;

(g) other than in connection with the management of Investment Assets, acquire (by merger, consolidation, acquisition of stock or assets or otherwise) any Person or assets comprising a business in connection with the Business or make in connection with the Business any material investment, either by purchase of any Equity Interests, or contribution to capital, in or of any other Person in an amount, in cash or property, in excess of $5,000,000;

(h) with respect to the Business (i) enter into any employment or severance agreement, other than for new Business Employees in the ordinary course of business consistent with past practice, (ii) enter into or increase the benefits payable under severance, change of control, retention or termination pay policies or agreements in effect on the date of this Agreement, other than as required by Applicable Law, (iii) adopt any new or amend any existing Plan or other bonus, profit sharing, compensation, stock option, pension, retirement, deferred compensation, employment or other employee benefit plan or agreement for the benefit or welfare of any director, officer or employee, other than for changes to any Plan or for the benefit of any new employees in the ordinary course of business consistent with past practice and other than as required by Applicable Law, or (iv) promise, grant or agree to grant any bonus or increase the compensation or benefits of any employee, other than in the ordinary course of business consistent with past practice and other than as required by Applicable Law; provided, however, that CGLIC and any of the Acquired Companies or their Affiliates may enter into, adopt or amend any of the foregoing prohibited agreements or take any of the foregoing prohibited actions which, in the good faith judgment of Sellers after disclosure to and approval by Buyer (such approval being required in the event the cost of such actions after the Closing are to be borne directly or indirectly by Buyer), are necessary to conduct or maintain the Business in the ordinary course consistent with past practice;

(i) (A) make any material change with respect to the Business in any (1) accounting or financial reporting principles, practices, methods or policies or (2) method of calculating any bad debt contingency or other reserve for accounting, financial

reporting or Tax purposes, except, in each case, as may be required by Applicable Law, GAAP or SAP, (B) except in the ordinary course of business consistent with past practice, make any change with respect to the Business in any pricing, selling, employment, credit or allowance principles, practices, methods or policies or (C) make any change with respect to the Business in the fiscal year, except as may be required by Applicable Law, GAAP or SAP;

(j) make or determine to make any material addition to or material release from Reserves for future insurance policy or reinsurance contract benefits or other insurance policy claims and benefits related to the Business other than (i) as a result of new business produced, (ii) in the ordinary course of business consistent with past practice or (iii) as is otherwise consistent with the Statement of Net Settlement Methods;

(k) make any material change in the actuarial, investment (including allocation of investments among segments of CGLIC's general account and derivatives transactions), reserving, hedging, underwriting or claims administration policies, practices or principles with respect to the Business, except as may be appropriate to conform to changes in Applicable Law, SAP or GAAP;

(l) make any changes, other than in the ordinary course of business consistent with past practice, in the terms or policies with respect to, the appointment of Producers or the payment of commissions to any Producer;

(m) dispose of or fail to keep in effect any material rights in, to, or for the use of any of the Intellectual Property, except for rights which expire or terminate in accordance with their terms;

(n) make or authorize with respect to the Business any single capital expenditure in excess of $1,000,000 or capital expenditures in excess of $5,000,000 in the aggregate;

(o) other than in the ordinary course of business consistent with past practice or in an amount in excess of $1,000,000, with respect to the Business, forgive, cancel, compromise, waive or release any debts, claims or rights;

(p) permit or suffer any Liens on any Transferred Assets, on any of the Transferred Investment Assets or on any of the assets (tangible or intangible) or properties of any Acquired Company, other than Liens incurred in the ordinary course of business consistent with past practice or Permitted Liens;

(q) amend the Organizational Documents of any Acquired Company, or adopt or enter into a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of any Acquired Company, other than with respect to CIGNA Life and as required by this Agreement or any of the Ancillary Agreements;

(r) terminate or permit to expire any insurance (excluding reinsurance) coverage related to the Business, except to the extent that such insurance policies are replaced with policies that offer substantially similar coverage;

(s) undertake any write down in the book value of (x) any investment security of any obligor by an amount in excess of $1,000,000 or (y) any other Transferred Assets or Transferred Investment Assets by an amount in excess of $1,000,000, except as is otherwise consistent with the Statement of Net Settlement Methods;

(t) terminate, assign or attempt to assign any Investment Advisory Contracts other than in the discharge of fiduciary duties;

(u) with respect to Transferred Investment Assets, take any prohibited action identified on Schedule 5.1(u);

(v) close out any open hedge positions in the DC Hedge Program, except in the ordinary course of business; or

(w) agree in writing or otherwise to take any of the actions described above in clauses (a) through (v) of this Section 5.1;

provided, however, that, without the consent of Buyer, Sellers shall be permitted to cause CIGNA Bank, CIGNA Financial Services, Inc., Global Portfolio Strategies, Inc. and CIGNA Financial Partners, Inc. to pay net dividends in an aggregate amount of up to $5,000,000 plus, if the Closing Date occurs after January 1, 2004, a fraction, the numerator of which shall be $10,000,000 multiplied by the number of days by which the Closing Date follows January 1, 2004, and the denominator of which shall be 366.

Section 5.2 Non-Competition.

(a) Except as contemplated by this Agreement, and except as set forth in Schedule 5.2, for a period of two-and-a-half (2.5) years from the Closing Date, none of the Sellers nor any of their Affiliates shall directly or indirectly engage in any business in the United States that competes with the Business (such business competing with the Business being referred to herein as "Competing Business"). Notwithstanding the foregoing, Sellers and their Affiliates shall not be prohibited from:

(i) making investments in the ordinary course of business, including in a general or separate account of an insurance company, in Persons engaging in a Competing Business, provided that each such investment is a passive investment where neither any Seller nor any of their Affiliates (i) intends to or has the right to influence or direct the operation or management of any such entity or (ii) is a participant with any other Person in any group with such intention or right;

(ii) selling any of its assets or businesses to a Person engaged in lines of business that compete with the Business;

(iii) managing investment funds for third persons, which funds make investments in Persons engaging in a Competing Business, so long as such investments are not for the purpose of acquiring control of such Person;

(iv) selling and/or underwriting insurance as well as all services and products relating thereto, other than insurance products and services comprising the Business;

(v) providing investment management and similar services to Sellers or Affiliates of Sellers; or

(vi) acquiring any business that includes operations the conduct of which by Sellers would, but for this Section 5.2(a)(vi), otherwise violate the restrictions of this Section 5.2(a), if the primary purpose of such acquisition is not to acquire any Competing Business and the Competing Business comprises less than 15% of the assets, earnings and cash flow of the acquired business.

(b) For a period of two and a half (2.5) years from the Closing Date, Sellers shall refrain from taking any action which, as regards the Business, is reasonably likely to materially and negatively affect Buyer's or CIGNA Life's relationships in the aggregate with policyholders, reinsurers or annuityholders associated with the Business; provided, however, that if Sellers or their Affiliates are engaged in any business or selling any product not in violation of Section 5.2(a) then such conduct and any consequences thereof shall not be deemed a breach of this Section 5.2(b).

(c) The parties to this Agreement acknowledge that the covenants set forth in this Section 5.2 are an essential element of this Agreement and that, but for these covenants, the parties would not have entered into this Agreement. The parties to this Agreement acknowledge that this Section 5.2 constitutes an independent covenant and shall not be affected by performance or nonperformance of any other provision of this Agreement or any Ancillary Agreement by the parties.

(d) The parties to this Agreement acknowledge that the type and periods of restriction imposed in the provisions of this Section 5.2 are fair and reasonable and are reasonably required for the protection of the parties. If any of the restrictions or covenants in this Section 5.2 are hereafter construed to be invalid or unenforceable, the same shall not affect the remainder of the covenant or covenants, which shall be given full effect, without regard to the invalid portions. If any of the restrictions or covenants contained in this Section 5.2, or any portion thereof, are deemed to be unenforceable because such covenant or restriction is held to cover a geographic area or to be of such

duration as is not permitted under Applicable Law, the parties agree that the court making such determination shall have the power to reduce the duration and/or areas of such provision and, in its reduced form, said provision shall then be enforceable. The parties hereto intend to and hereby confer jurisdiction to enforce the covenants contained in this Section 5.2 upon the courts of any state or other jurisdiction within the geographical scope of such covenants. In the event that the courts of any one or more of such jurisdictions shall hold such covenants wholly unenforceable by reason of the breadth of such scope or otherwise, it is the intention of the parties hereto that such determination not bar or in any way affect the parties' rights to the relief provided above in the courts of any states or jurisdictions within the geographical scope of such covenants as to breaches of such covenants in such other respective states or jurisdictions, the above covenants as they relate to each such jurisdiction being, for this purpose, severable into diverse and independent covenants.

(e) If any party hereto commits a breach, or is about to commit a breach, of any of the provisions of this Section 5.2, the other parties hereto shall have the right to have the provisions of this Section 5.2 specifically enforced by any court having equity jurisdiction, it being acknowledged and agreed that any such breach or threatened breach may cause irreparable injury to each of the non-breaching parties and that money damages may not provide an adequate remedy to such parties. In addition, in connection with this Section 5.2, each of the parties hereto may take all such other actions and remedies available to it under law or in equity and shall be entitled to such damages as it can show it has sustained by reason of such breach.

Section 5.3 Non-Solicitation; Non-Hire.

(a) Until the second anniversary of the Closing Date, without the prior written consent of Buyer, no Seller or Affiliate of any Seller shall, whether directly or indirectly, solicit, attempt to employ or employ as an employee or retain as a consultant or independent contractor any Affected Employee; provided, however, that nothing in this Section 5.3(a) shall prohibit any Seller or any Affiliate of Seller from soliciting or employing any Affected Employee who has been terminated by Buyer or its Affiliates following the Closing. The restrictions on soliciting or attempting to employ as an employee or retain as a consultant or independent contractor set forth in this Section 5.3(a) shall not be deemed violated by virtue of general advertisements, searches or other broad-based hiring methods not specifically targeted or directed to Affected Employees.

(b) Until the second anniversary of the Closing Date, without the prior written consent of CGLIC, Buyer and its Affiliates (including all of the Acquired Companies conveyed to Buyer) shall not, whether directly or indirectly, solicit, attempt to employ or employ as an employee or retain as a consultant or independent contractor any Excluded Retirement Services Employee, any Excluded Investment Employee or any Optional Retirement Services Employee retained by Seller on the Closing Date (collectively referred to as "Excluded Employees"); provided, however, that nothing in

this Section 5.3(b) shall prohibit Buyer or its Affiliates from employing any Excluded Employee who has been terminated by a Seller or Affiliate of a Seller. The restrictions on soliciting or attempting to employ as an employee or retain as a consultant or independent contractor set forth in this Section 5.3(b) shall not be deemed violated by virtue of general advertisements, searches or other broad-based hiring methods not specifically targeted or directed to Excluded Employees, but the prohibition on hiring shall be violated by any hiring in response to such methods.

Section 5.4 Reinsurance Credit Covenants.

Buyer shall cause CIGNA Life to comply with its covenants in Article XVIII of the Coinsurance Agreement and in the Ceded Business Trust Agreement as if such covenants were direct obligations of Buyer set forth herein. CIGNA shall cause CGLIC to comply with its covenants in Article XVIII of the Excluded Business Coinsurance Agreement as if such covenants were direct obligations of CIGNA set forth herein.

Section 5.5 Affected Employees.

(a) Prior to the execution of this Agreement, Sellers have provided Buyer true, correct and complete lists of each Person who supports the Retirement Services Business or is exclusively or principally employed in the conduct of the Retirement Services Business (the employees shall be referred to as the "Retirement Services Employees" and the list shall be referred to as the "Retirement Services Employees List"). Prior to the execution of this Agreement, Sellers have provided Buyer true, correct and complete lists of each Person who supports the Investment Business or is exclusively or principally employed in the conduct of the Investment Business (the employees shall be referred to as the "Investment Employees" and the list shall be referred to as the "Investment Employees List"). The Retirement Services Employees and the Investment Employees shall be referred to herein collectively as the "Business Employees". Sellers shall provide Buyers with updated versions of these lists prior to the Closing Date, but any additions to or deletions from the lists that are not made in the ordinary course shall be made with the consent of Buyer, such consent not to be unreasonably withheld.

(b) Effective on the Closing Date, Buyer shall employ or shall cause the Acquired Companies to employ all of the Retirement Services Employees, except those Inactive Employees on the Closing Date as described below, and those Optional Retirement Services Employees described in Section 5.5(e) below, who do not receive or accept offers from Buyer. Except as provided in Section 5.5(d) below with respect to anyone on the Excluded Investment Employee List, Buyer may make offers of employment effective on the Closing Date to any of the Investment Employees on the Investment Employee List. Those Retirement Services Employees who are thereafter employed by the Buyer, and those Investment Employees and Optional Retirement Services Employees who accept offers of employment with the Buyer shall be referred to

as “Affected Employees.” Any Affected Employee who is on a leave of absence on the Closing Date because of short-term disability, family medical leave, military leave, or workers’ compensation (hereinafter “Inactive Employees”) shall remain employed by one of Sellers or an Affiliate of Sellers and shall continue to receive compensation and benefits in accordance with the Plans and policies of Sellers. Any Inactive Employee returning from short-term disability, family medical, or workers’ compensation leave of absence within 12 weeks of the Closing Date shall have employment rights, if any, with Buyer, and if employed by Buyer, they shall be covered under the terms of Section 5.5 of this Agreement. Inactive Employees returning from military leave after the Closing Date shall have employment rights, if any, with Buyer, according to the Uniformed Services Employment and Reemployment Rights Act of 1994. If any Affected Employee becomes eligible to receive long-term disability benefits under the Seller’s long-term disability program, such benefits shall be paid pursuant to the terms of the Seller’s long-term disability program and Buyer shall have no obligation to employ such employee at that time or at any future time. Any such Inactive Employee that Buyer employs pursuant to the preceding provision shall be an Affected Employee from and after the date of hire. If, as of the Closing Date and despite reasonably diligent efforts, Buyer is not yet able to move the Affected Employees to its payroll and/or employee benefit administration systems, Seller and Buyer agree, consistent with Section 5.18(a) of this Agreement, to enter into an employee leasing arrangement for a period of up to sixty (60) days from and after the Closing Date. Under this arrangement Sellers will continue to employ, pay and provide employee benefits to the Affected Employees, and Buyer will reimburse Sellers for all their out of pocket costs related to such continued employment (including any additional costs Sellers incur because any Affected Employee earns credit for an additional year of service under Seller’s pension and or 401(k) plans during the term of such leasing arrangement).

(c) Effective as of the Closing Date, the Buyer shall provide or cause the Acquired Companies to provide employment to the Affected Employees: (i) in the same or comparable positions; (ii) in the same locations; (iii) at the same or better base salary rate, all as were provided to such Affected Employees by Sellers or the Acquired Companies immediately prior to the Closing Date. Effective as of the Closing, Buyer shall provide or shall cause the Acquired Companies to provide the Affected Employees with the opportunity to participate in Buyer’s compensation and bonus plans on the same terms as those provided to similarly situated employees of Buyer and with the same employee benefits as provided to such similarly situated employees.

(d) Seller has heretofore provided Buyer a list of Retirement Services Employees who shall not be employed by Buyer (the “Excluded Retirement Services Employees List”). Seller may amend the Excluded Retirement Services Employees List prior to the Closing Date with the consent of Buyer, such consent not to be unreasonably withheld. No later than ten (10) days after the date of this Agreement, Seller shall provide Buyer a list of Investment Employees who shall not be employed by Buyer (the “Excluded Investment Employees List”). Buyer may request that any Investment Employee be removed from the Excluded Investment Employees List, and Seller may grant or deny Buyer’s request at Seller’s discretion.

(e) Prior to the execution of this Agreement, Seller has provided to Buyer a list of Retirement Services Employees whom Seller intends to retain after Closing (these employees shall be referred to as the "Optional Retirement Services Employees"). Buyer shall have the right, but not the obligation, to make employment offers, effective on the Closing Date, to the Optional Retirement Services Employees, and will employ only those Optional Retirement Services Employees who accept employment offers from Buyer. Any Optional Retirement Services Employee (i) who does not receive an offer of employment from Buyer, or (ii) who receives and rejects an offer of employment from Buyer, shall remain an employee of Seller or its Affiliates (other than the Acquired Companies) after the Closing, and Buyer shall have no further obligation or liability with respect to such person.

(f) At any time prior to the Closing Date, Buyer may designate any Investment Advisory Services Employee (as that term is defined in the Transition Services Agreement) (other than an Excluded Investment Employee) as a "Retained Employee." Any Investment Advisory Services Employee designated as a Retained Employee shall not be offered employment by Buyer, but Seller shall not terminate the employment of such Retained Employee without Buyer's written consent prior to ninety (90) days after the Closing Date, such consent not to be unreasonably withheld. Buyer may provide any Retained Employee with a retention bonus, the terms of which shall be determined solely by Buyer, and Buyer shall be responsible for and liable for any such retention bonus payment. Retained Employees shall initially be identified by Buyer on the "Retained Employee List" to be provided to Seller within forty five (45) days after the date of this Agreement. The Retained Employee List shall be updated periodically prior to the Closing Date to reflect additional Retained Employees as identified by Buyer.

(g) Except to the extent necessary to avoid the duplication of benefits, Buyer shall give, or cause the Acquired Companies to give, the Affected Employees full credit, for purposes of eligibility and vesting under any employee benefit plans, programs or arrangements maintained by Buyer or any of its Affiliates, for the Affected Employees' service with Sellers and their Affiliates to the same extent recognized by Sellers and their Affiliates immediately prior to the Closing Date. Buyer shall, or shall cause the Acquired Companies to waive all limitations as to preexisting conditions exclusions and waiting periods with respect to participation and coverage requirements applicable to the Affected Employees under any welfare benefit plans that such employees may be eligible to participate in after the Closing Date.

(h) Affected Employees shall be eligible to participate in Buyer's Severance Plans from and after the Closing Date on the same basis as similarly situated employees of the Buyer, and Buyer shall treat service with Sellers and the Acquired Companies as service with Buyer for purposes of administering Buyer's Severance Plans. Any changes Buyer makes to the schedule of severance pay under its Severance Plans shall apply equally to Affected Employees and similarly situated Buyer employees.

(i) (1) Notwithstanding anything to the contrary contained in this Agreement, Buyer and the Acquired Companies shall be jointly and severally liable for and shall indemnify and hold Sellers, their officers, directors, employees, advisers, agents, representatives and Affiliates harmless from any and all Liabilities, damages, losses, claims, judgments, settlements, costs and expenses (including the enforcement of their rights under this paragraph) associated with the employment or termination of the employment of an Affected Employee in respect of any period on or following the Closing Date, including any claim by an Affected Employee which arises under federal, state or local statute (including, without limitation, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Age Discrimination in Employment Act of 1990, the Equal Pay Act, the Americans with Disabilities Act of 1990, ERISA and all other statutes regulating the terms and conditions of employment), regulation or ordinance, under the common law or in equity (including any claims for wrongful discharge or otherwise), or under any benefit plans or under any policy, agreement, understanding or promise, written, oral or implied, formal or informal, between a Buyer or Affiliate thereof and such Affected Employee.

(2) Notwithstanding anything to the contrary contained in this Agreement, CIGNA and Sellers shall be jointly and severally liable for and shall indemnify and hold Buyer, the Acquired Companies, their officers, directors, employees, advisers, agents, representatives and Affiliates harmless from any and all Liabilities, damages, losses, claims, judgments, settlements, costs and expenses (including the enforcement of their rights under this paragraph) associated with the employment or termination of the employment of an Affected Employee in respect of any period preceding the Closing Date, including any claim by an Affected Employee which arises under federal, state or local statute (including, without limitation, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Age Discrimination in Employment Act of 1990, the Equal Pay Act, the Americans with Disabilities Act of 1990, ERISA and all other statutes regulating the terms and conditions of employment), regulation or ordinance, under the common law or in equity (including any claims for wrongful discharge or otherwise), or under any benefit plans or under any policy, agreement, understanding or promise, written, oral or implied, formal or informal, between the Sellers or an Affiliates thereof and such Affected Employee. Seller shall be liable for any payments under any of its Plans or Employment Agreements that would not be deductible under Code sections 162(m) or 280G or the Treasury Regulations pertaining to such sections.

