

**REPORT ON
MULTI-STATE EXAMINATION
AS TO THE CONDITION**

OF

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

As of December 31, 2006

NAIC Company Code 68241
NAIC Group Code 0304

Participating States

Connecticut

Arizona

**The Prudential Insurance Company of America
Financial Examination as of December 31, 2006**

TABLE OF CONTENTS

SCOPE OF THE EXAMINATION	1
COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS	3
COMPANY HISTORY	3
GENERAL OVERVIEW.....	3
CAPITAL STOCK.....	4
DIVIDENDS TO STOCKHOLDERS	5
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASES OR SALES THROUGH REINSURANCE	5
MANAGEMENT AND CONTROL	6
CONFLICT OF INTEREST PROCEDURES.....	7
CORPORATE GOVERNANCE.....	8
CORPORATE RECORDS.....	9
PARENT, SUBSIDIARIES AND AFFILIATES	9
INTERCOMPANY AGREEMENTS	10
OTHER TRANSACTIONS.....	11
FIDELITY BOND AND OTHER INSURANCE COVERAGE.....	11
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS.....	12
INSURANCE PRODUCTS AND RELATED PRACTICES.....	13
TERRITORY AND PLAN OF OPERATION	13
TREATMENT OF POLICYHOLDERS	13
REINSURANCE	15
ACCOUNTS AND RECORDS	17
EVALUATION OF CONTROLS IN INFORMATION SYSTEMS	17
ADMINISTRATIVE OFFICES	18
NOTES TO THE FINANCIAL STATEMENTS.....	25
1. <i>STATUTORY DEPOSITS</i>	<i>25</i>
2. <i>SURPLUS NOTES</i>	<i>25</i>
3. <i>PERMITTED/PREScribed PRACTICES</i>	<i>26</i>
SUBSEQUENT EVENTS.....	27
SUMMARY OF EXAMINATION RECOMMENDATIONS	29
CONCLUSION.....	30

January 9, 2008

Honorable Alfred W. Gross, Chairman
Financial Condition (E) Committee, NAIC
Virginia Bureau of Insurance
State Corporation Commission
1300 East Main Street
Richmond, Virginia 23218

Honorable Julie McPeak
Secretary, Southeastern Zone NAIC
Kentucky Office of Insurance
215 West Main Street
Frankfort, Kentucky 40601

Honorable Merle D. Scheiber
Secretary, Midwestern Zone NAIC
South Dakota Division of Insurance
Dept. of Revenue and Regulation
445 East Capital Avenue, 1st Floor
Pierre, South Dakota 57501

Honorable Kent Michie
Secretary, Western Zone NAIC
Utah Department of Insurance
3110 State Office Building
Salt Lake City, Utah 84114

Honorable Steven M. Goldman
Secretary, Northeastern Zone NAIC
New Jersey Dept. of Banking and Insurance
20 West State – CN 325
Trenton, New Jersey 08625

Commissioners:

In compliance with your instructions and pursuant to Insurance Laws and Rules of the State of New Jersey, a comprehensive risk focused examination has been made of the books, records and financial condition of

**The Prudential Insurance Company of America
751 Broad Street
Newark, New Jersey 07102**

hereinafter referred to as the “Company” or “Prudential”. The following examination report as to the condition of the Company is respectfully submitted.

SCOPE OF THE EXAMINATION

The New Jersey Department of Banking and Insurance, hereinafter referred to as the “NJDOBI” or “We”, have performed a full scope coordinated multi-state risk focused examination of the Prudential, as the Lead State. The Connecticut Insurance Department and the Arizona Department of Insurance participated in this examination. This examination covers the period of January 1, 2002, through December 31, 2006, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. The principal portion of the examination was conducted at the Company’s statutory home office in Newark, New Jersey.

The Company was last examined by representatives of the NJDOBI as of December 31, 2001. The current examination was conducted concurrent with the examinations of its affiliates, Pruco Life Insurance Company of New Jersey (“PLNJ”), Newark, New Jersey, Pruco Life Insurance Company (“PLAZ”), Phoenix, Arizona, American Skandia Life Assurance Corporation, Shelton, Connecticut, and Prudential Retirement Insurance and Annuity Company, Hartford, Connecticut.

