

June 2011



Prudential Insurance Co. of America Pruco Life Insurance Company Credit Summary Report

State of Domicile: New Jersey
Holding Company: Prudential Financial
Type: Stock
Incorporated: 1873

Ratings as of: June 2011
Moody's: A2
S & P: AA-
Fitch: A+

Prudential Financial Inc. (PRU) is the parent of insurance companies Prudential Insurance Company of America and Pruco Life Insurance Company, formed in December 2001 after the firm demutualized and completed an initial public offering of stock. Through its subsidiaries, PRU offers a wide range of insurance, investment management, securities and other financial products and services. Over the past several years, PRU has exited numerous businesses, including group healthcare, P&C insurance, residential mortgage banking, and investment banking, which had higher business risks or were non-core businesses in which the company lacked a competitive advantage. These divestments helped to reduce enterprise risk and to strengthen the company's overall credit profile. In December 2009, PRU received \$4.5b in cash after exercising a put option on a retail brokerage and clearing JV with Wells Fargo, which bolstered the company's capital adequacy and strengthened its financial flexibility. In February 2011, PRU completed its acquisition of two AIG subsidiaries in Japan, AIG Star Life Insurance (Star) and AIG Edison Life Insurance Co (Edison) for \$4.2b plus \$600mm in assumed debt. The Star/Edison companies are expected to merge with PRU's existing Japanese operations, Gibraltar, by the end of 2011 and further increase its market share in the lucrative Japanese insurance industry.

Prudential Financial consists of three primary business segments, including U.S. Retirement and Investments (27% of FY10 revenues), U.S. Individual Life & Group Insurance (22%), International Insurance and Investments (32%), and a Closed Block of acquired business (19%). During fiscal year 2010, PRU reported net earnings of \$3.2b on revenues of \$38b, representing y-o-y growth of 3% and 18% respectively. Improved equity markets led to a reversal of losses in the annuities segment and lower reserve requirements for guarantees, as well as higher fee income, lower amortization charges on deferred acquisition costs, and a material decline in investment losses. Partially offsetting the earnings improvement are higher policy lapses in the group life segment due to pricing competition, higher claims experience in group disability, and less than favorable mortality in the individual life segment. During 1Q11, PRU reported adjusted operating income of \$835mm on revenues of \$10.2b, representing y-o-y growth of 24% and 11% respectively. The improved performance is primarily a result of higher premiums and fees, higher account values, and higher investment income from capital market improvement, partially offset by higher benefits and underwriting expense. Several unusual items also affected results, including positive benefits from favorable DAC amortization and reserve releases for annuity guarantees (\$59mm), the gain on partial sale of an Asian investment (\$153mm), which was partially offset by transaction and integration costs associated with the Star and Edison acquisitions (\$47mm). Profitability as measured by operating ROE was approximately 10%, a 20bp improvement over prior year but slightly below the company's target range (11-13%). PRU also expects to take a \$55mm charge in Q2 for losses associated with the recent Japanese earthquake and tsunami, which is manageable.

Over the past year PRU has continued to benefit from improved financial markets which led to fewer impairments, valuation gains, and higher investment income. PRU had \$284b in total investments at YE10, with 77% allocated to FI securities; 96% of which are investment grade. High risk investment exposure includes CRE-related assets such as CMBS (7% of FI) and commercial mortgages (10%), which combined are above the peer group average, and other ABS (6%). Overall, loss experience in the investment portfolio has abated over the past year as the financial markets have improved, but CRE-related losses could spike in the near term as potential impairments on these assets tend to lag the general economy. Full year investment impairments declined by 59% y/y to \$713mm, as losses from structured investments and certain corporate securities have slowed significantly. The company reported fewer gross unrealized losses of \$3.1b (-30% y/y), primarily driven by higher valuation of real estate and corporate securities, and a net unrealized gain position of \$5.7b compared to \$998mm last year.