(j) (1) Replacement of Stock Options and Restricted Stock Grants: Buyer shall grant, or shall cause to be granted, under the terms of the Prudential Financial, Inc. Omnibus Incentive Plan (the "Omnibus Plan"), the following equity compensation to each Affected Employee, as follows:

a. Replacement of CIGNA Below-Market Options with Prudential Options: For each Affected Employee with an outstanding award of nonqualified stock options made under the terms of the CIGNA Corporation Stock Plan (the "CIGNA Stock Plan") or the CIGNA Long-Term Incentive Plan ("CIGNA LTIP") (collectively, the "CIGNA Stock Plans") as of the Closing Date, where such options are: (i) either (v) unvested as of the Closing Date (and would therefore be forfeited on the Closing Date by reason of the Affected Employee's termination of employment with Sellers on the Closing under the CIGNA Stock Plans) or (w) vested as of the Closing Date, and, (ii) in either case, have an exercise price on the Closing Date greater than the twenty-business day trading average of CIGNA Corporation Common Stock on the New York Stock Exchange 14 days prior to the Closing Date (the "20-Day CIGNA Average") (such stock options referred to herein as the "CIGNA Below-Market Options"), such CIGNA Below-Market Options shall be forfeited as of the Closing Date and Buyer will thereafter grant nonqualified stock options under the Omnibus Plan (the "Prudential Options") to replace such forfeited CIGNA Below-Market Options.

The number of Prudential Options granted to each such Affected Employee to replace the forfeited CIGNA Below-Market Options shall be determined as follows. First, the replacement value of the CIGNA Below-Market Options will be calculated by Buyer under a Black-Scholes valuation methodology, generally using the factors set forth in CIGNA's 2003 Notice of Annual Meeting and Proxy Statement to value such option grants in fiscal year 2002 with certain adjustments as determined by Buyer (the "CIGNA Below-Market Replacement Value"). Second, the number of Prudential Options granted to each Affected Employee will be calculated under the same methodology used by Buyer to award option grant to Buyer's employees under the Omnibus Plan — that is, the number of Prudential Options per Affected Employee will be determined by dividing the CIGNA Below-Market Replacement Value by one-third (1/3) of the twenty (20) business day trading average of Prudential Financial, Inc. Common Stock on the New York Stock Exchange 14 days prior to the date the Closing Date occurs (the "20-Day Prudential Average").

Buyer will provide that: (x) each such Prudential Option will be granted at the "Fair Market Value" (as such term is defined under the Omnibus Plan) of Prudential Financial, Inc. Common Stock on the date of grant; (y) that the Prudential Options will have a term of ten (10) years and a three (3) year vesting schedule (with one-third (1/3) of such grant vesting annually) from the date of grant; and (z) to the degree applicable, the Prudential Options will otherwise be subject to the ordinary terms and conditions of any nonqualified stock option grant made under the Omnibus Plan.

b. Replacement of CIGNA Above-Market Options with Prudential Options and Prudential Restricted Stock: For each Affected Employee with an outstanding award of nonqualified stock options made under the terms of the CIGNA Stock Plans as of the Closing Date where such options are (i) unvested as of the Closing Date (and would therefore be forfeited by reason of the Affected Employee's termination of employment with Sellers on the Closing Date under the terms of the CIGNA Stock Plans) and (ii) have an exercise price on the Closing Date less than the 20-Day CIGNA Average (the "CIGNA Above-Market Options"), such CIGNA Above-Market Options shall be forfeited as of the Closing Date and Buyer will thereafter grant a number of shares of Prudential Financial, Inc. restricted stock and nonqualified stock options under the Omnibus Plan (the "Prudential Restricted Stock") to replace such forfeited CIGNA Above-Market Options.

The number of shares of restricted stock and stock options granted to each such Affected Employee to replace the CIGNA Above-Market Options shall be determined as follows. First, the replacement value of the CIGNA Above-Market Options will be calculated by Buyer under a Black-Scholes valuation methodology, generally using the factors set forth in CIGNA's 2003 Notice of Annual Meeting and Proxy Statement to value such option grants in fiscal year 2002 with certain adjustments as determined by Buyer (the "CIGNA Above-Market Replacement Value"). Second, the Buyer will determine for each Affected Employee the sum of the difference between the 20-Day CIGNA Average and the exercise price of all such Above-Market Options (the "CIGNA Intrinsic Value"). Third, the CIGNA Intrinsic Value will be divided by the 20-day Prudential Average to determine the number of shares of Prudential Financial, Inc. restricted stock to be granted to the Affected Employee. Each award of Prudential Restricted Stock will be subject to the usual terms and conditions of any restricted stock grant made under the Omnibus Plan (including, but not limited to, the standard three-year "cliff" vesting schedule on such awards from the date of grant).

The number of Prudential Options granted in recognition of the CIGNA Above-Market Options will be determined as follows. First, the difference between the CIGNA Above-Market Replacement Value and the CIGNA Intrinsic Value (the "CIGNA Above-Market Remaining Value") will be determined for each Affected Employee. Second, this value will be divided by one-third (1/3) of the 20-Day Prudential Average to determine the number of Prudential Options to be granted. Buyer will provide that: (x) each such Prudential Option will be granted at the "Fair Market Value" (as such term is defined under the Omnibus Plan) of Prudential Financial, Inc. Common Stock on the date of grant; (y) that the Prudential Options

will have a term of ten (10) years and a three (3) year vesting schedule (with one-third (1/3) of such grant vesting annually) from the date of grant; and (z) to the degree applicable, the Prudential Options will otherwise be subject to the ordinary terms and conditions of any nonqualified stock option grant made under the Omnibus Plan.

c. Replacement of CIGNA Restricted Stock Already Granted under the CIGNA Stock Plans:

For each Affected Employee with an outstanding award (as of the Closing Date) of restricted stock (the "CIGNA Restricted Stock") granted under the CIGNA Stock Plans, the Affected Employees shall forfeit such CIGNA Restricted Stock shares under the terms of the CIGNA Stock Plans and Buyer will thereafter grant to such Affected Employees restricted stock under the Omnibus Plan (the "Prudential Restricted Stock").

The number of shares of Prudential Restricted Stock granted to each Affected Employee under the terms of this subsection will be determined as follows. First, the number of outstanding shares of CIGNA Restricted Stock will be multiplied by the 20-Day CIGNA Average to determine the value of the forfeited Restricted Stock (the "CIGNA Restricted Stock Forfeited Value"). Second, this forfeited value will be divided by the 20-Day Prudential Average to determine the number of shares of Prudential restricted stock to be granted to such Affected Employee.

Generally, each such award of Prudential Restricted Stock will be subject to the ordinary terms and conditions of any other restricted stock award made under the Omnibus Plan. However, with respect to any shares of Prudential Restricted Stock intended to replace CIGNA Restricted Stock, the Buyer shall apply the vesting schedule(s) of such CIGNA Restricted Stock awards that were in effect for each such award as of the day prior to the Closing Date.

(2) Treatment of SPUs under CIGNA LTIP. With respect to any outstanding "strategic performance unit" ("SPU") awards for Affected Employees under the CIGNA LTIP that have not been paid out on or prior to the Closing Date: (a) Seller shall pro-rate for each Affected Employee the number of outstanding SPU awards based on the number of months of the performance period attributable to such awards up to the Closing Date and Seller thereafter make cash payments with respect to such pro-rated awards in the ordinary course to such Affected Employees at the same time and at the same manner as other Plan participants after the completion or termination of the respective performance cycles to which such awards are attributable, but only if such Affected Employee remains employed by the Buyer or an Affiliate on the date of such payment; and (b) Buyer shall

thereafter grant to each Affected Employee an award of Prudential Restricted Stock with a value equal to the value of the difference between the number of SPUs awarded to such Affected Employee and pro-rated portion for which Seller is to make a cash payment under sub-Section (2)(a) above. In calculating the value of the SPU awards, Buyer shall use the unit value of each SPU award Seller uses for expense accrual purposes in the Seller's financial statements for the quarter immediately prior to the Closing Date. Seller shall provide the Buyer a letter stating the accrued unit values of each outstanding SPU award as soon as practical following the close of the quarter preceding the Closing Date. Generally, each such award of Prudential Restricted Stock will be subject to the ordinary terms and conditions of any other restricted stock award made under the Omnibus Plan. However, with respect to any shares of Prudential Restricted Stock intended to replace CIGNA LTIP awards, the Buyer shall apply the payout schedule of such CIGNA LTIP awards as the vesting schedule for each such Prudential Restricted Stock award.

(3) Retention Awards: With respect to any payment due or owing under the terms of the various retention bonus program agreements set forth in Schedule 5.5(j)(3) to be made in the form of cash or CIGNA restricted stock units on or after the Closing Date (the "Retention Awards"), the provisions of this Section 5.5(j) with respect to the replacement of such awards shall not apply, and Seller shall be responsible for, and liable for, all such payments under the Retention Awards. Schedule 5.5(j)(3) shall not include retention bonuses described in Section 5.5(f) or retention bonuses provided for under the Transition Services Agreement.

(k) Nothing in this Agreement is intended to constitute or create a contract of employment between Buyers or its Affiliates and any Affected Employee. Nothing in this Agreement shall cause Buyer or its Affiliates to have any obligation to continue the employment of any Affected Employee for any particular period of time nor shall anything in this Agreement limit Buyer's or its Affiliates' right to terminate the employment of any Affected Employee.

(l) Sellers shall be responsible for providing or discharging any and all notifications, benefits and liabilities to employees and Governmental Entities required by the Seller's policy or practice, the Workers Adjustment and Retraining Notification Act of 1988 or under any other applicable Law relating to plant closings or employee separations or severance pay that are required to be provided before the Closing as a result of transactions contemplated in this Agreement. Notwithstanding the foregoing, Buyer shall have sole responsibility for such notifications, benefits and liabilities with respect to any Affected Employees whose employment is terminated by the Buyer at or after the Closing.

(m) Sellers shall retain liability, and shall be responsible, for the payment of bonuses earned or accrued, consistent with past practice, as of the Closing Date, by Affected Employees. Sellers shall also retain liability, and shall be responsible, for the payment of accrued but unused vacation pay as of the Closing Date for Affected Employees.

(n) Seller or an Affiliate of Seller shall withhold and pay all payroll, Social Security, and withholding Taxes due upon the exercise, vesting or forfeiture by Affected Employees of (1) restricted shares of CIGNA stock and (2) any options to purchase CIGNA stock. Seller shall promptly provide to Buyer information concerning the amount of all such payroll, Social Security, and withholding Taxes and the amount of gross wages reportable to any Taxing Authority in respect of such restricted stock and options.

Section 5.6 Cooperation Regarding Governmental Entities.

The parties hereto shall (a) cooperate and use their reasonable best efforts to obtain all the consents, approvals, licenses, authorizations and agreements of any Governmental Entities necessary to authorize, approve or permit the consummation of the transactions contemplated by this Agreement and the Ancillary Agreements; (b) as promptly as practicable, file, or cause to be filed or submitted to Governmental Entities all notices, applications, documents and other materials necessary in connection with the consummation of such transactions, including amendments of disclosure documents applicable to the Subject Contracts to the extent required in connection with the transactions contemplated by this Agreement and the Ancillary Agreements, such amendments to be mutually agreed upon by the parties and (c) use their respective reasonable best efforts to respond as promptly as practicable to all inquiries received from all Governmental Entities for additional information or documentation in connection with such transactions; provided, however, that no party shall be obligated to take or refrain from taking or to agree to take or refrain from taking any action or to suffer to exist any restriction or requirement which would, individually or together with all other such actions, restrictions or requirements, reasonably be expected to result in (i) a Buyer Negative Condition, (ii) in the case of Buyer, a material negative effect on the Business, taken as a whole, or (iii) in the case of either party, a material negative effect on the benefits, taken as a whole, which such party could otherwise reasonably expect to derive from consummation of the Transaction had such party not been obligated to take or refrain from taking or to agree to take or refrain from taking such action or suffer to exist such restriction or requirement (each of the foregoing clauses (i), (ii) or (iii), excluding the effects of any conditions, restrictions or requirements (1) to the extent such party reasonably should expect as of the date of this Agreement that such conditions, restrictions or other requirements would be reasonably likely to be imposed by a Governmental Entity, and (2) that are, individually and in the aggregate with all other such conditions, restrictions and other requirements under (1), not material in their impact on the cash flow and expected returns of the Business to such Party (other than any such impact arising from the restrictions set forth in § 38a-136(i)(2) of the Connecticut General Statutes) (relating to temporary post-change in control limitations on certain actions), a "Material Negative Condition"). Sellers shall commence filing for regulatory approval for the assumption and novation of the Subject Contracts contemplated under Article VIII of the Coinsurance Agreement as soon as reasonably practicable following the date of this Agreement and otherwise take such action as it reasonably requested by

Buyer to facilitate the novation of the Subject Contracts (in accordance with the applicable provisions of the Business Coinsurance Agreements) as soon as reasonably practicable. Sellers and Buyer shall furnish to each other such necessary information and reasonable assistance as the other may reasonably request in connection with its preparation of all necessary filings or submissions to any Governmental Entity. Subject to Section 2.7(b), (i) Sellers and Buyer shall provide each other with draft copies and as-filed copies of all filings and submissions with Governmental Entities and shall provide the other with a reasonable opportunity to comment upon all such draft copies and (ii) Sellers and Buyer agree that, to the extent feasible and subject to Section 2.7(b), all substantive meetings with any Governmental Entity (whether in person, by telephone or other means of instantaneous communication) regarding the transactions contemplated hereby or by the Ancillary Agreements shall include representatives of Sellers and Buyer unless such parties jointly decide otherwise.

Section 5.7 Cooperation Regarding Other Third Parties.

(a) From and after the Closing Date, the parties hereto shall cooperate and use their reasonable best efforts to obtain the requisite contractholder, certificate holder and sponsor consents for the novation of General Account Subject Contracts and Separate Account Subject Contracts. Each party hereto shall bear its respective costs and expenses with respect to such efforts.

(b) From the date of this Agreement, the parties hereto shall cooperate and use their reasonable best efforts to obtain all other approvals, consents and waivers of non-governmental Persons to the transactions contemplated hereby and by the Ancillary Agreements (other than the consents referred to in Section 5.7(a)). In the event and to the extent that the parties hereto are unable to obtain prior to the Closing Date any such required approval, consent or waiver in connection with the transactions contemplated by this Agreement or the Ancillary Agreements of a non-governmental Person that is a party to any agreement, lease, sublease (to or by Sellers) or license to which an Acquired Company is a party or which otherwise constitutes part of the Transferred Assets (but which are not treated as Excluded Assets pursuant to Sections 5.25 or 5.28), (i) Sellers shall use commercially reasonable efforts in cooperation with Buyer to (x) provide or cause to be provided to Buyer the benefits of any such agreement, lease, sublease (to or by Sellers) or license, (y) cooperate in any arrangement, reasonable and lawful, designed to provide such benefits to Buyer and (z) enforce for the account of Buyer any rights of the Acquired Companies or the Business arising from such agreements, leases, subleases (to or by Sellers) and licenses which Buyer directs in writing to be taken and for which Buyer fully indemnifies Sellers and (ii) Buyer shall use commercially reasonable efforts to perform the obligations of the Acquired Companies or the Business arising under such agreements, leases, subleases (to or by Sellers) and licenses, to the extent that, by reason of the consummation of the transactions contemplated pursuant to this Agreement, Buyer or its subsidiaries has control over the resources necessary to perform such obligations. If and when any such approval or consent shall be obtained subsequent to the Closing Date or such agreement, lease, sublease (to or by Sellers) or license shall otherwise

become assignable subsequent to the Closing Date, Sellers and their Affiliates shall promptly assign all of their rights and obligations thereunder which relate to the Acquired Companies or the Business to Buyer or, at Buyer's direction, an Affiliate of Buyer without the payment of further consideration and Buyer shall, without the payment of any further consideration therefor, assume such rights and obligations and Sellers and their Affiliates shall be relieved of any and all obligations and future Liabilities hereunder and thereunder accruing from and after the date of the assignment and assumption, other than Excluded Liabilities. Without limiting the foregoing, in the event an approval, consent or waiver has not been obtained by the Closing Date, then, at Buyer's sole option, Sellers and their Affiliates will provide Buyer and its Affiliates with rights and/or access to the benefits provided under any such Contract for which an approval, consent or waiver has not been obtained or substantially equivalent rights and/or access in all material respects as a Transition Service pursuant to the Transition Services Agreement.

(c) The costs of obtaining any such approvals, consents and waivers described in Section 5.7(b) (including attorneys' fees, but, for the avoidance of doubt, not including service and licensing fees, incremental charges, revised terms or similar costs relating to the services to be provided, in each case to the extent arising in the ordinary course of business and to the extent not reasonably construed to have been requested in exchange for obtaining such approvals, consents and waivers which costs shall be the sole responsibility of Buyer and its Affiliates) shall be shared equally by Sellers, on the one hand, and Buyer, on the other hand; provided, however, that the portion of the costs borne by Buyer pursuant to this Section 5.7(c), the portion of the Transfer Taxes and costs borne by Buyer pursuant to Section 5.13, the portion of the costs and penalties borne by Buyer pursuant to Section 5.25 and 5.28 and the portion of the costs borne by Buyer pursuant to Section 1.3(h) of the Transition Services Agreement shall in the aggregate not exceed $9 million, and Sellers shall reimburse Buyer for any such costs incurred by Buyer in excess of $9 million.

(d) Notwithstanding anything herein or in any Ancillary Agreement to the contrary in the event that any party to a Lease (other than Sellers or their Affiliates) requires any guarantee or similar covenant, instrument or agreement relating to future performance or payment in connection with the assignment of any Lease to CIGNA Life, Buyer or any of its Affiliates contemplated hereby or by any Ancillary Agreement, Sellers and their Affiliates shall be under no obligation to provide such guarantee or similar covenant, instrument or agreement, and Buyer or its Affiliates shall provide any such guarantee or similar covenant or agreement.

Section 5.8 Exclusivity.

(a) From the date of this Agreement through the Closing, Sellers will not, and shall cause their respective officers, employees, representatives, advisers, agents and Affiliates not to, directly or indirectly, solicit, encourage, facilitate or initiate any inquiries or the making of any proposals or offers from, engage in negotiations or discussions with, or provide any information or data to, or otherwise cooperate in any

manner with, any Person or group of Persons (other than Buyer and its Affiliates) concerning any direct or indirect sale or other disposition of, or merger, consolidation, business combination or similar transaction involving, all or any portion of the Business, the Acquired Companies, the Transferred Assets, the Assumed Liabilities or the Subject Contracts. Sellers shall, and shall cause their respective officers, employees, representatives, advisers, agents and Affiliates to, immediately cease and cause to be terminated any existing activities, discussions or negotiations with any parties conducted heretofore with respect to any of the foregoing. Sellers shall promptly notify Buyer if any such inquiries, proposals or offers are received by, any such information is requested from, or any such negotiations or discussions are sought to be initiated or continued with or about the Business, the Acquired Companies, the Transferred Assets, the Assumed Liabilities or the Subject Contracts and shall promptly request each Person who has heretofore executed a confidentiality agreement in connection with its consideration of acquiring the Business, the Acquired Companies, the Transferred Assets, the Assumed Liabilities or the Subject Contracts to return or destroy in accordance with the applicable confidentiality agreement, all confidential information heretofore furnished to such person by or on behalf of the Sellers.

(b) From the date of this Agreement until the Closing, neither Buyer nor its Affiliates will take, or agree or commit to take, any action for the purpose of impeding the ability of Buyer to consummate the transactions contemplated by this Agreement or any Ancillary Agreement.

Section 5.9 Investigation; Maintenance of Marketplace Relationships.

(a) From the date of this Agreement, Sellers shall give to Buyer and its employees and representatives reasonable access to the Books and Records and the facilities, systems and employees of or relating to the Business, the Acquired Companies, CGLIC, the Transferred Assets, the Transferred Investment Assets, the Assigned and Assumed Contracts, the Assumed Liabilities and the Subject Contracts, shall make available to Buyer and its employees and representatives for copying and duplication purposes all Books and Records as they shall reasonably request, and shall cooperate with Buyer and its employees and representatives in their making such further investigation of the assets, Liabilities, business operations, facilities, systems, employees and representatives and business plans of the Business, the Acquired Companies, CGLIC, the Transferred Assets, the Transferred Investment Assets, the Assigned and Assumed Contracts, the Assumed Liabilities and the Subject Contracts. Subject to the requirements of Applicable Law, Sellers shall give to Buyer and its employees and representatives access to representatives, customers, clients, producers and consultants of the Business, the Acquired Companies and CGLIC (to the extent relating to the Business), including written, telephonic and in-person communications for the purpose of facilitating the retention of such persons by the Business; provided, however, that (i) all such written communications, meetings and telephonic communications that include a representative of the Business shall be subject to the prior consent (obtained in accordance with the protocols set forth on Schedule 5.9(a)) of Sellers (such consent not to

be unreasonably withheld or delayed) and (ii) all such meetings and telephonic communications that do not include a representative of the Business shall be subject to the prior written consent (obtained in accordance with the protocols set forth on Schedule 5.9(a)) of Sellers. Any investigation, examination or interview by Buyer of employees or representatives or access pursuant to any of the provisions of this Section 5.9(a) shall be conducted or occur at reasonable times during regular business hours upon reasonable prior written notice in a manner which does not unreasonably interfere with the business or operations of Sellers or their Affiliates (or any of their successors). Each of the parties hereto and its employees, representatives and advisers, including, without limitation, counsel, investment bankers and independent public accountants, shall cooperate with the other's employees, representatives and advisers, as the case may be, in connection with such review and examination. Any such investigation, examination or interview shall be subject to the terms and conditions of the Confidentiality Agreement. No investigation made pursuant to this Section 5.9 or otherwise, whether made before or after the date of this Agreement, shall affect or be deemed to modify or waive any specific representation or warranty made by either party pursuant to this Agreement or any rights of the parties under Article VII.