We conducted our examination in accordance with the 2007 edition of the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (the “NAIC Handbook”). The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company. In order to meet these objectives, we obtained information regarding the Company’s corporate governance environment, identified and assessed inherent risks to which it is exposed and evaluated its system of internal controls and procedures used to mitigate those risks identified. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

According to the NAIC Handbook, “One of the increased benefits of the enhanced risk-focused approach is to include ...consideration of other than financial risks that could impact the insurer’s future solvency. By utilizing the enhanced approach, the examiner will be reviewing the “financial” and “enterprise” risks that existed at the examination “as of” date and will be positioned to assess “financial” and “enterprise” risks that extend or commence during the time the examination was conducted and “prospective” risks which are anticipated to arise or extend past the point of examination completion. Using this approach, examiners will be better positioned to make recommendations for appropriate future supervisory plans (i.e., earlier statutory exams, limited-scope exams, key areas for financial analysts to monitor, etc.) for each insurer.” The Company has adopted the Enterprise Risk Management (“ERM”) framework for proactively addressing and mitigating risks, including prospective business risks. The Company’s Corporate Governance was found to be effective, contributing to its entity level (or monitoring level) controls, including prospective risks. Refer to the “Corporate Governance” section above for more detailed information.

PricewaterhouseCoopers, LLP (“PwC”) was retained by the Company to audit its statutory based financial statements as of December 31, 2006 as well as all prior years under examination. In addition to the statutory based financial statements, PwC audited the Company’s financial statements in accordance with accounting principles generally accepted in the United States (“US GAAP”). PwC also issued reports for all years under examination in relation to the parent company’s financial reporting controls as part of its Sarbanes/Oxley reporting. They concluded that the statutory financial statements presented fairly in all material respects, the financial position of the Company at the indicated audit dates and that controls over financial reporting were designed and operating effectively. Where available, the examiners relied upon the work performed by the independent accountants as prescribed by the NAIC Handbook.

The Company has established an Internal Audit Department (“IAD”), which is independent of management, to serve the Audit Committee of the Board of Directors (“the Audit Committee”, which is comprised entirely of external directors). IAD also assists all levels of

management by reviewing and testing financial and operational controls and processes established by management to ensure compliance with laws, regulations, and company policy. The scope of the Internal Audit program is coordinated with the Company's independent accountants to ensure adequate coverage and maximum efficiency. Each year, a comprehensive risk-based joint audit plan is prepared and presented to the Audit Committee and to senior management.

During the course of this examination, consideration was given to the significance and impact of certain IAD findings. To the extent possible, the examiners relied upon the work performed by the IAD as prescribed by the NAIC Handbook.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report only addresses regulatory information revealed by the examination process in accordance with the NAIC Handbook. All other financial matters were reviewed and determined not to be material for discussion in this report.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The following recommendations were made in the prior examination report as of December 31, 2001.

1. It is recommended that the Company establish a process to appropriately age amounts recoverable from reinsurers, including follow-up with reinsurers on old outstanding reinsurance recoverable balances.
2. It is recommended that the Company strengthen its controls surrounding the year-end manual posting process. Additional reviewers of entries may help mitigate similar events from occurring in future.
3. It is recommended that the Company implement greater controls around the creation of Schedule DB.
4. It is recommended that the Company reduce its capital and surplus by \$29.0 million that is the present value of the \$140.0 million dividend that has not been accrued by its subsidiary Dryden Holdings Corporation.
5. It is recommended that the Company correct the calculation of the surrender charges on the VPAS annuity administration system.

During the course of the examination, it was determined that the Company had complied with all of the recommendations stated above.

COMPANY HISTORY

General Overview

On April 3, 1873, the Legislature of the State of New Jersey approved the incorporation of the Company as a stock life insurance corporation under the name of the Widows' and Orphans' Friendly Society and commenced business on October 13, 1875. During 1875 by a

supplemental act of the Legislature, the Company's name was changed to the Prudential Friendly Society. In 1877, the Company's name was changed by certificate to Prudential Insurance Company of America.