At the end of FY10, PRU reported a consolidated statutory capital of \$13b and an RBC ratio of 533%, representing between \$2.2b and \$2.7b in excess capital. Cumulative foreign currency translation gains, a \$1.2b common stock offering, and unrealized gains led to a 28% y/y improvement in shareholders' equity to \$33b. Debt-to-capital financial leverage was roughly 27% at YE10, up from 22% last year due to a \$1.0b debt issuance during Q4 to finance the Star and Edison acquisitions. Despite having a relatively large CP program in place, PRU has significantly reduced its use of short term debt in an effort to better manage assets and liabilities. Liquidity is ample, and PRU uses hedging and sophisticated ALM strategies to keep asset-liability mismatches within reasonable tolerances. PRU held \$3.0b of balance sheet cash, has \$4.1b of committed credit lines with no MAC clause, and dividend capacity at the holding company of \$2.5b, which adequately covers upcoming debt obligations totaling \$1.7b.

Prudential maintains a competitive position in its global insurance business and benefits from diverse revenue streams, but partially offsetting these factors is the company's above average exposure to equity market volatility given its large VA, retirement, and asset management businesses. The company's business mix is among the strongest and most diversified of the life insurance sector, with a focus on the high growth/high return international markets and faster growing, less capital intensive retirement and asset management segments in the domestic market. Prudential has one of the strongest balance sheets in the life insurance industry, with ample excess capital that it could easily deploy for M&A opportunities in Asia or the highly profitable U.S. retirement market. Investment losses related to CRE exposure remains a concern and losses could mount if economic conditions worsen, but PRU has significantly boosted its RBC ratio and potential losses should be manageable.

Prudential Insurance Co. of America

Pruco Life Insurance Company

Strengths:

- Strong brand recognition and solid market position in US life insurance
- Very strong capital position and effective hedging program
- Strong growth opportunities domestically and internationally in asset management, life insurance, and investments
- Broad distribution capabilities and well diversified revenue streams

Weaknesses:

- High exposure to commercial real estate, which could experience asset quality deterioration in the near term
- Earnings and capital sensitivity to equity market performance
- Higher than average level of operating debt somewhat reduces financial flexibility

Key Statistics – Prudential Insurance Company of America

(\$ millions)	2010	2009	2008	2007	2006	CAGR/Avg
General Account Assets	147,601	148,806	149,627	153,454	153,053	-0.90%
Separate Account Assets	85,539	76,981	87,871	99,307	92,763	-2.01%
Total Assets	233,140	225,787	237,498	252,761	245,816	-1.31%
Capital & Surplus	8,364	10,042	6,432	6,981	5,973	8.78%
NET GFO	1,127	2,424	498	1,024	263	43.88%
Net Income	1,623	1,101	(808)	1,274	444	38.27%
Return on Assets (Stat.)	0.70%	0.49%	-0.34%	0.50%	0.18%	0.31%
Return on Capital (Stat.)	19.40%	10.96%	-12.56%	18.25%	7.43%	8.70%
RBC Ratio (ACL)	1065.8%	1153.3%	903.9%	1102.3%	932.7%	1031.6%

Key Statistics – Pruco Life Insurance Company

(\$ millions)	2010	2009	2008	2007	2006	CAGR/Avg
General Account Assets	7,097	7,003	6,467	5,248	5,372	7.21%
Separate Account Assets	39,134	22,250	15,594	22,006	19,988	18.29%
Total Assets	46,231	29,253	22,061	27,254	25,360	16.20%
Capital & Surplus	1,218	875	601	773	1,020	4.54%
NET GFO	295	172	(534)	57	500	-12.36%
Net Income	277	106	(566)	61	499	-13.68%
Return on Assets (Stat.)	0.60%	0.36%	-2.57%	0.22%	1.97%	0.12%
Return on Capital (Stat.)	22.74%	12.11%	-94.18%	7.89%	48.92%	-0.50%
RBC Ratio (ACL)	1022.2%	719.8%	696.2%	1002.4%	1416.1%	971.3%

Sources: Company Reports and SEC filings

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