(b) From the date of this Agreement until the Closing Date, (i) Sellers shall, and shall cause their Affiliates to, use commercially reasonable efforts to keep available the services of its and their current officers and employees, and to preserve its relationships with customers, clients, producers and consultants and others having material business dealings with any of Sellers, their Affiliates or the Acquired Companies relating to the Business, (ii) Buyer shall, and shall cause its Affiliates to, cooperate with Sellers and their Affiliates regarding the foregoing; and (iii) Sellers and Buyers shall, and shall cause their respective Affiliates to outline, refine, plan for and commence the transition processes contemplated by the Transition Services Agreement as reasonably practicable, including, without limitation, by supplementing TSA Schedule 1 with additional qualifying services identified by Sellers or Buyer and desired by Buyer to be received pursuant to the Transition Services Agreement, and by identifying services and their associated costs with specificity sufficient to disclose how such costs will be prorated in the event that Buyer does not use, or terminates, services or portions thereof.

Section 5.10 Post-Closing Access.

(a) Following the Closing Date, Sellers and their Affiliates shall (i) allow the employees, representatives and advisers of Buyer and its Affiliates, upon reasonable prior notice and during regular business hours, the right, at Buyer's expense, to examine and make copies of any Books and Records (including any items within the definition of Books and Records developed by Sellers following the Closing Date to extent relating to the Business) which were retained by Sellers or any of their Affiliates and to have access to the employees, their respective businesses or of Sellers or any of their Affiliates for any reasonable purpose relating to the Business, including, without limitation, disputes under this Agreement or any Ancillary Agreement, the preparation or examination of Buyer's Tax Returns, review and diligence of Data Input Inaccuracies,

regulatory filings and financial statements and the conduct of any litigation (as opposed to any other form of dispute resolution) with a third party (whether or not the subject of an indemnification claim by a Buyer Indemnitee or a Seller Indemnitee) or regulatory dispute (whether or not the subject of an indemnification claim by a Buyer Indemnitee or a Seller Indemnitee), whether pending or threatened, concerning the conduct of the Business prior to the Closing Date, and (ii) maintain such Books and Records (including any items within the definition of Books and Records developed by Sellers following the Closing Date to extent relating to the Business) for Buyer's examination and copying for a period of not less than eight years following the Closing Date. Access to such Books and Records (including any items within the definition of Books and Records developed by Sellers following the Closing Date to extent relating to the Business) and employees shall be at Buyer's expense and may not unreasonably interfere with Sellers' or any of their Affiliates' (or any of their successors') business operations.

(b) Following the Closing Date, Buyer and its Affiliates shall (i) allow the employees, representatives and advisers of Sellers and their Affiliates, upon reasonable prior notice and during regular business hours, the right, at Sellers' expense, to examine and make copies of the Books and Records (including any items within the definition of Books and Records developed by Buyer, CIGNA Life and their Affiliates following the Closing Date to extent relating to the Business) and to have access to the employees of Buyer or any of its Affiliates for any reasonable business purpose relating to the Business or to the provisions of this Agreement or any Ancillary Agreement, including, without limitation, disputes under this Agreement or any Ancillary Agreement the preparation or examination of Tax Returns, review and diligence of Data Input Inaccuracies, regulatory filings and financial statements or the conduct of any litigation (as opposed to any other form of dispute resolution) with a third party (whether or not the subject of an indemnification claim by a Buyer Indemnitee or a Seller Indemnitee) or regulatory dispute (whether or not the subject of an indemnification claim by a Buyer Indemnitee or a Seller Indemnitee), whether pending or threatened, and (ii) maintain such Books and Records (including any items within the definition of Books and Records developed by Buyer, CIGNA Life and their Affiliates following the Closing Date to extent relating to the Business) for examination and copying by Sellers and their Affiliates for a period of not less than eight years following the Closing Date. Access to such Books and Records (including any items within the definition of Books and Records developed by Buyer, CIGNA Life and their Affiliates following the Closing Date to extent relating to the Business) and employees, shall be at Sellers' expense and may not unreasonably interfere with Buyer's or any of its Affiliates' (or any of their successors') business operations.

Section 5.11 Further Assurances.

Subject to the terms and conditions herein provided, including Section 5.6 and Section 5.7, from and after the date of this Agreement, each of the parties hereto shall use reasonable best efforts to take, or cause to be taken, all actions or do, or cause to be done, all things or execute and deliver any documents reasonably necessary, proper or advisable under Applicable Laws to consummate and make effective the transactions contemplated by this Agreement and the Ancillary Agreements.

Section 5.12 Expenses.

Except as otherwise specifically provided in this Agreement or any Ancillary Agreement, the parties hereto and to the Ancillary Agreements shall bear their respective costs and expenses incurred in connection with the preparation, execution and performance of this Agreement and the Ancillary Agreements and the transactions contemplated hereby and thereby, including, without limitation, all fees and expenses of investment bankers, counsel, actuaries, accountants, and other agents and representatives. Sellers shall pay on behalf of the Acquired Companies all legal, accounting, banking and other fees and expenses, incurred through the Closing by the Acquired Companies in connection with the negotiation and execution of this Agreement and the Ancillary Agreements.

Section 5.13 Transfer Taxes; Expenses of Transfer.

Subject to the proviso contained in Section 5.7(c), all (i) sales, use, transfer, realty transfer, recording, ad valorem, privilege, documentary, gross receipts, registration, conveyance, excise, license, stamp, duties or similar Taxes and fees (collectively, the "Transfer Taxes") arising out of, in connection with, attributable to or in preparation for the transactions effected pursuant to this Agreement or any of the Ancillary Agreements and (ii) all costs incurred in connection with effecting the transfer and assignment of the Transferred Investment Assets pursuant to this Agreement or any of the Ancillary Agreements, including the Transfer Agreements, shall be shared equally by Sellers and Buyer. The party which has primary legal responsibility for the payment of any particular Transfer Tax shall prepare and timely file all relevant Tax Returns required to be filed in respect of such Transfer Tax.

Section 5.14 Public Announcement.

Until the Closing or the date this Agreement is terminated pursuant to Article VIII, the parties hereto shall not make any public announcement concerning the transactions contemplated by this Agreement or the Ancillary Agreements without first consulting with the other parties hereto.

Section 5.15 Waiver of Claims.

(a) Buyer, on behalf of the Acquired Companies, hereby waives at and after the Closing any and all Actions, claims and demands by the Acquired Companies based on actual or alleged breach of any fiduciary duty to any Acquired Company by Sellers or any of their Affiliates, or their respective officers, directors, employees, advisors, representatives or agents in connection with, or arising out of, any act or omission of any such Person, in such capacity, at or prior to the Closing, as the case may

be. In the event that any Action, claim or demand waived hereby is pursued by Buyer or any of its subsidiaries or Affiliates (including the Acquired Companies to the extent any such entity is an Affiliate of Buyer at such time) following the Closing, Buyer shall indemnify and hold harmless Sellers and their Affiliates, and their respective officers, directors, employees, advisors, representatives and agents for any Losses resulting therefrom.

(b) Sellers, on behalf of themselves and their Affiliates, hereby waive at and after the Closing any and all Actions, claims and demands by them and their Affiliates based on actual or alleged breach of any fiduciary duty to Sellers or their Affiliates by Buyers or any of their Affiliates (including the Acquired Companies), or their respective officers, directors, employees, advisors, representatives or agents in connection with, or arising out of, any act or omission of any such Person, in such capacity, at or prior to the Closing, as the case may be. In the event that any Action, claim or demand waived hereby is pursued by Sellers or any of their subsidiaries or Affiliates following the Closing, Sellers shall indemnify and hold harmless Buyer and its Affiliates, and their respective officers, directors, employees, advisors, representatives and agents for any Losses resulting therefrom.

Section 5.16 Trademark/Trade Name Licenses Agreement.

The parties hereto agree that Buyer is not purchasing, acquiring or otherwise obtaining any right, title or interest in and to any Trademarks owned by Sellers, including the names "CIGNA," "Connecticut General," "Connecticut General Life," "A Business of Caring", the CIGNA Tree Logo, or any other identifying logos or service marks, which are not primarily used in the Business. Notwithstanding the foregoing, the parties agree that on the Closing Date, CGLIC, CIGNA Life and Buyer shall enter into the Trademark/Trade Name Licenses Agreement regarding the use of Sellers' Trademarks set forth on Schedule 5.16 by the Acquired Companies and their Affiliates.

Section 5.17 Intercompany Agreements.

(a) All of the Intercompany Agreements which are set forth on Schedule 5.17(a)(i) hereof shall be terminated and discharged without any further liability or obligation thereunder and deemed to be void and of no further force and effect, effective at the Closing. All of the Intercompany Agreements which are set forth on Schedule 5.17(a)(ii) hereof shall not be terminated and discharged at the Closing but rather shall remain in full force and effect from and after the Closing in accordance with their respective terms, or shall be amended as specified on Schedule 5.17(a)(ii).

(b) From and after the Closing, none of Buyer and its Affiliates (including the Acquired Companies), on the one hand, and Sellers and their Affiliates, on the other hand, shall be subject to any further Liability to the other, with respect to any Intercompany Amount or any Intercompany Agreement which is set forth on Schedule 5.17(a)(i) hereof.

(c) Except as set forth on Schedule 5.17(c)(i), Buyer, on behalf of the Acquired Companies, hereby waives at and after the Closing any and all Actions, claims and demands by the Acquired Companies and the Business seeking to collect insurance coverage under the corporate insurance programs covering Sellers and their Affiliates set forth on Schedule 5.17(c)(ii), including any claims incurred but not paid prior to the Closing. The parties shall take all steps necessary to terminate coverage of the Acquired Companies and the Business under such programs. Buyer and the Acquired Companies shall not pursue or collect any Action, claim or demand waived hereby.

Section 5.18 Ancillary Agreements.

(a) Promptly following the execution of this Agreement and prior to Closing, the parties hereto shall jointly negotiate in good faith and finalize the definitive terms of (i) Schedule 1 to the Transition Services Agreement ("TSA Schedule 1") and (ii) Exhibit B to the Investment Management Agreement (Non Manager of Managers Program). In the event that the parties hereto are unable to so finalize the terms of TSA Schedule 1 prior to the Closing, CIGNA shall provide the Transition Services to CIGNA Life pursuant to the Transition Services Agreement and in accordance with TSA Schedule 1 (in the form attached to the Transition Services Agreement as of the date of this Agreement, as updated and mutually agreed in writing by the parties) until such time as the parties hereto finalize the terms of TSA Schedule 1 (in which case CIGNA shall provide the Transition Services to CIGNA Life pursuant to the Transition Services Agreement in accordance with such finalized TSA Schedule 1) or as otherwise provided in the Transition Services Agreement for the entire Transition Period (as defined in the Transition Services Agreement).

(b) Promptly following the execution of this Agreement and prior to the Closing, the parties hereto shall jointly prepare and negotiate in good faith the definitive terms of mutually acceptable agreements which, together, conform to the terms set forth in the Facilities Sharing Agreement Term Sheet (the "Facilities Sharing Agreements").

(c) If the conditions set forth in Article VI are satisfied, each Seller shall, and shall cause its Affiliates to, execute and deliver at the Closing each of the Ancillary Agreements to which it is a party and each other agreement, document or instrument which is necessary or desirable to effect the transactions contemplated by this Agreement or the Ancillary Agreements.

(d) If the conditions set forth in Article VI are satisfied, Buyer shall, and shall cause its Affiliates to, execute and deliver at the Closing each of the Ancillary Agreements to which it is a party and each other agreement, document or instrument which is necessary or desirable to effect the transactions contemplated by this Agreement or the Ancillary Agreements.

(e) From and after the date of this Agreement the parties hereto agree to implement the actions set forth on Schedule 5.18(e). The parties also agree to cooperate with each other to agree to changes, reasonably requested by the other parties, to Ancillary Agreements that transfer Transferred Assets or Transferred Investment Assets in order to make the transfer of assets into and out of the trusts more efficient.

Section 5.19 Tax Matters.

(a) Sellers shall timely prepare and file (or cause to be filed) when due (including extensions) (i) all Tax Returns that are required to be filed by the Acquired Companies for taxable years or periods ending on or before the Closing Date ("Pre-Closing Period"), and (ii) all consolidated, combined, unitary, and similar Tax Returns that include one or more of the Acquired Companies and any of Sellers or their Affiliates (other than the Acquired Companies). To the extent permitted under Applicable Law, Buyer and Sellers shall cause each Acquired Company to treat the Closing Date as the last day of such entity's taxable year.

(b) Except as otherwise provided in Section 5.19(a), Buyer shall timely prepare and file (or cause to be filed) when due all Tax Returns that are required to be filed by the Acquired Companies for taxable years or periods beginning after the Closing Date ("Post-Closing Period") and any taxable period that includes (but does not end on) the Closing Date (a "Straddle Period").

(c) Buyer shall make available to Sellers for inspection any Tax Returns required to be prepared by Buyer for any taxable year or period that includes a Straddle Period and Sellers shall make available to Buyer for inspection any Tax Returns required to be prepared by Sellers pursuant to Section 5.19(a); provided, however, any inspection by Buyer or Sellers shall be permitted only for the portion of, and to the extent that, the Tax Returns relate to the Business. Each party (the "Preparer") shall, if reasonably practicable, make such Tax Returns available to such other party, or parties, (the "Reviewer") a reasonable amount of time prior to the due date (including extensions) for filing such Tax Returns and if any such Tax Return is not provided to Reviewer in a reasonable amount of time prior to the due date for filing that Tax Return, a draft of such Tax Return shall be provided. If a draft of a Tax Return has been provided pursuant to the preceding sentence, then the Preparer shall provide the Reviewer with the final Tax Return as soon as is practicable, together with a schedule indicating any changes from the draft Tax Return. If the Reviewer has any dispute regarding any such Tax Return as presented by the Preparer, then such Tax Return shall be filed as prepared by the Preparer, and the Reviewer shall be entitled to initiate a dispute under Section 5.19(q) hereof. A Reviewer can, at any time, waive its rights, as described herein, to inspect all, or any portion of, any Tax Return. Any such waiver will have no effect on the parties' indemnification obligations pursuant to this Section 5.19.

(d) Except as otherwise provided in this Agreement, Sellers shall pay or cause to be paid (including, in the case of amounts paid prior to the Closing Date,

payments by the Acquired Companies), on a timely basis, all Taxes due with respect to the Tax liability of the Acquired Companies for Pre-Closing Periods and the portion of any Straddle Period ending on the Closing Date. Sellers shall pay directly to or at the direction of Buyer, at least three (3) days prior to the date payment thereof is due, the portion of such Taxes for that portion of any Straddle Period which ends on the Closing Date (calculated pursuant to Section 5.19(e)). Buyer shall pay or cause to be paid (including payments by the Acquired Companies), on a timely basis, all Taxes due with respect to the Tax liability of the Acquired Companies for Post-Closing Periods and the portion of any Straddle Period beginning on the day after the Closing Date.

(e) In the case of any Straddle Period:

(i) The periodic Taxes of the Acquired Companies that are not based in whole or in part on income or receipts (e.g., property Taxes) for the portion of any Straddle Period which ends on the Closing Date shall be computed based on the ratio of the number of days in such portion of the Straddle Period and the number of days in the entire taxable period, and the periodic Taxes of the Acquired Companies that are not based in whole or in part on income or receipts for the portion of any Straddle Period beginning on the day after the Closing Date shall be computed based on the ratio of the number of days in such portion of the Straddle Period and the number of days in the entire taxable period.

(ii) The Taxes of the Acquired Companies for that portion of any Straddle Period ending on the Closing Date (other than Taxes described in Section 5.19(e)(i)), shall be computed as if such taxable period ended as of the close of business on the Closing Date, and the Taxes of the Acquired Companies for that portion of any Straddle Period beginning after the Closing Date (other than Taxes described in Section 5.19(e)(i)), shall be computed as if such taxable period began on the day after the Closing Date, provided that, for purposes of this clause (ii), if the total Tax for any Straddle Period does not equal the sum of the positive amounts of Tax in respect of such portions thereof, then the parties shall adjust such amounts in a fair and reasonable manner.

(f) Any Tax refund (including any interest in respect thereof) received by Buyer or any of its Affiliates, and any amounts credited against Tax to which Buyer or any of its Affiliates becomes entitled (including by way of any amended Tax Returns or any carryback filing), that relate to any taxable period, or portion thereof, for which any Seller is liable pursuant to Section 5.19(d), except to the extent that such refund or use of such credit against Tax relates to Taxes for which the liability is assumed by Buyer, shall be for the account of Sellers, and Buyer shall pay over to Sellers any such refund or the amount of any such credit within ten (10) days after receipt of such refund or use of such credit. Buyer shall pay Sellers interest at the rate prescribed under section 6621(a)(1) of the Code, compounded daily, on any amount not paid when due under this Section 5.19(f).

(g) Any Tax refund (including any interest in respect thereof) received by Sellers or any of their Affiliates, and any amounts credited against Tax to which Sellers or any of their Affiliates becomes entitled (including by way of any amended Tax Returns or any carryback filing), that relate to any taxable period, or portion thereof, for which Buyer is liable pursuant to Section 5.19(d), or that relate to any Tax for which the liability is assumed by Buyer, shall be for the account of Buyer, and Sellers shall pay over to Buyer any such refund or the amount of any such credit within ten (10) days after receipt of such refund or use of such credit. Sellers shall pay Buyer interest at the rate prescribed under section 6621(a)(1) of the Code, compounded daily, on any amount not paid when due under this Section 5.19(g).

(h) Each Seller and Buyer shall cooperate, and cause each of its Affiliates to cooperate, to the extent not harmed, in obtaining any Tax refund that the other party reasonably believes should be available, including through filing appropriate forms with the applicable Tax Authority.

(i) For each "reportable transaction" (as described in Treasury Regulation Section 1.6011-4(b)), if any, that any of the Acquired Companies, or to the extent it relates, in whole or in part, to the Business, Sellers has "participated in" (as described in Treasury Regulation Section 1.6011-4(c)(3)) and filed an Internal Revenue Service Form 8886 (or any successor form), Sellers will provide as soon as reasonably practicable a true and complete copy of each such form as such form was filed.

(j) Except as otherwise provided in the Transition Services Agreement, after the Closing Date, each Seller and Buyer shall use reasonable efforts in the ordinary course of its business (and shall cause its respective Affiliates to do the same) to (i) assist the other party in preparing any Tax Returns which such other party is responsible for preparing and filing in accordance with Section 5.19(a) or Section 5.19(b), and (ii) cooperate fully in preparing for any audits of, or disputes with, any Tax Authority regarding any Tax Returns of the Acquired Companies or, to the extent it relates, in whole or in part, to the Business, Sellers. In connection therewith, Buyer shall not dispose of any Tax Books or Records of the Acquired Companies or, to the extent it relates, in whole or in part, to the Business, Sellers during the eight-year period following the Closing Date, and thereafter shall give Sellers reasonable written notice, and the opportunity to make copies of any such items, before disposing of such items. Notwithstanding the foregoing, in the event of any inconsistencies between the provisions of this section 5.19(j) and any provision in the Transition Services Agreement, the Transition Services Agreement shall control.

(k) Contests.

(i) After the Closing Date, Buyer and Sellers each shall notify the other party in writing within ten (10) days of notice of (or, if there is no such notice, the commencement of) any Tax audit or administrative or judicial proceeding affecting the Taxes of the Acquired Companies, Sellers, Buyer or their respective Affiliates (a "Tax Audit") the resolution of which would reasonably be expected to result in a material increase in Tax liability for which the other party would be liable under the terms of this Agreement. Such notice shall contain factual information describing any asserted Tax liabilities in reasonable detail and shall include copies of any notice or other document received from any Tax Authority in respect of any such asserted Tax liabilities.

(ii) In the case of any Tax Audit (or, if separable, any portion thereof) solely involving Taxes for which one party is liable under the terms of this Agreement or otherwise, such party (the "Controlling Party") shall have the right, at its expense, to control the conduct of such Tax Audit (or, if separable, any portion thereof); provided, however, that the other party (the "Participating Party") shall have the right, at its expense, to participate in any such Tax Audit (or portion thereof) to the extent that its resolution would reasonably be expected to result in an increase in Tax liability for which the Participating Party is liable under the terms of this Agreement or otherwise. In the event that either party exercises its right to participate in any Tax Audit (or portion thereof), as described above, the Controlling Party shall not settle such Tax Audit (or portion thereof) without the prior written consent of the Participating Party, which consent shall not be unreasonably withheld, provided, however, that the Controlling Party shall be entitled to settle any portion of such Tax Audit so long as (a) such portion is separable from the remainder of the Tax Audit and (b) such resolution would not reasonably be expected to result in an increase in Tax liability for which the Participating Party is liable under the terms of this Agreement or otherwise.