The Company's initial authorized capital stock was \$25,000. By January 6, 1893, its authorized and outstanding capital had been raised to \$2.0 million. In 1913, the Company began proceedings to become a mutual insurance Company. In 1915, the Company was authorized to acquire all of its stock and operated as a mutual insurance company from that year forward. The 28 year process of transferring total ownership of the Company to its policyholders was completed on March 30, 1943.

On February 10, 1998, the Company's Board of Directors (Board) authorized, empowered and directed its officers to do whatever they deem necessary, proper, appropriate, or advisable to seek and assist in the enactment of legislation in New Jersey that would permit it to reorganize into a publicly owned stock corporation through a full demutualization.

On December 18, 2001 ("date of demutualization"), the Company effectuated its demutualization and converted its corporate form of organization to a stock Company. As an integral part of that process and as approved by NJDOBI, the Company became a wholly-owned subsidiary of Prudential Holdings, LLC that in turn became a wholly-owned subsidiary of Prudential Financial, Inc. ("PFI"). In addition, many of its former subsidiaries were transferred out from the Company via dividend to become direct or indirect subsidiaries of PFI (referred to as the "destacking").

On the date of demutualization, policyholder membership interests in the Company were extinguished and eligible policyholders received shares of common stock of PFI, cash or increases to their policy values or benefits in the form of policy credits. The demutualization and the destacking were the subject of an extensive and formal prior approval process by the NJDOBI.

The Company, in its Amended and Restated Charter approved by the NJDOBI December 18, 2001, was authorized to write "Life Insurance" as defined in Section 17B:17-3 of Subtitle 3 of Title 17B of the New Jersey Statutes, "Health Insurance" as defined in Section 17B:17-4, "Annuity Insurance" as defined in Section 17B:17-5 and such other insurance and reinsurance as may be permitted under the laws of the State of New Jersey to be written by an insurer authorized to do the kinds of business described in the above sections.

The Company has made several acquisitions since the last examination. See the *Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance* sub-section within the "COMPANY HISTORY" section of this report for more detailed information.

Capital Stock

The Company has 500,000 authorized shares issued with a \$5.00 par value per share and 500,000 shares outstanding. The Prudential Holdings LLC, a wholly owned subsidiary of PFI, owns 100% of the Company's outstanding capital stock. The Company has no preferred stock outstanding.

Dividends to Stockholders

New Jersey insurance law provides that, except in the case of extraordinary dividends or distributions, all dividends or distributions paid by the Company may be declared or paid only from unassigned surplus, as determined pursuant to statutory accounting principles, less unrealized investment gains and revaluation of assets.

In addition, the Company must obtain approval from the NJDOBI prior to paying a dividend if the dividend, together with other dividends or distributions made within the preceding twelve months, would exceed the specified statutory limit. 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 investment gains and losses. Based on the 2006 earnings, there is capacity to pay a dividend of \$597.0 million without prior approval from the NJDOBI in 2007. There were no dividends to stockholders declared and unpaid as of the year ended December 31, 2006. The portion of profits on participating policies and contracts is limited pursuant to N.J.S.A. 17B:18-46. The limitations would not restrict the Company's ability to dividend the amounts referenced above.

During the examination period, the Company declared and paid dividends totaling \$2.8 billion to Prudential Holdings LLC, in which all extraordinary dividends were approved by the NJDOBI. The dividends were paid as follows:

<u>Year</u>	<u>Amount</u>
2002	\$ 228,000,000
2003	0
2004	0
2005	1,500,000,000
2006	<u>1,100,000,000</u>
Total	<u>\$2,828,000,000</u>

During the examination period, the Company declared and paid dividends that were classified as return of capital transactions totaling \$2.6 billion to Prudential Holdings LLC. All return of capital transactions were approved by the NJDOBI and were made as follows:

<u>Year</u>	<u>Amount</u>
2002	\$ 0
2003	0
2004	600,000,000
2005	764,000,000
2006	<u>1,264,000,000</u>
Total	<u>\$2,628,000,000</u>

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

On April 1, 2004, the Company purchased the retirement business of CIGNA Corporation for \$2.1 billion, including \$2.1 billion of cash consideration and \$21.0 million of transaction costs. The acquisition of this business included the purchase by the Company of all of the

shares of CIGNA Life Insurance Company (“CIGNA Life”), which became its wholly owned subsidiary. Prior to the acquisition, CIGNA Life entered into reinsurance arrangements with wholly owned subsidiaries of CIGNA Corporation (collectively, “CIGNA”) to effect the transfer of the retirement business included in the transaction to CIGNA Life. Subsequent to its acquisition, the Company changed the name of CIGNA Life to Prudential Retirement Insurance and Annuity Company (“PRIAC”).