(iii) In the case of any Tax Audit (or portion thereof) not described in clause (ii), the party in whose name, or in the name of whose Affiliate(s), such Tax Audit is being contested shall have the right, at its expense, to control the conduct of such Tax Audit (or portion thereof); provided, however, that such party shall not settle such Tax Audit (or portion thereof) without the prior written consent of the other party, which consent shall not be unreasonably withheld.

(l) Tax Indemnity.

(i) Notwithstanding any other provision of this Agreement, Sellers shall indemnify, defend and hold harmless Buyer and its Affiliates from and against any and all (A) Taxes imposed on, or required to be withheld by, the Acquired Companies, Sellers or their Affiliates with respect to any Pre-Closing Period; (B) Taxes imposed on, or required to be withheld by, the Acquired Companies, Sellers or their Affiliates with respect to the portion of any Straddle Period ending at the end of the day on the Closing Date; and (C) Taxes, expenses or other losses incurred as a result of any breach or inaccuracy of any representation or warranty set forth in Section 3.11 (in each case, determined without regard to any qualifications or references to "material" or any other materiality qualifications or references contained in any specific representation or warranty, except for such qualifications or references in Section 3.11(g)), or arising out of the failure of Sellers or their Affiliates, to perform any of the agreements they are required to perform under this Section 5.19 or Section 5.13. Sellers shall pay to Buyer any Tax indemnity required to be paid pursuant to the preceding sentence within ten (10) days of Sellers' receipt of a written request therefor from Buyer describing in reasonable detail the indemnified Taxes which are the subject of and basis for such Tax indemnity and the computation of the amount so payable; provided, that if indemnified Taxes are being contested in accordance with Section 5.19(k), Sellers shall pay any required Tax indemnity to Buyer within ten (10) days of final resolution of such contest.

(ii) Notwithstanding any other provision of this Agreement, Buyer shall indemnify, defend and hold harmless Sellers and their Affiliates from and against any and all (A) Taxes imposed on, or required to be withheld by, the Acquired Companies, Buyer or its Affiliates, with respect to any Post-Closing Period; (B) Taxes imposed on, or required to be withheld by, the Acquired Companies, Buyer or its Affiliates, with respect to the portion of any Straddle Period beginning the day after the Closing Date; and (C) Taxes, expenses or other losses arising out of the failure of Buyer or its Affiliates to perform any of the agreements they are required to perform under this Section 5.19 or Section 5.13. Buyer shall pay to Sellers any Tax indemnity required to be paid pursuant to the preceding sentence within ten (10) days of Buyer's receipt of a written request therefor from Sellers describing in reasonable detail the indemnified Taxes which are the subject of and basis for such Tax indemnity and the computation of the amount so payable; provided, that if indemnified Taxes are being contested in accordance with Section 5.19(k), Buyer shall pay any required Tax indemnity to Sellers within ten days of final resolution of such contest.

(m) Buyer shall not take, or cause or permit the Acquired Companies to take, any action, with respect to the taxable year or period of Buyer, the Acquired Companies, or any of their Affiliates, as applicable, which includes the Closing Date, which would be reasonably likely to increase Sellers' or any of their Affiliates' liability for Taxes (including any liability of Sellers to indemnify Buyer for Taxes pursuant to this Agreement) including, for example, any action (including the making of any elections) that would be reasonably likely to result in, or change the character of, any income or gain that any Seller or Affiliate of a Seller must report on any Tax Return.

(n) Neither Buyer, on the one hand, nor any of the Sellers, on the other hand, (in any event, the "Amending Party") shall (or shall cause or permit any of its respective Affiliates, including the Acquired Companies to) amend, refile or otherwise modify any Tax Return that would reasonably be expected to result in a material increase in Tax liability for which any party to this Agreement that is not an Affiliate of the Amending Party (the "Non-Amending Party") is liable under the terms of this Agreement relating in whole or in part to the Acquired Companies with respect to any taxable year or period ending on or before the Closing Date (or with respect to any Straddle Period) without the prior written consent of such Non-Amending Party, which consent may be withheld in its sole discretion; provided, however, that no consent shall be required if the Amending Party agrees to indemnify the Non-Amending Party for any resulting increase in its liability for Taxes under the terms of this Agreement or otherwise.

(o) Except to the extent otherwise required by Applicable Law, none of Buyer or any Affiliate of Buyer shall (or shall cause or permit the Acquired Companies to) carry back for federal, state, local or foreign tax purposes to any taxable period, or portion thereof, of the Acquired Companies, ending on or before, or which includes, the Closing Date any net operating losses, capital losses, tax credits or similar items arising in, resulting from, or generated in connection with a taxable year of Buyer or any Affiliate of Buyer, or portion thereof, ending after the Closing Date.

(p) Sellers agree to join with Buyer in making timely and irrevocable joint elections under section 338(h)(10) of the Code and any corresponding elections under state or local tax law, with respect to the purchase and sale of the stock of the Acquired Companies identified in Schedule 5.19(p)(i) (collectively, the "Section 338(h)(10) Election"). Sellers further agree and understand that Buyer intends to make timely elections under section 338(g) of the Code and any corresponding elections under state or local tax law, with respect to the purchase and sale of the stock of the Acquired Companies identified in Schedule 5.19(p)(ii).

(q) Any claim, controversy or dispute arising out of or relating to Section 5.19 or otherwise relating to Taxes, on which an amicable understanding cannot be reached, shall be submitted to and resolved by arbitration. Such arbitration shall be conducted expeditiously and confidentially. In such arbitration, the arbitrators may not award any consequential, punitive or exemplary damages or any damages other than compensatory damages. To initiate arbitration, a party shall notify the other party in

writing of its desire to arbitrate, stating the nature of its dispute and the remedy sought. The receiving party shall acknowledge receipt of the notice in writing within five days of such receipt, and thereafter the parties shall attempt in good faith to resolve the dispute within thirty (30) days of the date of such acknowledgment. If the dispute cannot be resolved within such thirty (30) day period, any party may send a written demand for arbitration to the other party. Within thirty (30) days of delivery of such demand for arbitration, the parties shall appoint by mutual agreement an arbitrator who is a nationally-recognized Tax lawyer at a nationally recognized accounting firm or law firm; provided, however, if the parties cannot mutually agree on an arbitrator, the parties' independent accounting firms will appoint a neutral nationally-recognized Tax lawyer at a nationally recognized accounting firm or law firm as arbitrator. Any award rendered by the arbitrator shall be accompanied by a written opinion setting forth the findings of fact and conclusions of law relied upon in reaching the decision. The award rendered by the arbitrator shall be final, binding and non-appealable, and judgment upon such award may be entered by any court having jurisdiction thereof. The parties agree that the existence, conduct and content of any such arbitration shall be kept confidential and no party shall disclose to any Person any information about such arbitration, except as may be required by Applicable Law or for financial reporting purposes in each party's financial statements. The costs, fees and expenses of arbitration shall be borne by the party that does not prevail in substantial part as determined by the arbitrator. Notwithstanding the foregoing, all time periods in this Section 5.19(q) shall, to the maximum extent practicable, be reduced or eliminated and the parties shall attempt in good faith to resolve any dispute, or allow for arbitration on an accelerated basis in respect of such dispute, if and to the extent that the dispute relates to a Tax Return that (i) has not yet been filed and (ii) the due date (including extensions) for which would be likely to otherwise prevent such resolution's being reflected on the Tax Return as, and when, initially filed.

(r) Notwithstanding anything in this Agreement to the contrary, the provisions of Section 5.19 shall survive for ninety (90) days after the expiration of all applicable statutes of limitation (giving effect to any waivers, mitigations or extensions thereof).

(s) Notwithstanding anything in this Agreement to the contrary, indemnification claims with regard to Taxes (including with respect to any breach of or inaccuracy in any representation or warranty contained in Section 3.11, but not including those contained in Section 3.21) or otherwise brought pursuant to this Section 5.19 shall be governed exclusively by this Section 5.19; provided, however, if there is a failure of any representation or warranty set forth in Section 3.21 and the subject matter of such failure becomes the subject matter of a contest, claim, audit or similar proceeding initiated by a Tax Authority against the Buyer or any of its Affiliates (including the Acquired Companies), then such proceeding and Sellers' indemnification obligations, if any, with respect thereto shall be governed in all respects by the provisions of this Section 5.19, and, to the extent governed by this Section 5.19, for purposes of the survival periods of the representations and warranties set forth in Section 7.2, such representation or warranty shall be treated as a representation or warranty set forth in Section 3.11.

(t) In the event of any inconsistencies between the provisions of this Section 5.19 and any other provision in this Agreement, this Section 5.19 shall control.

Section 5.20 New York Certificate of Authority; Rate and Form Filings.

CGLIC shall cause CIGNA Life to (a) make all rate and form filings and applications to establish Separate Accounts necessary for CIGNA Life to engage in the Business following the Closing Date, (b) apply to the New York Insurance Department for a Certificate of Authority in order to conduct the Business in the State of New York and (c) apply to any other regulatory authority for such licenses or authorizations as may be required in order to conduct the Business in each jurisdiction in which it is currently conducted.

Section 5.21 Post-Closing Business Liabilities; Ancillary Agreements.

Buyer agrees to perform and discharge, or cause its Affiliates to perform and discharge, Post-Closing Business Liabilities. Sellers agree to perform, or cause its Affiliates party thereto to perform, their obligations to the extent arising pursuant to any Ancillary Agreement.

Section 5.22 Seed Money; Mutual Funds.

(a) Sellers agree to (i) cause LINA not to withdraw its investments in the Separate Accounts listed on Schedule 5.22(a)(i) and (ii) not recommend to the trustees of the mutual funds listed on Schedule 5.22(a)(ii) to change the basis of operations of such mutual funds, in each case until the earlier of the mutual written agreement of Buyer and Sellers to permit such withdrawal and the end of the ninth month following the Closing Date. With respect to the mutual funds listed on Schedule 5.22(a)(ii), following the Closing, if requested by Buyer, Sellers will consider recommending to the trustees of such mutual funds the transfer to an Affiliate of Buyer management of such mutual funds.

(b) Notwithstanding any provision to the contrary in this Agreement or the Administrative Services Agreement, within five (5) days of the end of the ninth month following the Closing Date, or at such earlier time as the parties may mutually agree or Applicable Law may require, LINA will have an unconditional right to (i) withdraw its entire interest in the Separate Accounts listed on Schedule 5.22(a)(i) and (ii) redeem its shares of the mutual funds listed on Schedule 5.22(a)(ii).

Section 5.23 Advisory Clients.

As promptly as reasonably practicable, each Advisory Entity shall notify each of its Advisory Clients of the transactions contemplated by the Transaction and with the Buyer, use commercially reasonable efforts to obtain, prior to the Closing Date, any necessary consent of each Advisory Client to the "assignment" (as such term is used in the Investment Company Act) of its Investment Advisory Contract resulting from each completion of the transactions contemplated by the Transaction. Buyer agrees that the Advisory Entity may obtain such consent by (a) requesting written consent as aforesaid, (b) informing such Advisory Client at least forty-five (45) days prior to the Closing Date of (i) such Advisory Entity's intention to "assign" such Investment Advisory Contract by completing the Transaction, (ii) such Advisory Entity's intention to continue the advisory services provided pursuant to the existing Investment Advisory Contract with such Advisory Client after the Closing Date if such Advisory Client does not terminate such Investment Advisory Contract prior to the Closing Date and (iii) that the consent of such Advisory Client will be implied if such client continues to accept such advisory services for at least thirty (30) days after receipt of such notice without termination and (c) not receiving from such Advisory Client prior to the Closing Date an oral or written indication of an intent to terminate such Investment Advisory Contract or otherwise withhold consent. Each of the Advisory Entities and Buyer shall cooperate and consult with each other regarding all written communications concerning the obtaining of such consents and all such communications shall be subject to the review and consent of Buyer, such consent not to be unreasonably withheld. Sellers and Buyers shall each bear fifty percent (50%) of the cost of all such notices.

Section 5.24 Mutual Fund Distribution Agreements.

Buyer hereby covenants and agrees to cause CFS at the Closing to enter into a distribution agreement with each of the entities set forth on Schedule 5.24 in substantially the form of the distribution agreement between CFS and such entity in effect as of the date of this Agreement.

Section 5.25 Rejected Intellectual Property Contracts.

At any time prior to assuming an Intellectual Property Contract or a Contract concerning IT Assets, Buyer and its Affiliates shall have the option, at their sole discretion, to treat such Contract as an Excluded Asset and all Liabilities related thereto as Excluded Liabilities, in which case Buyer shall, subject to the proviso contained in Section 5.7(c), reimburse Sellers for one-half of all out-of-pocket costs and penalties which Sellers actually do pay in accordance with the terms of such Contract, provided that Buyer shall bear no cost or penalties if the aggregate financial obligations of Sellers that remain outstanding under such Contract equals or exceeds $75,000.00. Sellers and their Affiliates shall take such actions, execute such instruments and otherwise cooperate with Buyer to the extent reasonably necessary to give effect to any such election by Buyer and its Affiliates. At Buyer's sole option, Sellers and their Affiliates will provide

Buyer and its Affiliates with rights and/or access to the benefits provided under any such Contract or substantially equivalent rights and/or access in all material respects as a Transition Service pursuant to the Transition Services Agreement.

Section 5.26 License Under Certain Intellectual Property.

(a) Subject to the limitations of Sections 5.26(b) and 5.26(c), effective upon the Closing Date, Sellers, on behalf of themselves and their Affiliates, hereby grant to Buyer a non-exclusive, irrevocable, perpetual, royalty-free license to reproduce, create derivative works based on, modify, enhance, display, disassemble, decompile, reverse engineer and otherwise use, solely in support of the Business, all (or any portion(s) of) Intellectual Property owned by Sellers and their Affiliates used in the Business prior to the Closing (but excluding Trademarks, which are treated exclusively in Section 5.16 and in the Trademark/Trade Name Licenses Agreement) (the "Seller-Licensed Intellectual Property").

(b) Seller-Licensed Intellectual Property (including desktop, call center, distributed datacenter or other software applications) shall be included within the scope of the license grant set forth in this Section 5.26 only if and to the extent that: (i) such Seller-Licensed Intellectual Property is necessary to support directly or indirectly the customer, supplier or other similar transactions of the Business (including without limitation operations, systems management, optimization, troubleshooting and diagnostics), and (ii) Buyer does not itself own and cannot license from a third Person (which Person shall not in any event derive its rights (directly or indirectly) from Sellers or their Affiliates) on commercially reasonable terms a generally commercially available, substantially equal substitute without the need for material customization. Without limitation, a software application automatically shall be deemed "necessary" for purposes of this Section 5.26 if Buyer must pay more than $150,000 to acquire such substantially equal substitute or if Buyer has paid $700,000 in the aggregate to acquire such substantially equal substitutes.

(c) On or before the end of the Transition Period (as defined in the Transition Services Agreement), the Sellers must deliver to Buyer the Seller-Licensed Intellectual Property (including without limitation fully commented source code, data structures and user manuals if and as available) in the form or format in which they are available. Buyer at its option may choose the form and format if multiple forms and formats are available. Buyer expressly acknowledges and agrees that the Sellers will not provide training, support or maintenance services of any kind in connection with the Seller's Intellectual Property (other than to the extent such services otherwise are required pursuant to this Agreement or the Ancillary Agreements).

(d) Buyer may assign, transfer or sublicense all or any portion of the rights licensed pursuant to this Section 5.26 to any successor(s) of all or substantially all of the assets of the Business, or portion or portions of the Business, including without limitation for purposes of providing transition services to such successor(s). Buyer also

may sublicense all or any portion of the rights licensed to Buyer pursuant to this Section 5.26 to Buyer's and its Affiliates' (i) customers, clients and other end-users in the ordinary course of Business (except that computer software source code may not be provided to such end-users); and (ii) subcontractors and consultants, provided that to the extent that Seller-Licensed Intellectual Property which is Confidential Information (as defined in the Confidentiality Agreement) will be shared, it will only be shared with those subcontractors and consultants who reasonably require access to assist Buyer and its Affiliates in using their rights licensed pursuant to this Section 5.26 and who have agreed to be bound by non-disclosure and confidentiality agreements at least substantially as protective as Buyer's analogous obligations under the Confidentiality Agreement.

(e) EXCEPT AS OTHERWISE PROVIDED IN THIS AGREEMENT OR THE ANCILLARY AGREEMENTS, THE SELLER-LICENSED INTELLECTUAL PROPERTY IS PROVIDED ON AN "AS IS" BASIS, WITHOUT WARRANTY OF ANY KIND, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION, WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT, PROPER COOPERATION OR INTERFACING WITH THIRD PARTY INFORMATION TECHNOLOGY OR OTHER WARRANTIES, CONDITIONS, GUARANTEES OR REPRESENTATIONS, WHETHER EXPRESS OR IMPLIED, AND THE PARTIES EXPRESSLY WAIVE ANY AND ALL RIGHTS THEY MAY HAVE UNDER THE UNIFORM COMMERCIAL CODE AS CONCERNS THE SELLER-LICENSED INTELLECTUAL PROPERTY.

(f) Except as permitted in this Section 5.26, or by other prior written permission of Sellers, Buyer and its Affiliates shall not, and shall not allow any third party, to: (i) create any derivative work of the Seller-Licensed Intellectual Property or any portion thereof; (ii) sublicense, transfer, or assign the Seller-Licensed Intellectual Property or any right with respect thereto, including without limitation for the purpose of engaging in the business of providing computer-based services to any party, whether on a time sharing basis or otherwise; (iii) rent, lease or distribute the Seller-Licensed Intellectual Property or use the Seller-Licensed Intellectual Property for the benefit of any third party or for the benefit of any entity other than the Business; (iv) copy all or any portion of the Seller-Licensed Intellectual Property; or (v) disassemble, decompile or otherwise reverse engineer all or any portion of the Seller-Licensed Intellectual Property.

Section 5.27 Confidentiality.

Sellers shall, and shall cause their Affiliates and representatives to, maintain in confidence and not use to the detriment of Buyer or its Affiliates any written, oral or other confidential information relating to the Business or any confidential information obtained from Buyer, its Affiliates or any of its representatives in connection with this Agreement or the Transaction, except to the extent (i) any such information ceases to be confidential information, other than because of a disclosure by Sellers or their Affiliates or representatives, (ii) any such information is required to be disclosed by

any Governmental Entity or (iii) that use of such information is necessary or appropriate in making any filing or obtaining any consent required for the consummation of the Transaction, and Sellers shall instruct their representatives having access to such information of such obligation of confidentiality. Notwithstanding anything to the contrary contained in this Agreement, in any of the Ancillary Agreements or in any other written or oral understanding or agreement to which the Sellers and Buyer (or their respective Affiliates) are parties or by which they are bound, each of the Sellers and Buyer (and their respective Affiliates) authorizes each other (and the employees, representatives and other agents of each of the Sellers, Buyer and of their respective Affiliates) to disclose to any Person, without limitation of any kind, the "tax treatment" and "tax structure" (within the meaning of Treasury Regulations Section 1.6011-4) of the Transaction or of any transaction contemplated in or by any other document related to the Transaction, and all materials of any kind related thereto (including tax opinions and other tax analyses) provided by the Sellers or Buyer (or their respective Affiliates) to each other in connection thereto.

Section 5.28 Additional Assigned and Assumed Contracts.