On June 1, 2006, the Company acquired the variable annuity business of Allstate Corporation (“Allstate”) through a reinsurance transaction for \$635.0 million of total consideration, consisting primarily of a \$628.0 million ceding commission. The reinsurance arrangements with Allstate include a coinsurance arrangement associated with the general account liabilities assumed and a modified coinsurance arrangement associated with the separate account liabilities assumed.

MANAGEMENT AND CONTROL

The Company’s By-laws state that the number of directors who shall serve on the Board be neither less than 10 nor more than 24, as determined by the holders of the majority of the issued and outstanding capital stock, or the Board. N.J.S.A. 17:27A – 4(d) requires that no less than one-third of the directors be directors who are not officers or employees of the corporation or of any entity controlling, controlled by or under common control with the corporation and who are not beneficial owners of a controlling interest in the voting securities of the corporation or any such entity (“Outside Directors”). The Company was found to be in compliance with this statute.

The directors and officers of the Company as of the examination date were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Arthur F. Ryan	Chairman of the Board, President and Chief Executive Officer, Prudential Financial, Inc.
Frederic K. Becker	President, Wilentz, Goldman, and Spitzer, P.C.
Gordon M. Bethune	Former Chairman of the Board, CEO and President, Continental, Inc.
Gaston Caperton	President, The College Board
Gilbert F. Casellas	Member, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.
James G. Cullen	Retired President and COO, Bell Atlantic Corporation
William H. Gray III	Chairman, The Amani Group, LLC
Jon F. Hanson	Chairman, The Hampshire Companies
Constance J. Horner	Former Assistant to the President of the United States
Karl J. Krapek	Retired President and COO, United Technologies Corporation
Christine Poon	Vice Chair and Worldwide Chair, Medicines and Nutritionals, Johnson & Johnson
James A. Unruh	Founding Member, Alerion Capital Group, LLC
<u>Officers</u>	<u>Title</u>
Arthur F. Ryan	Chairman of the Board, President and Chief Executive Officer
Vivian L. Banta	Chief Executive Officer, (Insurance Division)
Richard J. Carbone	Senior VP and Chief Financial Officer
Helen M. Galt	Senior VP and Actuary

Kathleen M. Gibson	VP and Secretary
Robert C. Golden	Executive VP
Mark B. Grier	Vice Chairman, (Financial Management)
Bernard J. Jacob	Treasurer
Peter B. Sayre	Senior VP and Controller

The standing Committees of the Board and the members serving as of December 31, 2006, were as follows:

Executive Committee

Jon F. Hanson, Chairman
 Frederic K. Becker
 James G. Cullen
 William H. Gray III
 Arthur F. Ryan

Audit Committee

Frederic K. Becker, Chairman
 Gilbert F. Casellas
 James G. Cullen
 James A. Unruh

Compensation Committee

James G. Cullen, Chairman
 Gordon M. Bethune
 Constance J. Horner

Corporate Governance and Business Ethics Committee

William H. Gray III, Chairman
 Gordon M. Bethune
 Constance J. Horner

Finance and Dividends Committee

Jon F. Hanson, Chairman
 Gaston Caperton
 Karl J. Krapek

Investment Committee

Jon F. Hanson, Chairman
 Gaston Caperton
 Karl J. Krapek

As required by N.J.S.A 17:27A-4d(4), the Audit Committee is formed entirely of Outside Directors. In addition, the Compensation Committee and the Committee on Corporate Governance are comprised entirely of Outside Directors.

Conflict of Interest Procedures

The Company has an ethics policy which provides guidance to directors, officers and employees about their obligation and responsibility to conduct business in a manner that maintains the trust and respect of fellow employees, customers, shareholders, business colleagues, and the general public. The policy provides guidelines for the following ethical dilemma and/or conflicts of interests:

- Confidentiality
- Inside Information
- Prudential Insider Trading Rules
- Involvement in Outside Business
- Financial Transactions
- Fair Competition
- Relationships with Suppliers
- Family Member Business with Prudential
- Gifts / Entertainment
- Political Contributions and Activities
- Laws and Regulations

In addition, the policy requires members of the Board and associates at or above the level of Senior Vice President (or its equivalent) to obtain approval from the Board's Business Ethic Committee for any potential conflicts of interest.

Each year, the Company requires its directors, officers and key employees to sign a conflict of interest questionnaire and to divulge any potential conflicts of interest that could have an impact on the way they conduct the Company's business. The Company has established a Business Ethics Committee whose primary purpose is to oversee, on behalf of the Board, the ethics statement and conflict of interest policies of the Company with respect to matters that relate to the Company and its subsidiaries. A review of the minutes of the Business Ethics Committee meetings indicated that conflicts of interest were being reported as instructed and were being reviewed and approved by the Business Ethics Committee as required.

Corporate Governance

The Company has adopted the Enterprise Risk Management ("ERM") framework for proactively addressing and mitigating risks, including prospective business risks." Exhibit M of the NAIC Handbook was utilized as guidance for assessing corporate governance. Overall, it was determined that the Company's corporate governance structure is strong and its corporate governance framework sets an appropriate "tone at the top", supports a proactive approach to operational risk management, and contributes to an effective system of internal control. It was found that the Board and key executives encourage integrity and ethical behavior throughout the Company and senior management promotes a corporate culture that acknowledges, understands, and maintains an effective control environment.

Management has a strong and effective approach to identifying and mitigating risks across the Company, including prospective business risks. The Company deals proactively with its areas of risk and is knowledgeable about mitigation strategies. Through risk committees and other measures, management discusses the significant issues and reacts to changes in the environment with a clear commitment to address risk factors and manage the business accordingly. The Company's overall risk management process is well-defined and takes a proactive approach to identifying, tracking, and dealing with current significant and emerging risk factors.

The Company established the Internal Audit Department ("IAD") function, which is independent of management, to serve the Audit Committee of the Board of Directors ("the Audit Committee", which is comprised entirely of external directors). IAD also assists all levels of management by reviewing and testing financial and operational controls and processes established by management to ensure compliance with laws, regulations, and company policy. The scope of the Internal Audit program is coordinated with the Company's independent accountants to ensure adequate coverage and maximum efficiency. Each year, a comprehensive risk-based joint audit plan is prepared and presented to the Audit Committee and to senior management.

During the course of this examination, consideration was given to the significance and impact of certain IAD findings. To the extent possible, the examiners relied upon the work performed by the IAD as prescribed by the NAIC Handbook.

CORPORATE RECORDS

A review was made of the Board minutes and committee minutes for the period of examination. This examination determined that the minutes adequately approve and support the Company's transactions and events. During the review of these minutes, it was determined that the Company directors had reviewed the prior examination report.

PARENT, SUBSIDIARIES AND AFFILIATES

The Company is a member of an insurance company holding system as defined in N.J.S.A. 17:27A-1 et seq. Accordingly, the Company has filed with the State of New Jersey an insurance holding company registration as is required under N.J.S.A. 17:27A-3.

The following abridged organizational chart at December 31, 2006, identifies the domestic insurance companies within the organization. The Companies under examination are in bold italics below along with other subsidiaries mentioned in this examination report.

Prudential Financial, Inc. (non-insurer) (ultimate parent)

- PRUCO, Inc. (non-insurer)
 - Prudential Capital and Investment Services, LLC (non-insurer)
 - Prudential Securities Group, Inc. (non-insurer)
- Prudential Asset Management Holding Company LLC (non-insurer)
- Prudential Holdings, LLC (non-insurer)
 - ***The Prudential Insurance Company of America (insurer)***
 - ***Pruco Life Insurance Company (insurer)***
 - ***Pruco Life Insurance Company of New Jersey (insurer)***
 - Prudential Arizona Reinsurance Captive Company (captive reinsurer)
 - ***Prudential Retirement Insurance and Annuity Company (insurer)***
 - Prudential Funding, LLC (non-insurer)
 - Prudential Global Funding, LLC (non-insurer)
 - Universal Prudential Arizona Reinsurance Company (captive reinsurer)
- Prudential International Insurance Holdings, Limited (non-insurer)
 - Prudential Life Insurance Company of Taiwan Inc. (foreign insurer)
 - The Prudential Life Insurance Company of Korea, Limited (foreign insurer)
 - The Prudential Life Insurance Company, Ltd. (foreign insurer)
- Prudential International Investments Corporation (non-insurer)
- Prudential Japan Holdings Inc. (non-insurer)
 - The Gibraltar Life Insurance Company, Ltd. (foreign insurer)
- Prudential Annuities Holding Company, Inc. (non-insurer)
 - ***American Skandia Life Assurance Corporation (insurer)***
- Vantage Casualty Insurance Company (insurer)