For those contracts listed on Schedule A to the Assignment and Assumption Agreement as of the date of this Agreement, Buyer shall be responsible for all costs and penalties which Sellers actually pay in accordance with the terms of such Contract upon termination or cancellation of such Contract. If at any time following the execution of this Agreement, whether before, at or following the Closing, Sellers shall become aware of any Contract which relates primarily to the Business and which is not set forth on Schedule A to the Assignment and Assumption Agreement, Sellers shall promptly notify Buyer in writing of the existence of such Contract and Buyer and its Affiliates shall have the option, in their sole discretion, either to (a) supplement Schedule A to the Assignment and Assumption Agreement to include such Contract as an Assigned and Assumed Contract as though any such Contract had originally been set forth on Schedule A to the Assignment and Assumption Agreement or (b) (i) treat any such Contract as an Excluded Asset and all Liabilities related thereto as Excluded Liabilities and (ii) subject to the proviso contained in Section 5.7(c), and solely with respect to Contracts for which Buyer receives notice from Seller not later than ten (10) Business Days prior to the Closing Date, reimburse Seller for one-half of all out-of-pocket costs and penalties which Sellers actually pay in accordance with the terms of such Contract upon termination or cancellation of such Contract times, if the Contract does not relate exclusively to the Business, a fraction representing the proportion of the Contract relating to the Business; provided, however, if Buyer, CIGNA Life or any of its Affiliates have derived any benefit under a Contract or utilized any service under a Contract between the Closing and the date Buyer elects to treat such Contract as an Assigned and Assumed Contract or elects not to treat such Contract as an Assigned and Assumed Contract, any Liability incurred pursuant to such Contract for the receipt of the benefit derived between the Closing and the date of such election shall be borne by Buyer. The foregoing proviso shall not apply to any Contract or service under a Contract

to the extent that the benefit of such Contract or service is provided directly or indirectly to Buyer, CIGNA Life or any of its Affiliates pursuant to the Transition Services Agreement. Buyer shall have the right to exercise the option referred to in the second sentence of this Section 5.28 within ten (10) Business Days of Buyer's receipt of Seller's notification and shall exercise such option by notifying Sellers in writing as to whether Buyer shall treat such Contract pursuant to clause (a) or clause (b) of the second sentence of this Section 5.28. Any such Contract for which Buyer fails to notify Sellers in accordance with the previous sentence shall be treated as an Excluded Asset and all Liabilities related thereto as Excluded Liabilities. Sellers and their Affiliates shall take such actions, execute such instruments and otherwise cooperate with Buyer to the extent reasonably necessary to give effect to any such election by Buyer and its Affiliates.

Section 5.29 Post-Restructuring Services.

In connection with the consummation of the Restructuring, Sellers shall describe to Buyer in writing each service or arrangement previously provided within a Seller which following the Restructuring would need to be provided by a Seller to CIGNA Life or an Acquired Company in order for the Business as conducted by CIGNA Life and the Acquired Companies to receive following the Restructuring a comparable level of services and support from the Sellers as was provided by Sellers to the Business prior to the Restructuring. Buyer shall be entitled (i) (A) to elect to have the applicable Seller, on the one hand, and CIGNA Life or an Acquired Company, on the other hand, enter into a written Contract providing for the provision of such service or arrangement on the same terms as provided within the applicable Seller prior to the Restructuring, (B) to treat such Contract as an Assigned and Assumed Contract, (C) to deem such Contract as added to Schedule 3.15(a) or 3.15(b), as applicable, with effect as of the date of this Agreement and (D) to deem such Contract as added to Schedule 5.17(a)(ii) with effect as of the date of this Agreement, (ii) (A) to reject the election contemplated by clause (i)(A) above, (B) to reject the treatment contemplated by clause (i)(B) above, (C) to deem such service or arrangement as added to Schedule 3.15(a) or 3.15(b), as applicable, with effect as of the date of this Agreement and (D) to deem such service or arrangement as added to Schedule 5.17(a)(i) with effect as of the date of this Agreement or (iii) (A) to reject the election contemplated by clause (i)(A) above, (B) to reject the treatment contemplated by clause (i)(B) above, (C) to deem such service or arrangement as added to Schedule 3.15(a) or 3.15(b), as applicable, with effect as of the date of this Agreement, (D) to deem such service or arrangement as added to Schedule 5.17(a)(i) with effect as of the date of this Agreement and (E) to elect to treat such service or arrangement as an Omitted Service as defined under and for purposes of the Transition Services Agreement with effect as of the date of such election.

Section 5.30 Data Required for Sarbanes-Oxley Certification: IMR.

(a) From and after the date of this Agreement Sellers will use reasonable best efforts to comply with Buyer's requests for information available to Sellers relating to the Business to the extent Buyer requires such information to facilitate

post-Closing compliance with the certification requirements under Section 13(a) of the Exchange Act, and, except to the extent required under Applicable Law, Buyer shall preserve the confidentiality of such data.

(b) Sellers agree to cause CGLIC to prepare and have verified by CIGNA's independent, external auditors revised calculations of IMR for the Business for purposes of calculating the IMR Adjustment, which calculation and verification shall be completed no later than January 31, 2004.

Section 5.31 Transfer of Canadian Business.

The Canadian portion of the Business will be transferred to CIGNA Life or PRICOA in a manner to be agreed between Buyer and Sellers between the date of this Agreement and Closing; provided that no transfers shall be effected in any manner that require CIGNA Life or Buyer or any Affiliate of Buyer to effect or maintain any licensure or registration in Canada or any jurisdiction within Canada.

Section 5.32 DC Hedge.

(a) In the event that all or part of the incremental contra-liability related to the close-out and revaluation to fair value for SAP purposes of open positions as of or immediately prior to the Closing Date in the DC Hedge Program (as identified in the Statement of Net Settlement Methods), is disallowed by the Connecticut Insurance Department or otherwise not available (the "SAP Disallowance") and such SAP Disallowance results in a reduction of CIGNA Life's Surplus, then the Sellers shall pay to CIGNA Life an amount equal to 13.4% multiplied by the amount by which CIGNA Life's Surplus is reduced as a direct result of the SAP Disallowance.

(b) Any payment required to be made by the Sellers to CIGNA Life pursuant to subsection (a) of this Section 5.32 shall be made within 30 days after Buyer notifies Sellers that CIGNA Life's SAP financial statements will reflect a SAP Disallowance to the extent of such SAP Disallowance.

(c) Buyer shall use reasonable efforts to preserve the availability of the contra-liability referred to in Section 5.32(a). Buyer shall keep the Sellers apprised of any discussions which the Buyer or any of its Affiliates, including CIGNA Life, may have with the Connecticut Insurance Department relative to the DC Hedge Program as well as any SAP Disallowance and the Buyers and Sellers agree that the last sentence of Section 5.6 of this Agreement shall apply to any discussions with the Connecticut Insurance Department relating to any SAP Disallowance.

Section 5.33 Releases of Insurance-Related Liabilities.

From June 30, 2003 through the Closing Date, CGLIC and CIGNA Life have not released and shall not record a Net Reserve Release Amount on its SAP

statements without the appropriate concurrence by PricewaterhouseCoopers LLP. Sellers will promptly notify Buyer in writing of any such release that is reflected in its SAP statements or the effect of which will be reflected in the Final Statement of Net Settlement.

Section 5.34 Assignment of Right to Act as Collateral Manager. From and after the date of this Agreement, Sellers shall use their reasonable best efforts to obtain the consent of the non-Seller loan participants to the Assignment from CGLIC or any of its Affiliates to Prudential Investment Management of the right to act as collateral manager in connection with the following three (3) collateralized bank loan obligation transactions: TimesSquare Serves, Trumbull and TimesSquare Loan Trust.

ARTICLE VI
CONDITIONS PRECEDENT

Section 6.1 Conditions to Obligation of All Parties.

The respective obligations of Buyer and Sellers to effect the Closing is subject to the satisfaction or explicit written waiver at or prior to the Closing of the following conditions:

(a) any waiting period applicable to the consummation of the Closing under the HSR Act shall have terminated or expired;

(b) all other applicable waiting periods have expired and all other approvals, licenses, authorizations, filings, registrations, applications, notifications, consents, waivers, releases and orders required to be made or filed with or obtained from any Governmental Entity in connection with this Agreement and the Ancillary Agreements and the consummation of the transactions contemplated hereby and thereby set forth on Schedule 6.1(b) (collectively, "Governmental Approvals") shall have been made or obtained, shall be in full force and effect and shall not include any term or condition requiring any party to take or refrain from taking or to agree to take or refrain from taking any action or to suffer to exist any restriction or requirement which would, individually or together with all other such terms and conditions of Governmental Approvals, be reasonably expected to result in a Material Negative Condition;

(c) the Novation Approvals with respect to policies subject to the laws of the jurisdictions set forth on Schedule 6.1(c) shall have been made or obtained and be in full force and effect without any term or condition that would reasonably be expected to result in a Material Negative Condition;

(d) the approvals, notifications, consents, waivers and releases from third parties other than Governmental Entities set forth on Schedule 6.1(d) shall have been made or obtained; and

(e) no provision of any Applicable Law shall prohibit Buyer from consummating or performing the transactions contemplated by this Agreement or the Ancillary Agreements, except if such prohibition would not reasonably be expected to result in a Material Negative Condition, and there shall not be instituted by any Governmental Entity any Action which seeks to enjoin or otherwise prevent consummation of the transactions contemplated by this Agreement or the Ancillary Agreements.

Section 6.2 Additional Conditions to Obligation of Buyer.

The obligation of Buyer to effect the Closing is further subject to the satisfaction (or explicit written waiver by Buyer) at or prior to the Closing of the following conditions:

(a) The representations and warranties of Sellers contained in (i) Sections 3.2 and 3.5 shall be true and correct in all material respects, (ii) clause (b) in the first paragraph of Section 3.9 shall be true and correct in all respects and (iii) Article III of this Agreement (other than those referenced in clause (i) and (ii) above) shall be true and correct (but without regard to any qualifications or references to "Seller Material Adverse Effect", "material" or any other materiality qualifications or references contained in any specific representation or warranty), in each case of clause (i), (ii) and (iii) above at the date of this Agreement and on and as of the Closing Date (after giving effect to the Restructuring) as though made on and as of the Closing Date (except for representations and warranties made as of a specified date, the accuracy of which will be determined as of the specified date), except in the case of clause (iii) above where any such failure of the representations and warranties in the aggregate to be true and correct would not reasonably be expected to have a Seller Material Adverse Effect, and Buyer shall have received a certificate signed on behalf of Sellers by the Chief Financial Officer of CIGNA to the effect that such Chief Financial Officer has read this Section 6.2(a) and that to the best of his Knowledge the conditions set forth in this Section 6.2(a) have been satisfied (which certificate shall not impose any personal liability on such officer);

(b) Sellers shall have performed and complied in all material respects with each obligation, covenant, agreement and condition required by this Agreement to be performed or complied with by Sellers at or prior to the Closing, and Buyer shall have received a certificate signed on behalf of Sellers by the Chief Financial Officer of CIGNA to the effect that such Chief Financial Officer has read this Section 6.2(b) and that to the best of his Knowledge the conditions set forth in this Section 6.2(b) have been satisfied (which certificate shall not impose any personal liability on such officer);

(c) CGLIC's financial strength rating by Standard & Poor's has not been reduced to BBB or below;

(d) CGLIC's financial strength rating by Moody's has not been reduced to Baa2 or below;

(e) Buyer shall have received one or more opinions of Counsel to Sellers, dated the Closing Date, substantially in the forms attached as Exhibit V-1, Exhibit V-2, and Exhibit V-3;

(f) Buyer shall have received from Sellers certificates obtained from the Connecticut Department of Insurance evidencing the continued existence and licensure of CIGNA Life as an insurance company, dated as of the date not earlier than five days prior to the Closing;

(g) Buyer shall have received from Sellers certificates as to the good standing or comparable status of the Acquired Companies from the respective jurisdictions of their incorporation or domicile, dated as of a date not earlier than two (2) days prior to the Closing Date;

(h) Buyer shall have received copies of the Ancillary Agreements duly executed by each party thereto that is not an Affiliate of Buyer;

(i) Buyer shall have received copies of the resignations of each director of the Acquired Companies on or prior to the Closing Date; and

(j) the approvals, notifications, consents, waivers and releases from third parties other than Governmental Entities set forth on Schedule 6.2(j) shall have been made or obtained.

Section 6.3 Additional Conditions to Obligation of Sellers.

The obligation of Sellers to effect the Closing is further subject to the satisfaction (or explicit written waiver by Sellers) at or prior to the Closing of the following conditions:

(a) the representations and warranties of Buyer contained in Article IV of this Agreement shall be true and correct (but without regard to any qualifications or references to "Buyer Material Adverse Effect", "material" or any other materiality qualifications or references contained in any specific representation or warranty) at the date of this Agreement and on and as of the Closing Date as though made on and as of the Closing Date (except for representations and warranties made as of a specified date, the accuracy of which will be determined as of the specified date), except where any such failure of the representations and warranties in the aggregate to be true and correct would not reasonably be expected to have a Buyer Material Adverse Effect, and Sellers shall have received a certificate signed on behalf of Buyer by the Chief Financial Officer of Buyer to the effect that such Chief Financial Officer has read this Section 6.3(a) and that to the best of his knowledge the conditions set forth in this Section 6.3(a) have been satisfied (which certificate shall not impose any personal liability on such officer;

(b) Buyer shall have performed and complied in all material respects with each obligation, covenant, agreement and condition required by this Agreement to be performed or complied with by Buyer at or prior to the Closing, and Sellers shall have received a certificate signed on behalf of Buyer by the Chief Financial Officer of Buyer to the effect that such Chief Financial Officer has read this Section 6.3(b) and that to the best of his knowledge the conditions set forth in this Section 6.3(b) have been satisfied (which certificate shall not impose any personal liability on such officer);

(c) Sellers shall have received one or more opinions of Counsel to Buyer, dated the Closing Date, substantially in the form attached as Exhibit W; and

(d) Sellers shall have received copies of the Ancillary Agreements duly executed by each party thereto that is not a Seller or an Affiliate of any Seller.

ARTICLE VII
INDEMNIFICATION

Section 7.1 Exclusions from Representations and Warranties.

(a) Notwithstanding anything to the contrary in this Agreement or the Ancillary Agreements and subject to Section 7.1(b), Buyer acknowledges and agrees that (i) Sellers make no representation or warranty, and nothing contained in this Agreement, the Ancillary Agreements, or in any other agreement, document or instrument to be delivered in connection with the transactions contemplated hereby or thereby is intended or shall be construed to be a representation or warranty (express or implied) of Sellers, for any purpose of this Agreement, the Ancillary Agreements, or any other agreement, document or instrument to be delivered in connection with the transactions contemplated hereby or thereby, with respect to (A) the adequacy or sufficiency of any of its Insurance-Related Liabilities, (B) whether or not Insurance-Related Liabilities were determined in accordance with any actuarial, statutory or other standard, (C) the effect of the adequacy or sufficiency of Insurance-Related Liabilities on any "line item" or asset, liability or equity amount, or (D) the valuation or value of any Investment Asset, and (ii) the adequacy or sufficiency of Insurance-Related Liabilities and the valuation or value of any Investment Asset may not be used to demonstrate or support the breach of any representation or warranty contained in this Agreement, the Ancillary Agreements, or any other agreement, document or instrument to be delivered in connection with the transactions contemplated hereby and thereby.

(b) The exclusions set forth in Section 7.1(a) do not apply to (i) the breach of Section 3.25, (ii) any breach of the representation in Section 3.6(b) to the extent that such breach results from any failure of the preparation of the income statements included in the Business Financial Statements to be consistent in all material respects with the portions of the Statement of Net Settlement Methods relating to Insurance-Related

Liabilities and Investment Assets, (iii) any breaches of representations and warranties that result in the imposition of any fine by a Governmental Entity or other out-of-pocket Losses that are not Insurance-Related Liabilities or (iv) any breaches of representation and warranties set forth in the Transfer Agreements.

Section 7.2 Survival of Representations and Warranties.

All representations and warranties of the parties hereto contained in this Agreement (except as otherwise provided below) shall survive the Closing Date until twenty-one (21) months following the Closing Date and expire on such date, but shall not survive any termination of this Agreement; provided, however, the representations and warranties set forth in Sections 3.10, 3.11 (including those representations and warranties set forth in Section 3.21 to the extent that the same are treated as representations or warranties set forth in Section 3.11 pursuant to the last sentence of Section 3.21, Section 5.19(s), or Section 7.3(g)), 3.21(a), 3.21(d) and 3.21(e) shall survive until sixty (60) days after the expiration of the statute of limitations including extensions thereof under the Applicable Law, including ERISA and the Code, and the representations and warranties set forth in Sections 3.1(a), 3.2, 3.5, and 3.17 and, unless otherwise expressly provided in any Included Agreement, all representations and warranties in such Included Agreements shall survive indefinitely; provided, further, however, that the representations and warranties set forth in Section 3.6(b) hereof shall survive until the later of (A) the date following agreement upon the Final Statement of Net Settlement pursuant to Section 2.9(d) hereof and (B) the date following delivery of the Third Party Account Report pursuant to Section 2.10(a) hereof, but, notwithstanding anything in this Agreement or any Ancillary Agreement to the contrary, following the expiration of the representations and warranties set forth in Section 3.6(b), no claim may be made for indemnification that could not have been made without the existence of the representations and warranties set forth in Section 3.6(b), and no such actual or alleged breach of the representations and warranties set forth in Section 3.6(b) after the expiration date thereof may be used to demonstrate or support the breach of any other representation or warranty contained in this Agreement, the Ancillary Agreements, or any other agreement, document or instrument to be delivered in connection with the transactions contemplated hereby and thereby; and provided, further, that if a claim for indemnification which has been timely and properly made pursuant hereto has not been finally resolved before the expiration of the applicable period referred to in this Section 7.2, such claim shall continue to survive until the final resolution thereof. The parties agree that, except as expressly provided in this Article VII, with respect to Sellers and Buyer, no claims or causes of action may be brought against any of the parties hereto, or any of their respective directors, officers, employees, Affiliates, successors, permitted assigns, advisors, agents, or representatives based upon any of the representations or warranties contained in this Agreement following the Closing Date or any termination of this Agreement. This Section 7.2 shall not limit (i) any covenant or agreement of the parties in this Agreement or any Ancillary Agreement to the extent that such covenant or agreement contemplates or requires performance after the Closing or any representation

or warranty in any Ancillary Agreement or (ii) the parties' indemnity obligations under Section 5.19, which shall survive for ninety (90) days after the expiration of all applicable statutes of limitation (giving effect to any waivers, mitigations or extensions thereof), or (iii) Sections 7.3(a)(ii), (a)(iii), (b)(ii) and (b)(iii), which indemnity obligations shall survive indefinitely.

Section 7.3 Obligation to Indemnify.

(a) Subject to the limitations set forth in this Article VII and in the Ancillary Agreements with respect to such agreements, Sellers, jointly and severally, agree to indemnify, defend and hold harmless Buyer, the Acquired Companies and their respective directors, officers, employees, Affiliates, successors, permitted assigns, agents and representatives (collectively, the "Buyer Indemnitees") following the Closing from and against all Losses (as hereinafter defined), arising out of or resulting from: (i) the failure of any representations and warranties contained in Article III hereof to be true and correct as of the date of this Agreement or the Closing Date (after giving effect to the Restructuring) (except with respect to such representations or warranties which are made expressly as of a specified date or period, as to which indemnification hereunder shall be made only to the extent of the failure of such representations and warranties to be true and correct as of such specified date or period), determined without regard to any qualifications or references to "Seller Material Adverse Effect" contained in any specific representation or warranty (other than the representation contained in clause (b) of the first paragraph of Section 3.9), (ii) any breach, violation or non-fulfillment of any of the covenants and agreements of Sellers contained in this Agreement, the Bill of Sale or the Assignment and Assumption Agreement and (iii) all of the Excluded Liabilities. As used in this Article VII, "Loss" and "Losses" mean all losses, liabilities, damages, judgments, settlements, costs and expenses (including out-of-pocket costs of investigation and defense and reasonable attorneys', consultants' and experts' fees and expenses and costs and expenses relating to corrective or remedial actions), subject to the reduction specified in Section 7.3(d). Without limiting the generality of the foregoing, the parties acknowledge and agree that (A) indemnification for consequential damages and diminution in value is permitted under this Section 7.3 and that the party defending any claim for such damages is permitted to contest the appropriateness of such damages on any specific claim and (B) the Indemnifying Party shall indemnify the Indemnified Party for punitive or exemplary damages for which a valid indemnification claim is made hereunder only to the extent paid to a Third Party Claimant or Governmental Entity. Notwithstanding anything herein to the contrary, (x) Buyer Indemnitees shall not be entitled to indemnification for any Loss arising out of or resulting from breach of a representation or warranty to the extent Buyer Indemnitees would be entitled to indemnification for such Loss under clause (iii) of the first sentence of Section 7.3(a) and there is no impediment to collection; and (y) Buyer Indemnitees shall not be entitled to indemnification for any Loss constituting the Assumed Portion of the Eligible Liabilities.

(b) Subject to the limitations set forth in this Article VII, Buyer agrees to indemnify, defend and hold harmless Sellers and their respective directors, officers,

employees, Affiliates, successors, permitted assigns, advisors, agents and representatives (collectively, the "Seller Indemnitees") following the Closing from and against all Losses arising out of or resulting from: (i) the failure of any representations and warranties contained in Article III hereof to be true and correct as of the date of this Agreement or the Closing Date (except with respect to such representations or warranties which are made expressly as of a specified date or period, as to which indemnification hereunder shall be made only to the extent of the failure of such representations and warranties to be true and correct as of such specified date or period), determined without regard to any qualifications or references to "Buyer Material Adverse Effect" contained in any specific representation or warranty; (ii) any breach, violation or non-fulfillment of any of the covenants and agreements of Buyer, or the Acquired Companies (with respect to post-Closing matters), contained in this Agreement, the Bill of Sale or the Assignment and Assumption Agreement; (iii) all of the Assumed Liabilities and Acquired Companies Liabilities; and (iv) Post-Closing Business Liabilities.