The Company had the following outstanding affiliated debt as of December 31, 2006:

<u>Affiliate</u>	<u>Year Issued</u>	<u>Kind of Borrowing</u>	<u>Carrying Value</u>	<u>Rate of Interest</u>
PIM Investments, Inc.	2006	Cash	\$ 40,000,000	N/A
PRIAC-PMCC Mexico	2006	Debenture	\$ 45,525,979	6.389%
PIM Warehouse, Inc.	2006	Debenture	\$ 64,767,500	N/A
Prudential Funding LLC	2006	Cash	\$6,142,888,683	5.260%-5.610%

Prudential Funding, LLC (“Prudential Funding”), a wholly owned subsidiary, serves as an additional source of financing for the Company and its subsidiaries, as well as for other subsidiaries of PFI. Prudential Funding borrows funds primarily through the direct issuance of commercial paper. Prudential Funding’s outstanding loans to other subsidiaries of PFI have declined over time as it transitions into a financing company primarily for the Company and its remaining subsidiaries. During 2002, the Company entered into a support agreement with Prudential Funding under which it has agreed to cause Prudential Funding to maintain its tangible net worth, including subordinated debt, at not less than \$1.00. As of December 31, 2006, the tangible net worth of Prudential Funding was \$6.0 million. Since the inception of the agreement, no support payments have been required.

Repayment of the entire balance of the PIM Investments, Inc., PIM Warehouse, Inc., and Prudential Funding affiliated debts are scheduled to be repaid in 2007, with approximately \$5.3 billion of the balance scheduled to be repaid in the fourth quarter of 2007.

Scheduled repayments on the PRIAC-PMCC Mexico affiliated debt are as follows: \$726,619 in 2007, \$778,063 in 2008, \$848,418 in 2009, \$892,134 in 2010, and \$940,027 in 2011, and \$41,340,718 in 2012.

Intercompany Agreements

The Company is a party to numerous intercompany agreements with its affiliates involving activities such as administrative services, cash management, investment management, tax allocation, and reinsurance. The most significant of those agreements are noted below.

The Company has service agreements with PFI and its subsidiaries including Prudential Securities Group, Inc., Prudential Asset Management Holding Company, Prudential International Investments Corporation, and Prudential Japan Holdings, Inc. Under these agreements, the Company furnishes the services of its officers and employees, provides supplies, use of equipment, office space, accounts payable processing functions, makes operating advances, and conducts other transactions in the normal course of business. The Company charges a fee based on the level or service provided and the amount advanced.

PFI and a certain number of its subsidiaries have service agreements with the Company. Under these agreements, the Company receives the services of the officers and employees of PFI and/or its subsidiaries (for example, asset management services from Prudential Asset Management Company). The Company is charged a fee based on the level or service received and payments made on its behalf.

Effective July 1, 2003, the Company and PFI entered into a cash management administrative services agreement whereby the Company may participate in an inter-company cash management process administered by PFI to optimize the utilization of cash throughout the Prudential enterprise.

The Tax Allocation Agreement became effective for the consolidated federal income tax return year beginning January 1, 2001 between PFI and each of its subsidiaries included in the affiliated group. A method has been established to allocate the consolidated federal income tax liability of the group among its members; to reimburse PFI for payment of such tax liability; to compensate any member for use of its net operating loss, net capital loss, or tax credits in arriving at such tax liability; and to provide for the allocation and payment of any refund arising from a carryback of net operating losses or tax credits from subsequent tax years.