(c) The aggregate amount for which Sellers shall be liable under Section 7.3(a)(i) hereof shall in no event exceed seventy-five percent (75%) of the Purchase Price. The aggregate amount for which Buyer shall be liable under Section 7.3(b)(i) hereof shall in no event exceed seventy-five percent (75%) of the Purchase Price. Sellers shall be required to indemnify Buyer Indemnitees pursuant to Section 7.3(a)(i) hereof only if aggregate Losses incurred by Buyer Indemnitees in connection with Section 7.3(a)(i) plus the amount of any Adjustment Amount determined pursuant to Section 2.11(d) exceed $25,000,000 (provided that such limitation on Sellers' duty to indemnify Buyer Indemnities shall not apply to Losses related to any of Section 3.1(a), Section 3.2, Section 3.5, Section 3.6(b) or Section 3.17), and, in such event, indemnification shall be made by Sellers with respect to all such Losses plus the amount of any Adjustment Amount determined pursuant Section 2.11(d) to the extent such Losses exceed $12,500,000 (the "Deductible"). Buyer shall be required to indemnify Seller Indemnitees pursuant to Section 7.3(b)(i) when and only if aggregate Losses incurred by Seller Indemnitees in connection with such clauses exceeds $25,000,000 and, in such event, indemnification shall be made by Buyer with respect to all such Losses to the extent such Losses exceed $12,500,000.

(d) The amount of any Losses sustained by the Indemnified Party (as defined in Section 7.4) shall be reduced by any amount actually received by the Indemnified Party with respect thereto under any insurance coverage or from any other parties alleged to be responsible therefor. The Indemnified Party shall use its reasonable efforts to collect any amounts available under such insurance coverage and from such other parties. If the Indemnified Party receives an amount under insurance coverage or from such other parties alleged to have responsibility with respect to Losses sustained at any time subsequent to any indemnification provided pursuant to this Section 7.3, then such Indemnified Party shall promptly reimburse the applicable Indemnifying Party (as defined in Section 7.4) for any payment made or expense incurred by such Indemnifying Party in connection with providing such indemnification up to such amount received by

the Indemnified Party, as applicable, after deducting therefrom the full amount of any expenses incurred by it in procuring such recovery. Notwithstanding anything herein or in any Ancillary Agreement to the contrary, the amount of any Losses shall also be reduced to the extent that the Indemnified Party is compensated for such Losses by a third party (not acting on behalf of Sellers) and other than pursuant to this Article VII.

(e) The Indemnifying Party shall be obligated to indemnify the Indemnified Party only for those claims involving Losses under Section 7.3(a)(i) or Section 7.3(b)(i) as to which the Indemnified Party has given the Indemnifying Party written notice prior to sixty (60) days following the expiration date of the relevant representation and warranty as set forth in Section 7.2.

(f) (i) For claims involving Excluded Liabilities, Sellers, as the Indemnifying Party, will upon making any indemnification payment and to the extent of such payment, be subrogated to all rights of the Indemnified Party against any third party (excluding Buyer Indemnitees' corporate insurance carriers) in respect of the Loss to which the payment relates, provided that Sellers or any of the Acquired Companies would have had the right to assert the claim prior to the Closing had such claim arisen prior to the Closing. Sellers' decisions relative to whether to pursue a particular subrogation right shall be made consistent with decisions they made when they owned the Business (or, with respect to matters of first impression, consistent with the decisions they would make in a commercially reasonable manner if they continued to own the Business). Buyer, at its option and at its own expense, may participate in any Action, claim or demand subject to this paragraph (ii) through representatives and additional counsel of its own choosing.

(ii) For claims involving Assumed Liabilities, Buyer, as the Indemnifying Party, will upon making any indemnification payment and to the extent of such payment, be subrogated to all rights of the Indemnified Party against any third party (except with respect to Sellers' self-insurance programs) in respect of the Loss to which the payment relates. Sellers, at their option and at their own expense, may participate in any Action, claim or demand subject to this paragraph (ii) through representatives and additional counsel of their own choosing.

(g) The provisions of this Article VII shall not apply to Taxes relating to the Business (including the representations and warranties contained in Section 3.11, but not those contained in Section 3.21), which shall be governed by Section 5.19: provided, however, if there is a failure of any representation or warranty set forth in Section 3.21 and the subject matter of such failure becomes the subject matter of a contest, claim, audit or similar proceeding initiated by a Tax Authority against the Buyer or any of its Affiliates (including the Acquired Companies), then such proceeding and Sellers' indemnification obligations, if any, with respect thereto shall be governed in all respects by the provisions of Section 5.19, and, to the extent governed by Section 5.19, for purposes of the survival periods of the representations and warranties set forth in Section 7.2, such representation or warranty shall be treated as a representation or warranty set forth in Section 3.11.

Section 7.4 Claims Notice.

In the event that either a Buyer Indemnitee or a Seller Indemnitee wishes to assert a claim for indemnification hereunder (other than a Claim based on an Asserted Liability), such party seeking indemnification (the "Indemnified Party") shall, as promptly as is reasonably practicable after becoming aware of the claim and entitlement to assert indemnification therefor, deliver written notice (such notice or the notice described in Section 7.5, a "Claims Notice") to the party from whom indemnification is claimed (the "Indemnifying Party"), specifying in reasonable detail the facts constituting the basis for and the amount of the claim asserted. Failure to deliver a Claims Notice with respect to a claim in a timely manner as specified in the preceding sentence shall not be deemed a waiver of the Indemnified Party's right to indemnification hereunder for Losses in connection with such claim, but the amount of reimbursement to which the Indemnified Party is entitled shall be reduced by the amount, if any, by which the Indemnified Party's Losses would have been less had such Claims Notice been timely delivered.

Section 7.5 Right to Contest Claims of Third Parties.

(a) If an Indemnified Party asserts a claim for indemnification hereunder because of a claim or demand made, or an action, proceeding or investigation instituted, by any Person not a party to this Agreement (a "Third Party Claimant") that may result in a Loss with respect to which the Indemnified Party would be entitled to indemnification pursuant to this Article VII (an "Asserted Liability"), the Indemnified Party shall deliver to the Indemnifying Party a Claims Notice with respect thereto, which Claims Notice shall be delivered as promptly as is reasonably practicable after such Asserted Liability is actually known to the Indemnified Party. Failure to deliver a Claims Notice with respect to a claim in a timely manner as specified in the preceding sentence shall not be deemed a waiver of the Indemnified Party's right to indemnification hereunder for Losses in connection with such claim, but the amount of reimbursement to which the Indemnified Party is entitled shall be reduced by the amount, if any, by which the Indemnified Party's Losses would have been less had such Claims Notice been timely delivered.

(b) Subject to Sections 7.5(e), (f) and (g) below, the Indemnifying Party shall have the right, upon written notice to the Indemnified Party, through representatives and counsel of its own choosing, which counsel shall be reasonably acceptable to the Indemnified Party, to investigate, contest, defend or settle any Asserted Liability that may result in a Loss with respect to which the Indemnifying Party has irrevocably acknowledged to the Indemnified Party in writing its indemnification obligation pursuant to this Article VII; provided that the Indemnified Party may, at its option and at its own expense, Participate Fully (as defined below) in the investigation,

contesting, defense and settlement of any such Asserted Liability through representatives and counsel of its own choosing. The Indemnifying Party shall not settle any Asserted Liability unless: (i) the terms of such settlement call only for a payment by the Indemnifying Party; and do not involve any admission or finding of any violation of Applicable Law by the Indemnified Party or its Affiliates, or the imposition of equitable remedies on the Indemnified Party or its Affiliates, or the imposition of any other obligation or limitation on the Indemnified Party or its Affiliates; or (ii) the Indemnified Party shall have consented to the terms of such settlement, which consent shall not unreasonably be withheld. If requested by the Indemnifying Party, the Indemnified Party will, at the sole cost and expense of the Indemnifying Party, cooperate with the Indemnifying Party and its counsel in contesting any Asserted Liability or, if appropriate and related to the Asserted Liability in question, in making any reasonable counterclaim against the Third Party Claimant, or any cross complaint against any Person (other than the Indemnified Party or its Affiliates). Unless and until the Indemnifying Party elects to defend the Asserted Liability, the Indemnified Party shall have the right, at its option and at the Indemnifying Party's expense, to do so in such manner as it deems appropriate and the Indemnifying Party shall be bound by any final, unappealable determination made with respect to such Asserted Liability; provided, however, that unless otherwise expressly permitted hereunder, the Indemnified Party shall not settle or compromise any Asserted Liability for which it seeks indemnification hereunder without the prior written consent of the Indemnifying Party, which shall not be unreasonably withheld.

(c) The Indemnifying Party shall be entitled to Participate Fully in (but not to control) the defense of any Asserted Liability which it has not elected to defend with its own counsel and at its own expense. As used in this Agreement, "Participate Fully" shall entitle the participating party (the "Participating Party") to participate fully in the defense of such claim with internal counsel or with outside counsel reasonably acceptable to the controlling party, and the controlling party shall permit counsel for the Participating Party to attend all significant internal meetings, all meetings with representatives of plaintiffs, hearings and the like, except that the controlling party may, in its business discretion, determine the participants for meetings with representatives of Governmental Entities with respect to governmental Actions, claims and demands under clause (g) below, in each case subject to such guidelines for participation as the controlling party shall reasonably establish. Counsel for a Participating Party also shall be given a reasonable opportunity to comment upon all memoranda of law, pleadings and briefs and other documents relating to the Third Party Claim, and the controlling party and its counsel shall give reasonable consideration to the comments of counsel for the Participating Party. If the Indemnified Party participates in the defense of a Third Party Claim for which it is not the controlling party, the expenses of the counsel for the Indemnified Party shall be paid by the Indemnified Party. The Indemnified Party shall cooperate fully with the Indemnifying Party in the defense or settlement of Third Party Claims for which the Indemnified Party is not the controlling party, and the Indemnifying Party shall reimburse the Indemnified Party for all its reasonable out of pocket expenses incurred in connection with the cooperation requested by the Indemnifying Party.

(d) The parties hereto shall make mutually available to each other all relevant information in their possession relating to any Asserted Liability (except to the extent that such action would result in a loss of attorney-client privilege as to any material matter) and shall cooperate with each other in the defense thereof.

(e) With respect to any Asserted Liability by a Third Party Claimant constituting the Assumed Portion of any Eligible Liabilities or the portion of any Eligible Liabilities that are Excluded Liabilities and as to which Buyer's Applicable Percentage is 20%, Sellers shall have the option to control the defense and settlement of any Action relating to such Eligible Liability as if, for purposes of paragraphs (b), (c) and (d) of Section 7.5, Sellers were the Indemnifying Party rather than the Indemnified Party; provided, however, that Sellers shall select as counsel in any such defense attorneys from the firms identified on Schedule 7.5(e) or other counsel mutually acceptable to the parties and that Buyer, at its option and at its own expense, may Participate Fully in the investigation, contesting, defense and settlement of any such Eligible Liability. With respect to any Asserted Liability by a Third Party Claimant constituting the Assumed Portion of any Eligible Liabilities or the portion of any Eligible Liabilities that are Excluded Liabilities and as to which Buyer's Applicable Percentage is more than 20%, Buyer shall have the option to control the defense and settlement of such Action as if, for purposes of paragraphs (b), (c) and (d) of Section 7.5, Buyer were the Indemnifying Party rather than the Indemnified Party, provided, however, that as to any Action where Buyer's Applicable Percentage is 80% or less, Buyer shall select as counsel in such defense attorneys from the firms identified in Schedule 7.5(e) or other counsel mutually acceptable to the parties and Sellers, at their option and own expense, may Participate Fully in the investigation, contesting, defense and settlement of any such Eligible Liability.

(f) If a Third Party Claimant (other than a Governmental Entity) institutes an Action, claim or demand involving both Excluded Liabilities and Assumed Liabilities (other than Assumed Portion of the Eligible Liabilities), (i) Sellers shall have the option to control the defense and settlement of such Action, claim or demand as if, for purposes of paragraphs (b), (c) and (d) of Section 7.5, Sellers were the Indemnifying Party, if the aggregate Losses as a result of such Action, claim or demand are predominantly attributable to Excluded Liabilities and (ii) Buyer shall have the option to control the defense and settlement of such Action, claim or demand as if, for purposed of paragraphs (b), (c) and (d) of Section 7.5, Buyer were the Indemnifying Party, if the aggregate Losses as a result of such Action, claim or demand are predominantly attributable to Assumed Liabilities; provided, however, that the controlling party shall select as counsel in any such defense attorneys from the firms identified on Schedule 7.5(e) or other counsel mutually acceptable to the parties and that the non-controlling party, at its own option and its own expense, may Participate Fully in the investigation, contesting, defense or settlement of any such Action, claim or demand. In the event that the Buyer and Sellers are unable to agree as to whether such aggregate Losses are predominantly attributable to Excluded Liabilities or Assumed Liabilities,

such dispute shall be resolved promptly by arbitration in accordance with the procedures set forth on Schedule 7.5(f). Each party hereto shall cooperate in good faith to facilitate prompt resolution of any dispute submitted to arbitration pursuant to this Section 7.5(e).

(g) If a Third Party Claimant which is a Governmental Entity institutes an Action involving both Excluded Liabilities and Assumed Liabilities, Buyer shall have the option to control the defense and settlement of any such Action as if, for purposes of paragraphs (b), (c) and (d) of Section 7.5, Buyer were the Indemnifying Party; provided, however, that Buyer shall select as counsel in any such defense attorneys from the firms identified on Schedule 7.5(e) or other counsel mutually acceptable to the parties and that Sellers, at their option and at their own expense, may Participate Fully in the investigation, contesting, defense or settlement of any such Action and provided, further, that if any of Sellers are parties to such Action, CIGNA shall have the option by written notice to Buyer to jointly control such Action. In the event of joint control of any Action, each of Buyer and CIGNA shall cooperate with other in the defense and settlement of such Action, with each free to settle without the consent of the other.

(h) Sellers and their Affiliates will have reasonable access, during normal business hours and without undue disruption of Buyer's and its Affiliates' business, to the books and records of Buyer and its Affiliates to the extent relating to Excluded Liabilities and to the personnel of Buyer engaged in the Business. Buyer and its Affiliates will have reasonable access, during normal business hours and without undue disruption of Sellers' and their Affiliates' business, to the books and records of Sellers and their Affiliates to the extent relating to Assumed Liabilities and to the personnel of Sellers who have been engaged in the Business.

Section 7.6 Nonduplication.

(a) Any liability for indemnification under the Agreement shall be determined without duplication of recovery by reason of the state of facts giving rise to such liability constituting a breach of more than one representation, warranty, covenant or agreement.

(b) Subject to Section 7.1(b) and Section 7.6(a), the adequacy or sufficiency of Insurance-Related Liabilities and the amount thereof are determined solely as set forth in Article II and shall not be the subject of indemnification claims for breach of a representation or warranty or as an Excluded Liability. Buyer agrees that if it challenges any amount set forth on the Closing Statement of Net Settlement which is designated as a Non-Insurance-Related Liability pursuant to Section 2.10, then to the extent Buyer is unsuccessful in such challenge Buyer may not assert a claim for a breach of representation and warranty under this Article VII as to the same matter challenged before the Third Party Accountant except to the extent Buyer obtains additional relevant information after the submission of the challenge to support such claim.

Section 7.7 Exclusivity; Investigation.

(a) Except with respect to claims alleging fraud, the indemnities provided for in this Article VII shall be the exclusive remedies of the parties hereto and their respective officers, directors, employees, Affiliates, agents, representatives, successors and assigns for any breach of or inaccuracy in any representation or warranty or any breach, nonfulfillment or default in the performance of any of the covenants or agreements contained in this Agreement and the parties shall not be entitled to a rescission of this Agreement or to any further indemnification or other rights or claims of any nature whatsoever in respect thereof, all of which the parties hereto hereby waive.

(b) Buyer has conducted its own independent review and analysis of the business, operations, technology, assets, liabilities, results of operations, financial condition and prospects of the Business, the Liabilities, the Business Financial Statements, the Statements of Net Settlement delivered pursuant to Article II and any other financial statements relating to the Business, the Liabilities, the Transferred Assets, the Acquired Companies or Sellers. In entering into this Agreement and each of the Ancillary Agreements, Buyer and its Affiliates have relied upon its own investigation and analysis, and Buyer acknowledges and agrees (i) that, except for the specific representations and warranties of Sellers contained in Article III hereof or any Ancillary Agreement, none of Sellers or their Affiliates nor any of their respective directors, officers, employees, affiliates, controlling persons, agents or representatives, makes or has made any representation or warranty, either express or implied, as to the accuracy or completeness of any of the information (including the Business Financial Statements, the Statements of Net Settlement delivered pursuant to Article II, and any other financial statements relating to the Business, the Liabilities, the Transferred Assets, the Acquired Companies or Sellers and any projections, estimates or other forward-looking information) provided (including in any management presentations, information memorandum, supplemental information or other materials or information with respect to any of the above) or otherwise made available to Buyer or any of its directors, officers, employees, affiliates, controlling persons, agents or representatives, and (ii) that, to the fullest extent permitted by Applicable Law and except for fraud, Sellers and their Affiliates and their respective directors, officers, employees, subsidiaries, controlling persons, agents or representatives shall not have any liability or responsibility whatsoever to Buyer or its Affiliates or any of their respective directors, officers, employees, subsidiaries, controlling persons, agents or representatives on any basis (including in contract or tort, under federal or state securities laws or otherwise) based upon any information provided or made available, or statements made (or any omissions therefrom), to Buyer or it's Affiliates or any of their respective directors, officers, employees, subsidiaries, controlling persons, agents or representatives, including in respect of the specific representations and warranties of Sellers set forth in Article III of this Agreement or any Ancillary Agreement, except as and only to the extent expressly set forth in Article III hereof or any Ancillary Agreement with respect to such representations and warranties and subject to the limitations and restrictions contained in this Agreement.

ARTICLE VIII
TERMINATION

Section 8.1 Termination Prior to Closing.

This Agreement may be terminated at any time prior to closing:

(a) by the mutual written consent of Sellers and Buyer;

(b) by either Sellers or Buyer if the Closing shall not have been consummated on or before July 1, 2004 (the "Termination Date"); and provided, that if on the Termination Date the conditions to Closing set forth in Section 6.1(b) or 6.1(c) shall not have been fulfilled, but all other conditions to Closing shall have been fulfilled or shall be capable of being fulfilled, then the Termination Date shall automatically be extended to October 1, 2004; provided, further however, that neither Buyer nor Sellers may terminate this Agreement pursuant to this Section 8.1(b) if the Closing shall not have been consummated by such date by reason of the failure of such party to perform in all material respects any of its covenants or agreements contained in this Agreement;

(c) by either Sellers or Buyer, upon written notice given to the other if any Governmental Entity will have issued a final, unappealable order, enjoining or otherwise prohibiting a transaction contemplated hereby;

(d) by Buyer if any of the conditions set forth in Sections 6.1 or 6.2 is or becomes incapable of satisfaction (other than by reason of the failure of Buyer to perform in all material respects any of its covenants or agreements contained in this Agreement); or

(e) by Sellers if any of the conditions set forth in Sections 6.1 or 6.3 is or becomes incapable of satisfaction (other than by reason of the failure of Sellers to perform in all material respects any of their covenants or agreements contained in this Agreement).

Section 8.2 Effect of Termination.

In the event of the termination of this Agreement as provided in Section 8.1, this Agreement shall become null and void and of no further force or effect, and there shall be no Liability or obligation hereunder on the part of Sellers or Buyer, or any of their respective directors, officers, employees, Affiliates, advisors, agents, representatives, successors or assigns except (i) that one or more of Sellers or Buyer, as the case may be, may have any Liability to one or more of Sellers or Buyer, as the case may be, if the basis of the termination is a willful, material breach by one or more of

Sellers or Buyer, as the case may be, of one or more of the provisions of this Agreement, (ii) Sections 5.12 (Expenses), 8.2 (Effect of Termination), 9.6 (Choice of Law), 9.12 (Consent to Jurisdiction), and 9.13 (Waiver of Jury Trial) shall survive the termination of this Agreement and (iii) the Confidentiality Agreement shall survive the termination of this Agreement for a period of two years following such termination.

ARTICLE IX
MISCELLANEOUS PROVISIONS

Section 9.1 Setoff.

Each of the parties hereto acknowledges and agrees (on their own behalf and on behalf of its Affiliates) that it and its Affiliates shall have no right hereunder or pursuant to Applicable Law to offset any amounts due and owing (or to become due and owing) under this Agreement or, except as expressly provided therein, under any Ancillary Agreement, to any other party hereto or thereto or such party's Affiliates against any amounts due and owing from such other party or such other party's Affiliates under this Agreement, any Ancillary Agreement or any other agreement, contract or understanding.

Section 9.2 Disclosure Schedules.

(a) Buyer or Sellers may at any time, or from time to time after the date of this Agreement, but not later than five (5) Business Days prior to the Closing Date, supplement or amend any Schedule delivered by Buyer or of Sellers, as the case may be, with respect to any matter. No supplement or amendment to a Schedule shall have any effect for the purpose of determining the satisfaction of the conditions to the obligation of the other parties under Article VI, the truth or accuracy of Sellers' representations and warranties under Article III or Sellers' indemnification obligations under Article VII or Section 5.19. A party to whom a disclosure is made prior to the Closing of a matter shall not, by proceeding with the Closing, be deemed to have waived the breach of this Agreement, or any of its other rights hereunder, including rights to indemnity, resulting from such failure to disclose.

(b) The parties hereto acknowledge and agree that any information set forth (directly or by cross-reference) in any Section or Subsection of Sellers' or Buyer's Schedules is considered disclosed only with respect to the corresponding Section or Subsection of this Agreement. Any disclosure in any Schedule of any contract, document, Liability, default, breach, violation, limitation, impediment or other matter, although the provision for such disclosure may require such disclosure only if such contract, document, Liability, default, breach, violation, limitation, impediment or other matter be "material," shall not be construed against any party to this Agreement, as an assertion by such party, that any such contract, document, Liability, default, breach, violation, limitation, impediment or other matter is, in fact, material.

Section 9.3 Amendment.

This Agreement may not be amended, modified or waived except by an instrument or instruments in writing signed and delivered on behalf of each of the parties hereto. Any consent of Sellers may be given on behalf of all Sellers by any of them.

Section 9.4 Entire Agreement.

This Agreement (which includes the Schedules, Exhibits hereto, Ancillary Agreements, and the other agreements, documents and instruments delivered pursuant hereto) constitutes the entire agreement among the parties with respect to the subject matter hereof and supersedes all other prior agreements and understandings (other than the Confidentiality Agreement), both written and verbal, among the parties or any of them with respect to the subject matter hereof.

Section 9.5 Notices.

All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given (and shall be deemed to have been duly given upon receipt) by delivery in Person, by telecopy (which is confirmed), or by registered or certified mail (postage prepaid, return receipt requested) to the respective parties as follows:

If to Sellers:

CIGNA Corporation
Two Liberty Place
1601 Chestnut Street
Philadelphia, Pennsylvania 19192
Attention: Thomas A. McCarthy
Telephone No.: (215) 761-6246
Fax No.: (215) 761-2387

with a copy (which shall not constitute notice) to:

Paul T. Schnell, Esq.
Robert J. Sullivan, Esq.
Skadden, Arps, Slate, Meagher & Flom LLP
4 Times Square
New York, New York 10036
Telephone No.: (212) 735-3000
Fax No.: (212) 735-2000

If to Buyer:

Prudential Financial, Inc.
751 Broad Street, 4th Floor
Newark, New Jersey 07102
Attention: Anthony F. Torre
Telephone No.: (973) 802-8689
Fax No.: (973) 367-8105

with a copy (which shall not constitute notice) to:

Joseph B. Frumkin, Esq.
Stephen M. Kotran, Esq.
Sullivan & Cromwell LLP
125 Broad Street
New York, New York 10004
Telephone No.: (212) 558-4000
Fax No.: (212) 558-3588

or to such other address as the Person to whom notice is given may have previously furnished to the others in writing in the manner set forth above. In no event shall the provision of notice pursuant to this Section 9.5 constitute notice for service of any writ, process or summons in any Action.

Section 9.6 Choice of Law.

This Agreement shall be governed by the laws of the State of New York applicable to contracts formed and to be performed entirely within the State of New York, without regard to choice of law principles.

Section 9.7 Paragraph Headings.

The headings of articles and sections hereof, and of attachments hereto, were inserted solely for convenience of reference and shall not affect the interpretation hereof.

Section 9.8 Specific Performance.

The parties recognize and agree that if for any reason any of the provisions of this Agreement are not performed in accordance with their specific terms or are otherwise breached, immediate and irreparable harm or injury would be caused for which money damages would not be an adequate remedy. Accordingly, each party agrees that, in addition to any other available remedies, each other party shall be entitled to an injunction restraining any violation or threatened violation of the provisions of this Agreement without the necessity of posting a bond or other form of security. In the event

that any action should be brought in equity to enforce the provisions of this Agreement, no party will allege, and each party hereby waives the defense, that there is an adequate remedy at law.

Section 9.9 Severability.

Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, the provision shall be interpreted to be only so broad as would be enforceable.

Section 9.10 Third Party Beneficiaries.

Except in the case of indemnification of Buyer Indemnitees or Seller Indemnitees pursuant to Section 7.3, nothing in this Agreement, express or implied, is intended to or shall confer upon any Person, other than the parties hereto, any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement.

Section 9.11 Counterparts.

This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same agreement.

Section 9.12 Consent to Jurisdiction.

Each of the parties hereto irrevocably and unconditionally submits to the exclusive jurisdiction of the United States District Court for the Southern District of New York or, if such court does not have jurisdiction, the New York State Supreme Court in the borough of Manhattan, for purposes of enforcing this Agreement. The parties shall take such actions as are within their control to cause any matter contemplated hereby to be assigned to the Commercial Division of the Supreme Court. In any such action, suit or other proceeding, each of the parties hereto irrevocably and unconditionally waives and agrees not to assert by way of motion, as a defense or otherwise any claims that it is not subject to the jurisdiction of the above court, that such action or suit is brought in an inconvenient forum or that the venue of such action, suit or other proceeding is improper. Each of the parties hereto also agrees that any final and unappealable judgment against a party hereto in connection with any action, suit or other proceeding shall be conclusive and binding on such party and that such award or judgment may be enforced in any court of competent jurisdiction, either within or outside of the United States. A certified or exemplified copy of such award or judgment shall be conclusive evidence of the fact and amount of such award or judgment.

Section 9.13 Waiver of Jury Trial.

Each of the parties hereto irrevocably waives any and all right to trial by jury in any legal proceeding arising out of or related to this Agreement or the transactions contemplated hereby.

Section 9.14 Assignment; Binding Agreement.

This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective permitted successors and permitted assigns. Neither this Agreement, nor any rights, interests or obligations hereunder, may be directly or indirectly assigned, delegated, sublicensed or transferred by any party to this Agreement, in whole or in part, to any other Person (including any bankruptcy trustee) by operation of law or otherwise, whether voluntarily or involuntarily, without the prior written consent of the other parties hereto; provided, however, that (i) subject to applicable regulatory approvals, Buyer may assign (whether by operation of law or otherwise) to one or more of its direct or indirect wholly owned subsidiaries all or a portion of its rights and obligations under this Agreement, provided that (1) no such assignment shall relieve Buyer of its obligations under this Agreement and (2) each wholly owned subsidiary of Buyer to which such rights or obligations have been assigned shall not further assign, sublicense or transfer (directly or indirectly, by operation of law or otherwise) such rights or obligations to any Person other than another direct or indirect wholly owned subsidiary of Buyer, and (ii) each of Sellers may, subject to compliance with Applicable Law, freely assign (whether by operation of law or otherwise) all or a portion of their rights (but not their obligations) under this Agreement.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officers of Sellers and of Buyer as of the date first above written.

CIGNA CORPORATION

By: /s/ Michael W. Bell

Name: Michael W. Bell
Title: Executive Vice President and Chief Financial Officer

CONNECTICUT GENERAL LIFE INSURANCE COMPANY

By: /s/ David M. Cordani

Name: David M. Cordani
Title: Senior Vice President and Chief Financial Officer

CONNECTICUT GENERAL CORPORATION

By: /s/ James Yablecki

Name: James Yablecki
Title: President

CIGNA HOLDINGS, INC.

By: /s/ Joanne L. Dorak

Name: Joanne L. Dorak
Title: President

PRUDENTIAL FINANCIAL, INC.

By: /s/ Doug Gregory

Name:
Title:

Exhibit 10.22

CONFORMED COPY

AMENDMENT NO. 1 to
STOCK PURCHASE AND ASSET TRANSFER AGREEMENT

AMENDMENT NO. 1, dated as of February 2, 2004 (the "Amendment"), to the STOCK PURCHASE AND ASSET TRANSFER AGREEMENT, dated as of November 17, 2003 (together with the Schedules thereto, the "Agreement"), by and among CIGNA Holdings, Inc., a Delaware corporation ("CIGNA Holdings"), Connecticut General Corporation, a Connecticut corporation and a wholly owned subsidiary of CIGNA Holdings ("Connecticut General"), Connecticut General Life Insurance Company, a specially-chartered Connecticut corporation and a wholly owned subsidiary of Connecticut General ("CGLIC") and CIGNA Corporation, a Delaware corporation ("CIGNA" and, together with Connecticut General, CIGNA Holdings and CGLIC, "Sellers") and Prudential Financial, Inc., a New Jersey corporation ("Buyer").

WHEREAS, the Agreement contemplates that CIGNA Bank will merge with and into Prudential Bank;

WHEREAS, prior to the Closing, Sellers intend to make a capital contribution to CIGNA Bank in the amount of $3,000,000 (Three Million Dollars) (the "Bank Capital Contribution");

WHEREAS, in consideration of the increase to CIGNA Bank's capital resulting from the Bank Capital Contribution, the parties agree that the Purchase Price shall be increased by the amount of such contribution;

NOW, THEREFORE, in consideration of the foregoing premises and the mutual promises and covenants set forth herein and in the Agreement, and in reliance upon the representations, warranties, conditions and covenants contained herein and in the Agreement, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto, intending to be legally bound, do hereby agree as follows:

1. All capitalized terms used and not otherwise defined in this Amendment are used herein as defined in the Agreement.

2. On or before February 1, 2004, Sellers agree to contribute $3,000,000 (Three Million Dollars) in cash as a capital contribution to CIGNA Bank.

3. Effective on the date of consummation of the capital contribution contemplated by paragraph 2 and provided no dividend is declared by CIGNA Bank prior to closing, the dollar amount in clause (i) of the first sentence of Section 2.6(a) is hereby amended and restated to be "$ 2,103,000,000 (Two Billion One Hundred Three Million Dollars)."

4. This Amendment may be executed in counterparts of like form, each of which, when executed, shall be deemed together an original and all of which taken together shall constitute one and the same instrument.

5. Except as hereby amended, the terms and provisions of the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officers of Sellers and of Buyer as of the date first above written.

CIGNA CORPORATION

By: /s/ MICHAEL W. BELL

Name: Michael W. Bell
Title: Executive Vice President and Chief Financial Officer

CONNECTICUT GENERAL LIFE INSURANCE COMPANY

By: /s/ DAVID M. CORDON

Name: David M. Cordon
Title:

CONNECTICUT GENERAL CORPORATION

By: /s/ JAMES YABLECKI

Name: James Yablecki
Title: President

CIGNA HOLDINGS, INC.

By: /s/ JOANNE L. DORAK

Name: Joanne L. Dorak
Title: President

PRUDENTIAL FINANCIAL, INC.

By: /s/ KENNETH TANJI

Name: Kenneth Tanji
Title: Vice President

Exhibit 10.23

CONFORMED COPY

AMENDMENT NO. 2
to
STOCK PURCHASE AND ASSET TRANSFER AGREEMENT

AMENDMENT NO. 2, dated as of February 20, 2004 (the "Amendment"), to the STOCK PURCHASE AND ASSET TRANSFER AGREEMENT, dated as of November 17, 2003, as amended by Amendment No. 1, dated as of February 2, 2004 (together with the Schedules thereto, the "Agreement"), by and among CIGNA Holdings, Inc., a Delaware corporation ("CIGNA Holdings"), Connecticut General Corporation, a Connecticut corporation and a wholly owned subsidiary of CIGNA Holdings ("Connecticut General"), Connecticut General Life Insurance Company, a specially-chartered Connecticut corporation and a wholly owned subsidiary of Connecticut General ("CGLIC") and CIGNA Corporation, a Delaware corporation ("CIGNA" and, together with Connecticut General, CIGNA Holdings and CGLIC, "Sellers") and Prudential Financial, Inc., a New Jersey corporation ("Buyer").

WHEREAS, the parties desire to amend the Agreement to reflect certain additional or modified terms.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual promises and covenants set forth herein and in the Agreement, and in reliance upon the representations, warranties, conditions and covenants contained herein and in the Agreement, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto, intending to be legally bound, do hereby agree as follows:

1. All capitalized terms used and not otherwise defined in this Amendment are used herein as defined in the Agreement, unless otherwise specified.

2. Schedule 1.1(d) to the Agreement is hereby amended by inserting as the fourteenth bullet point in the list of operations included in the Business the following words:

- "Guaranteed Cost Business" means the portion of the Business consisting of deferred and immediate guaranteed cost annuities identified below, written directly by CGLIC or assumed under reinsurance contracts executed before the Effective Date (as defined in the Guaranteed Cost Coinsurance Agreement):
  - Single Premium Annuities

- Deferred Annuities
- Guaranteed Contract conversions
- Life Insurance Company of North America Guaranteed Contracts
- INA Guaranteed Contracts
- CIGNA Life Insurance Company of New York Guaranteed Contracts
- Maturity Funding Contracts"

3. The Index of Exhibits is hereby amended by inserting the following words at the end of such index:

"Exhibit GG Payment and Indemnification Agreement
Exhibit HH CGLIC Undertaking with respect to Canadian Business".

4. Section 1.1 of the Agreement is hereby amended as follows:

- The definition of Ancillary Agreement is amended by inserting the following words immediately after the words the "Participation Agreement,": "the Payment and Indemnification Agreement,".
- The following words are inserted in Section 1.1 in their appropriate alphabetical location:

"Payment and Indemnification Agreement" means the Payment and Indemnification Agreement by and among CIGNA Holdings, Connecticut General, CIGNA and CIGNA Life substantially in the form attached hereto as Exhibit GG."

"Sellers Plans" shall have the meaning set forth in Section 5.5(o)."

5. Section 5.31 of the Agreement is hereby amended by deleting the words following the phrase "between the date of this Agreement and Closing;" in their entirety and inserting the following words immediately following such phrase:

"; Sellers agree to cause CGLIC to execute an undertaking with respect to the Canadian portion of the Business, substantially in the form attached hereto as Exhibit HH, provided that in connection with the Canadian portion of the Business no condition is imposed by a regulator which in the reasonable determination of CGLIC is unacceptable; and provided, further, that no transfers shall be effected in any manner

that require CIGNA Life or Buyer or any Affiliate of Buyer to effect or maintain any licensure or registration in Canada or any jurisdiction within Canada or to comply with any other condition by a regulator which in the reasonable determination of CIGNA Life is unacceptable."

6. Section 5.5 of the Agreement shall be amended by the addition of a new Section 5.5(o), which shall read in its entirety as follows:

"(o) Effective as of the Closing Date, Seller or an Affiliate of Seller shall amend or take such other appropriate action with respect to the CIGNA 401(k) Plan, the CIGNA Pension Plan, Part B, and the CIGNA Supplemental Pension Plan, Part B (collectively, "Sellers Plans") to provide that any Affected Employee's accrued but unvested benefits as of the day before the Closing Date under any of Sellers Plans shall become fully vested and nonforfeitable as of the Closing Date."

7. This Amendment may be executed in counterparts of like form, each of which, when executed, shall be deemed together an original and all of which taken together shall constitute one and the same instrument.

8. Except as hereby amended, the terms and provisions of the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, this Amendment has been duly executed and delivered by the duly authorized officers of Sellers and of Buyer as of the date first above written.

CIGNA CORPORATION

By: /s/ MICHAEL W. BELL

Name: Michael W. Bell
Title: Executive Vice President and Chief Financial Officer

CONNECTICUT GENERAL LIFE INSURANCE COMPANY

By: /s/ MARK A. PARSONS

Name: Mark A. Parsons
Title: Vice President

CONNECTICUT GENERAL CORPORATION

By: /s/ JAMES YABLECKI

Name: James Yablecki
Title: President

CIGNA HOLDINGS, INC.

By: /s/ JOANNE L. DORAK

Name: Joanne L. Dorak
Title: President

PRUDENTIAL FINANCIAL, INC.

By: /s/ KENNETH TANJI

Name: Kenneth Tanji
Title: Vice President

Exhibit 10.24

CONFORMED COPY

AMENDMENT NO. 3
to
STOCK PURCHASE AND ASSET TRANSFER AGREEMENT

AMENDMENT NO. 3, dated as of February 20, 2004 (the "Amendment"), to the STOCK PURCHASE AND ASSET TRANSFER AGREEMENT, dated as of November 17, 2003, as amended by Amendment No. 1, dated as of February 2, 2004, and Amendment No. 2, dated as of February 20, 2004 (together with the Schedules thereto, the "Agreement"), by and among CIGNA Holdings, Inc., a Delaware corporation ("CIGNA Holdings"), Connecticut General Corporation, a Connecticut corporation and a wholly owned subsidiary of CIGNA Holdings ("Connecticut General"), Connecticut General Life Insurance Company, a specially-chartered Connecticut corporation and a wholly owned subsidiary of Connecticut General ("CGLIC") and CIGNA Corporation, a Delaware corporation ("CIGNA" and, together with Connecticut General, CIGNA Holdings and CGLIC, "Sellers") and Prudential Financial, Inc., a New Jersey corporation ("Buyer").

WHEREAS, pursuant to Section 2.1(b) of the Agreement, Connecticut General is required to contribute the Capitalization Amount (as defined in Section 2.1(b)) to CIGNA Life Insurance Company ("CIGNA Life"); and

WHEREAS, the parties desire to decrease the Capitalization Amount by $2,300,000 (Two Million Three Hundred Thousand Dollars).

NOW, THEREFORE, in consideration of the foregoing premises and the mutual promises and covenants set forth herein and in the Agreement, and in reliance upon the representations, warranties, conditions and covenants contained herein and in the Agreement, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto, intending to be legally bound, do hereby agree as follows:

1. All capitalized terms used and not otherwise defined in this Amendment are used herein as defined in the Agreement.

2. The first sentence of Section 2.1(b) of the Agreement is hereby amended and restated as follows:

"At the Closing, Connecticut General shall contribute an amount equal to approximately (i) $837,700,000 (Eight Hundred Thirty-Seven Million Seven Hundred Thousand Dollars) plus (ii) the Withheld Capital Loss Amount, plus (iii) the Reserve Adjustment, plus (iv) the IMR Adjustment, plus (v) the Preliminary Remaining Gain if it is a positive number, minus (vi) the absolute value of the

Preliminary Remaining Gain if it is a negative number, minus (vii) CIGNA Life's surplus, valued in accordance with the Statement of Net Settlement Methods, without giving effect to the transactions contemplated by this Article II, minus (viii) CIGNA Life's AVR as of immediately prior to giving effect to the transactions contemplated by this Article II, (the aggregate of (i) through (viii), the "Capitalization Amount")."

3. This Amendment may be executed in counterparts of like form, each of which, when executed, shall be deemed together an original and all of which taken together shall constitute one and the same instrument.

4. Except as hereby amended, the terms and provisions of the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, this Amendment has been duly executed and delivered by the duly authorized officers of Sellers and of Buyer as of the date first above written.

CIGNA CORPORATION

By: /s/ MICHAEL W. BELL

Name: Michael W. Bell
Title: Executive Vice President and Chief Financial Officer

CONNECTICUT GENERAL LIFE INSURANCE COMPANY

By: /s/ MARK A. PARSONS

Name: Mark A. Parsons
Title: Vice President

CONNECTICUT GENERAL CORPORATION

By: /s/ JAMES YABLECKI

Name: James Yablecki
Title: President

CIGNA HOLDINGS, INC.

By: /s/ JOANNE L. DORAK

Name: Joanne L. Dorak
Title: President

PRUDENTIAL FINANCIAL, INC.

By: /s/ KENNETH TANJI

Name: Kenneth Tanji
Title: Vice President

Exhibit 12.1

PRUDENTIAL FINANCIAL, INC.

RATIO OF EARNINGS TO FIXED CHARGES

	For the Year Ended December 31,				
	2003	**2002**	**2001**	**2000**	**1999**
Earnings:					
Income (loss) from continuing operations before income taxes	$ 1,958	$ 80	$ (121)	$ 693	$ 2,222
Undistributed income (loss) of investees accounted for under the equity method	119	(37)	29	25	(14)
Interest capitalized	—	8	6	—	—
Adjusted earnings	1,839	109	(156)	668	2,236
Add fixed charges:					
Interest credited to policyholders' account balances	1,830	1,846	1,804	1,751	1,811
Gross interest expense(1)	403	435	653	1,056	863
Interest component of rental expense	103	150	173	166	167
Total fixed charges	2,336	2,431	2,630	2,973	2,841
Total earnings plus fixed charges	$ 4,175	$ 2,540	$ 2,474	$ 3,641	$ 5,077
Ratio of earnings to fixed charges(2)	1.79	1.04	0.94	1.22	1.79

(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 and premiums.

(2) Due to the Company's loss in 2001, the ratio coverage was less than 1:1. Additional earnings of $156 million would have been required in 2001 to achieve a ratio of 1:1.

Exhibit 21.1

Subsidiaries of Prudential Financial, Inc.

Subsidiary	Jurisdiction of Incorporation
Mulberry Muni Investors DA No. 1, Inc.	Delaware
Mulberry Muni Investors GLTC No. 1, Inc.	Delaware
Mulberry Muni Investors GLTC No. 2, Inc.	Delaware
Mulberry Muni Investors ILLT No. 1, Inc.	Delaware
Mulberry Muni Investors ILST No. 1, Inc.	Delaware
Mulberry Muni Investors PA No. 1, Inc.	Delaware
Mulberry Muni Investors PLAZIL No. 1, Inc.	Delaware
Mulberry Muni Investors PLAZIL No. 2, Inc.	Delaware
PRUCO, Inc.	New Jersey
Prudential Capital & Investment Services, LLC	Delaware
Prudential Securities Group Inc.	Delaware
Braeloch Successor Corporation	Delaware
Braeloch Holdings Inc.	Delaware
Graham Resources, Inc.	Delaware
Graham Depository Company II	Delaware
Graham Energy, Ltd.	Louisiana
Dryden Wealth Management (Hong Kong) Ltd.	Hong Kong
Dryden Finance (Hong Kong) Ltd.	Hong Kong
Prudential-Bache Financial Derivatives, Ltd.	Hong Kong
Dryden Nominees (Hong Kong) Ltd.	Hong Kong
Dryden Securities (Hong Kong) Ltd.	Hong Kong
Dryden Wealth Management (Singapore) Limited	Singapore
Dryden Wealth Management (Taiwan) Co., Ltd.	Taiwan
Prudential Securities Investing Consulting (Taiwan) Co., Ltd.	Taiwan
P-B Finance Ltd.	Cayman Islands
PB Financial Services, Inc.	Delaware
Prudential-Bache Funding Limited	UK
Prudential-Bache Overseas Funding Limited	UK
PBI Group Holdings Limited	UK
PBI Holdings Ltd.	UK
Prudential-Bache International (UK) Limited	UK

PBIB Holdings Limited	UK
Prudential-Bache International Bank Limited	UK
Dryden Bank SA	Switzerland
Prudential-Bache International Limited	UK
Circle Nominees Limited	UK
Prudential-Bache Holdings Limited	UK
Dryden Capital Management Limited	UK
PBI Management Limited	UK
Dryden Wealth Management Limited	UK
PBI Fund Managers Limited	UK
Prudential-Bache Nominees Limited	UK
Prudential-Bache Limited	UK
PBI Limited	UK
PGR Advisors, Inc.	Delaware
Prudential Securities (Japan) Limited	Delaware
Prudential Securities Credit Corp., LLC	Delaware
Prudential Equity Group, Inc.	Delaware
Bache & Co. (Lebanon) S.A.L.	Lebanon
Bache, S.A. de C.V.	Mexico
Lapine Holding Company	Delaware
Lapine Development Corporation	California
Lapine Technology Corporation	California
PFDS Holdings, LLC	Delaware
Pru Global Securities, LLC	Delaware
Prudential Financial Derivatives, LLC	Delaware
Prudential Securities CMO Issuer Inc.	Delaware
Prudential Securities Foundation	New York
Prudential Securities Futures Management Inc.	Delaware
Prudential-Bache Securities (Holland) Inc.	Delaware
Prudential-Bache Securities Agencias de Valores S.A.	Spain
Prudential Securities Municipal Derivatives, Inc.	Delaware
Prudential Securities Secured Financing Corporation	Delaware
Prudential Securities Structured Assets, Inc.	Delaware
Prudential-Bache Energy Corp.	Delaware
Prudential-Bache Energy Production Inc.	Delaware

Prudential-Bache Global Markets Inc.	Delaware
Prudential-Bache International Trust Company (Cayman)	Cayman Islands
Prudential-Bache Corporate Directors Services, Inc.	Cayman Islands
Prudential-Bache Corporate Trustee Services, Inc.	Cayman Islands
Prudential-Bache Leasing Inc.	Delaware
Prudential-Bache Program Services Inc.	New York
Prudential-Bache Properties, Inc.	Delaware
Prudential-Bache Securities (Australia) Limited	Victoria, Australia
Prubache Nominees Pty Limited	Victoria, Australia
Prudential-Bache Securities (Germany) Inc.	Delaware
Prudential-Bache Management GmbH	Germany
Prudential-Bache Metals GmbH & Co. KG	Germany
Prudential-Bache Trade Services Inc.	Delaware
Prudential-Bache Transfer Agent Services, Inc.	New York
Seaport Futures Management, Inc.	Delaware
Prudential Insurance Brokerage, Inc.	Arizona
Prudential General Agency of Ohio, Inc.	Ohio
Prudential General Insurance Agency of Florida, Inc.	Florida
Prudential General Insurance Agency of Kentucky, Inc.	Kentucky
Prudential General Insurance Agency of Massachusetts, Inc.	Massachusetts
Prudential General Insurance Agency of Mississippi, Inc.	Mississippi
Prudential General Insurance Agency of Nevada, Inc.	Nevada
Prudential General Insurance Agency of New Mexico, Inc.	New Mexico
Prudential General Insurance Agency of Wyoming, Inc.	Wyoming
Prudential Structured Settlement Company	Delaware
Prudential P&C Holdings, LLC	Delaware
Merastar Corporation	Maryland
Merastar Insurance Company	Tennessee
Prudential P&C Holdings NJ, LLC	Delaware
Prudential Property and Casualty General Agency, Inc.	Texas
Pruco Reinsurance Ltd.	Bermuda
Prudential Asset Management Holding Company	New Jersey
PIM Investments, Inc.	Delaware
PIM Foreign Investments, Inc.	Delaware
PRICOA China (Residential) Limited	Bermuda
China Homes, Ltd.	Bermuda

PIFM Holdco, Inc.	Delaware
Prudential Investments LLC	New York
Prudential Investment Management Services LLC	Delaware
Prudential Mutual Fund Services LLC	New York
PIM Global Financial Strategies, Inc.	New Jersey
PIM Warehouse, Inc.	Delaware
PMCC Holding Company	New Jersey
Prudential Mortgage Capital Company, LLC	Delaware
Prudential Agricultural Credit, Inc.	Tennessee
Prudential Asset Resources, Inc.	Delaware
Prudential Mortgage Capital Asset Holding Company, LLC	Delaware
Prudential Mortgage Capital Company I, LLC	Delaware
Prudential Mortgage Capital Company II, LLC	Delaware
Prudential Mortgage Capital Company, Inc.	Delaware
Prudential Mortgage Capital Funding, LLC	Delaware
Prudential Mortgage Capital Holdings Corporation	Delaware
Prudential Carbon Mesa, Inc.	Delaware
Prudential Multifamily Mortgage, Inc.	Delaware
Prudential Huntoon Paige Associates, Ltd.	Delaware
Prudential Multifamily Asset Holding Company I, LLC	Delaware
The Robert C. Wilson Company	Texas
WMF CommQuote, Inc.	Delaware
WMF Funding Corp.	Delaware
Prudential Investment Management, Inc.	New Jersey
CRC Series B, LP	Delaware
Capital Agricultural Property Services, Inc.	Delaware
Gateway Holdings, S. A.	Luxembourg
Prumerica Investment Management Company S.A.	Luxembourg
Prumerica Global Asset Management Company S.A.	Luxembourg
Jennison Associates LLC	Delaware
PGR Advisors I, Inc.	Delaware
GRA (Bermuda) Limited	Bermuda
GRA (Bermuda) GP Limited	Bermuda
GRA (Singapore) Pte Ltd	Singapore

Prudential-Icatu Gestao de Investimentos Imobilaros, S.A.	Brazil
PIC Holdings Limited	UK
Clivwell Securities Limited	UK
PRICOA Capital Group Limited	UK
PRICOA Capital Management Limited	UK
PRICOA General Partner II (Co-Investment) Limited	UK
PRICOA Mezzanine Investment Co.	UK
PRICOA General Partner II Limited	Scotland, UK
PRICOA Scottish General Partner II LP	Scotland, UK
PRICOA General Partner Limited	Scotland, UK
PRICOA Scottish General Partner LP	Scotland, UK
PRICOA Management Partner Limited	UK
PRICOA Property Asset Management Limited	UK
PRICOA Property PLC	UK
PRICOA Property Investment Management Limited	UK
Industrial Properties (General Partner) Limited	UK
Northern Retail Properties (General Partner) Limited	UK
PRICOA PanEuropean Investment Limited	UK
PRICOA P.I.M. (Regulated) Limited	UK
EuroInvest (General Partner) Limited	UK
Industrial Properties (General Partner) II Limited	UK
South Downs Properties (General Partner) Ltd.	UK
South Downs Trading Properties (General Partner) Ltd.	UK
TransEuropean Properties (General Partner) II Limited	UK
TransEuropean Properties (General Partner) III Limited	UK
TransEuropean Properties (General Partner) Limited	UK
PRICOA Property Private Equity Limited	UK
PREI Acquisition I, Inc.	Delaware
PREI Acquisition II, Inc.	Delaware
TMW Real Estate Group, LLC	Delaware
Prudential Asset Management Japan, Inc.	Japan
Prudential Capital Group, L.P.	Delaware

Prudential Home Building Investors, Inc.	New Jersey
Prudential Latin American Investments, Ltd	Cayman Islands
Prudential Private Placement Investors L.P.	Delaware
Prudential Private Placement Investors, Inc.	New Jersey
Prudential Trust Company	Pennsylvania
PTC Services, Inc.	New Jersey
Prudential Equity Investors, Inc.	New York
TRGOAG Company, Inc.	Delaware
The Prudential Asset Management Company, Inc.	New Jersey
Prumerica Asia Fund Management (Singapore) Limited	Singapore
Prudential Timber Investments, Inc.	New Jersey
Quantitative Management Associates LLC	New Jersey
U.S. High Yield Management Company, Inc.	New Jersey
Prudential Financial Capital Trust I	Delaware
Prudential Holdings, LLC	New Jersey
The Prudential Insurance Company of America	New Jersey
745 Property Investments	Massachusetts
ARL Holdings, Inc.	Delaware
Asian Infrastructure Mezzanine Capital Fund	Cayman Islands
Beagle Assets LLC	Delaware
Big Yellow Holdings Limited	Bermuda
CB Investment, LLC	Delaware
COLICO, INC.	Delaware
Colico II, Inc.	Delaware
Datron Inc.	Delaware
Dryden Finance II, LLC	Delaware
Dryden Finance, Inc.	Delaware
Dryden Holdings Corporation	Delaware
Flor-Ag Corporation	Florida
Gibraltar Hong Kong Holdings Limited Partnership	Hong Kong
Gibraltar Properties, Inc.	Delaware
Hochman & Baker, Inc.	Illinois
Hochman & Baker Insurance Services, Inc.	Illinois
Hochman & Baker Securities, Inc.	Illinois
Hochman & Baker Investment Advisory Services, Inc.	Illinois
Luddite Associates, GP	Delaware
Mulberry Portfolio Company, LLC	Delaware
PAMA Fund I Parallel Investment, LLC	Delaware

PGA Asian Holdings, Ltd.	Bermuda
PGA Asian Retail Limited	Bermuda
PGA European Holdings, Inc.	Delaware
PGA European Limited	Bermuda
PIC Realty Canada Limited	Canada
PIC Realty Corporation	Delaware
PPCP-I Holding Co., LLC	Delaware
PPCP-II Holding Co., LLC	Delaware
PREI International, Inc.	Delaware
Pricoa China (Warehouse) Limited	Bermuda
China Distri-Park Limited	Bermuda
PRICOA Funding Limited	UK
PRICOA Investment Company	UK
PRICOA GA Paterson Ltd.	Bermuda
Pru 101 Wood LLC	Delaware
Pru 1901 Market LLC	Delaware
PRUCO Life Insurance Company	Arizona
PRUCO Life Insurance Company of New Jersey	New Jersey
Pruco Securities, LLC	New Jersey
Prudential Direct, Inc.	Georgia
Prudential Direct Insurance Agency of Alabama, Inc.	Alabama
Prudential Direct Insurance Agency of Massachusetts, Inc.	Massachusetts
Prudential Direct Insurance Agency of New Mexico, Inc.	New Mexico
Prudential Direct Insurance Agency of Ohio, Inc.	Ohio
Prudential Direct Insurance Agency of Wyoming, Inc.	Wyoming
Prudential Financial Securities Investment Trust Enterprise	Taiwan
Prudential Funding LLC	New Jersey
Prudential Global Funding, Inc.	Delaware
Prudential Home Building Investment Advisors, L.P.	New Jersey
Prudential Realty Securities II, Inc.	Delaware
Prudential Realty Securities, Inc.	Delaware
Prudential Select Holdings, Inc.	Delaware
Prudential Select Life Insurance Company of America	Minnesota
Rerun Assets LLC	Delaware
Residential Services Corporation of America	Delaware
Residential Information Services, Inc.	Delaware
Securitized Asset Sales, Inc.	Delaware
The Prudential Home Mortgage Company, Inc.	New Jersey
PHMC Services Corporation	New Jersey
The Prudential Home Mortgage Securities Company, Ltd.	Delaware

SMP Holdings, Inc.	Delaware
Bree Investments Limited	Hong Kong
Prudential Resources Management Asia, Limited	Hong Kong
SVIIT Holdings, Inc.	Delaware
SouthStreet Software, L.L.C.	Delaware
The Prudential Assigned Settlement Services Corp	New Jersey
Washington Street Investments LLC	Delaware
Prudential IBH Holdco, Inc.	Delaware
PBT Home Equity Holdings, Inc.	Georgia
The Prudential Savings Bank, F.S.B	Federal
The Prudential Bank and Trust Company	Georgia
Prudential International Insurance Services Company, L.L.C.	Delaware
Prudential International Investments Corporation	Delaware
PGLH of Delaware, Inc.	Delaware
PKHC #1, LLC	Delaware
PKHC #2, LLC	Delaware
Prudential International Investments Services Corporation	Delaware
Prudential Investments Japan Co.	Japan
Prudential Mexico, LLC	Delaware
Prudential Apolo, Operadora de Sociedades de Inversion S.A. de C.V.	Mexico
Prudential Investment Management (Japan), Inc.	Delaware
Prumerica Financial Asia Limited	Delaware
Prumerica Asia Fund Management Limited	Hong Kong
Prumerica Asia Management Services Limited	Delaware
Prudential International Investments, LLC	New Jersey
Prudential Japan Holdings, LLC	Delaware
Kyosei Industrial Enterprise Co., Ltd.	Japan
Kyosei Leasing Co., Ltd. (Kyosei Lease Kabushiki Kaisha)	Japan
Kyoei Annuity Home Co. Ltd. (Kabushiki Kaisha Kyouei Nenkin Home)	Japan
Prudential Holdings of Japan, Inc.	Japan
The Gibraltar Life Insurance Company Ltd.	Japan
PT Wisma Kyoei Prince Indonesia	Indonesia
Prudential Real Estate Management Co., Ltd., LLC	Japan
Minami Aoyama Gardening Co., Ltd.	Japan
Sanei Premium Collecting Service Co., Ltd. (Kabushi Kaisha San-ei)	Japan
Gibraltar Agency Co., Ltd.	Japan
PG Insurance Service Co., Ltd.	Japan
Sanei Sightseeing Co., Ltd. (San-ei Kankno Kabushiiki Kaisha)	Japan
Satsuki Properties Co. Ltd. (Yugen Kaisha Satsuki Properties)	Japan
Prudential Management Canade Ltd.	Ontario
Skandia U.S. Inc.	Delaware
American Skandia, Inc.	Delaware

American Skandia Advisory Services, Inc.	Delaware
American Skandia Fund Services, Inc.	Delaware
American Skandia Information Services and Technology Corporation	Delaware
American Skandia Investment Services Incorporated	Connecticut
American Skandia Life Assurance Corporation	Connecticut
American Skandia Marketing, Incorporated	Delaware
The PSI Programs LLC	Delaware
The Prudential Real Estate Affiliates, Inc.	Delaware
Corporate America Realty, Inc.	New Jersey
PRICOA Relocation Holdings Limited	UK
Pricoa Relocation Management Limited	UK
Karen Deane Relocation Limited	UK
Prudential Community Interaction Consulting, Inc.	Delaware
Prudential Homes Corporation	New York, US
Prumerica ARM (Singapore) Pte. Ltd.	Singapore
Prumerica Homefront Limited	Hong Kong
Prudential Real Estate Affiliates of Canada Ltd.	Ontario, Canada
Prudential Referral Services, Inc.	Delaware
Prudential Relocation, Inc.	Colorado
Prudential Relocation of Texas, Inc.	Texas
Corporate Relocation France SAS	Paris, France
Prudential Relocation, S. de R.L. de C.V.	Mexico
Prudential Residential Services, Limited Partnership	Delaware
Prudential Relocation Canada, Ltd.	Canada Federal, Canada
Prudential Relocation, Ltd.	Ontario
Prumerica International Real Estate and Relocation Services, Limited	Bermuda
The Relocation Freight Corporation of America	California
The Prudential Real Estate Financial Services of America, Inc.	California
Prudential Texas Residential Services Corporation	Texas
Prudential International Insurance Holdings, Ltd.	Delaware
Prudential Life Insurance Company of Taiwan Inc.	Taiwan
Prudential Seguros, S.A.	Argentina
Prumerica Life S.p.A	Italy
Prumerica Marketing S.r.l.	Italy
Prumerica Systems Ireland Limited	Ireland
Prumerica Towarzystwo Ubezpieczen na Zycie Spolka Akcyjna	Poland
PruServicos Participacoes, S.A.	Brazil

Gibraltar Corretora de Seguras Ltda.	Brazil
The Prudential Life Insurance Company of Korea, Ltd.	Korea
The Prudential Life Insurance Company, Ltd.	Japan
The Prumerica Life Insurance Company, Inc.	Philippines
POK Securitization Specialty Company, Ltd.	Korea
Vantage Casualty Insurance Company	Indiana

Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-104444) and on Form S-8 (Nos. 333-102457, 333-102362, 333-87778, 333-75242, 333-75226, 333-75238, 333-75050, 333-103765 and 333-105804) of Prudential Financial, Inc. of our report dated February 10, 2004, relating to the financial statements and financial statement schedules, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

New York, New York
March 10, 2003

Exhibit 24.1

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, 2003 ("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 9th day of March 2004.

/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, 2003 ("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 9th day of March 2004.

/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, 2003 ("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 9th day of March 2004.

/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, 2003 ("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 9th day of March 2004.

/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, 2003 ("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 9th day of March 2004.

/S/ WILLIAM H. GRAY, III

William H. Gray, III
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, 2003 ("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 9th day of March 2004.

/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, 2003 ("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 9th day of March 2004.

/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, 2003 ("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 9th day of March 2004.

/S/ CONSTANCE J. HORNER

Constance J. Horner
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, 2003 ("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 9th day of March 2004.

/S/ KARL J. KRAPEK

Karl J. Krapek
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, 2003 ("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 9th day of March 2004.

/S/ ARTHUR F. RYAN

Arthur F. Ryan
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, 2003 ("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 9th day of March 2004.

/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, 2003 ("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 9th day of March 2004.

/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, 2003 ("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 9th day of March 2004.

/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, 2003 ("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 9th day of March 2004.

/S/ STANLEY C. VAN NESS

Stanley C. Van Ness
Director

Exhibit 31.1

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 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2004

/S/ ARTHUR F. RYAN

Arthur F. Ryan
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

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 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2004

/S/ RICHARD J. CARBONE

Richard J. Carbone
Chief Financial Officer

Exhibit 32.1

Certification

Pursuant to 18 U.S.C. § 1350, I, Arthur F. Ryan, Chief Executive Officer of Prudential Financial, Inc. (the "Company"), hereby certify that the Company's Annual Report on Form 10-K for the year ended December 31, 2003 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 10, 2004

/S/ ARTHUR F. RYAN

Name: Arthur F. Ryan
Title: Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

Exhibit 32.2

Certification

Pursuant to 18 U.S.C. § 1350, I, Richard J. Carbone, Chief Financial Officer of Prudential Financial, Inc. (the "Company"), hereby certify that the Company's Annual Report on Form 10-K for the year ended December 31, 2003 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 10, 2004

/S/ RICHARD J. CARBONE

Name: Richard J. Carbone
Title: Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.