Other Transactions

The counterparty for the majority of all derivative financial instruments is an affiliate of the Company, Prudential Global Funding, LLC.

In 2003, the Company established a Funding Agreement Notes Issuance Program pursuant to which a Delaware statutory trust issues medium-term notes secured by funding agreements issued to the trust by the Company and included in PFI's retirement segment. The funding agreements provide cash flow sufficient for the debt service on the related medium-term notes. The medium-term notes are sold in transactions not requiring registration under the Securities Act of 1933, as amended. In the third quarter of 2006, the authorization amount of the program was increased from \$6.0 billion to \$15.0 billion. The notes have fixed or floating interest rates and original maturities ranging from two to seven years. During 2004, the Company began selling funding agreements to PFI. Policyholders' account balances at December 31, 2006 include \$1.9 billion related to these agreements.

On October 1, 2006, the Company purchased securities from Pruco Life Insurance Company. The investments included public and private high yield bonds, private placement bonds and mortgage loans. The proceeds from the sale were used by Pruco Life Insurance Company to fund policyholder outflows primarily driven by the movement of contract holder assets from the fixed rate general account options to the variable separate account investment options. These securities were recorded with a fair value of \$150.0 million and had an amortized cost of \$153.0 million on the date of transfer.

During the examination period, the Company entered into numerous intercompany reinsurance agreements with its subsidiaries and affiliates. See the "Reinsurance" section of this report for additional detail related to these agreements.

FIDELITY BOND AND OTHER INSURANCE COVERAGE

The Company and its subsidiaries are parties to various insurance coverages to protect the employees and property of PFI. At December 31, 2006, PFI had the following insurance coverages in effect:

Fidelity Coverage - This fidelity bond included blanket coverage for PFI and all majority owned subsidiary companies or corporations, including all of Prudential's affiliates, joint ventures, mutual funds and partnerships. The fidelity bond includes a single loss limit of liability of \$250.0 million and a single loss deductible of \$150.0 million per occurrence. This includes coverage for losses resulting from employee and agent dishonesty, on premises, in transit, forgery or alteration, securities forgery, counterfeit currency, and electronic and computer fraud.

Other Insurance Coverages:

- Master Property Program - \$600.0 million aggregate limits, coverage for all real and personal property owned, leased, or intended for use, including property of others in custody and for which Prudential is liable.
- Commercial General Liability - limits of liability of \$2.0 million per occurrence with a \$2.0 million self insured retention, coverage for all operations, properties (owned or leased) products, etc. bodily injury and or property damage liability; and personal injury and advertising injury liability.
- Automobile Liability - limits of liability of \$5.0 million per occurrence, \$1.0 million self-insured retention, coverage for all Company-owned or leased motor vehicles.
- Excess Liability - limits up to \$200.0 million per occurrence excess of primary, provides coverage in excess of primary liability insurance.
- Directors & Officers Liability - limits of liability of \$250.0 million aggregate with a loss deductible of \$150.0 million, reimbursement coverage to the Company for loss for which indemnification is afforded directors and officers for claims arising from actual or alleged wrongful acts.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company provides numerous benefits to its eligible employees under its Prudential Welfare Benefits Plan ("Plan"). The Plan includes various health care benefits such as medical, dental and vision coverage, life, accidental death and dismemberment insurance and various disability and personal protection coverage for eligible employees and their dependents.

The Company also provides a qualified 401(k) which allows eligible employees to contribute a maximum of 21% of eligible earnings (subject to IRS limits). The Company matches 100% of before-tax contributions up to the first 4% of eligible earnings. A nonqualified 401(k) is also available.

In addition, the Company provides a qualified defined benefit plan, the Prudential Merged Retirement Plan. There are three components to the plan: The Prudential Traditional Retirement Plan, Prudential Securities Incorporated Cash Balance Pension Plan, and Prudential Cash Balance Pension Plan. A nonqualified retirement plan is also provided.

The Company provides eligible employees with a variety of programs designed to support them in their career, family life, community, leisure, and learning.

Provisions have been made appropriately in the financial statements for the Company's obligations under the various employee benefit plans in the General Expenses Due and Accrued and in the Liability for benefits for employees and agents, following SSAP No. 11, *Post Employment Benefits and Compensated Absences* and SSAP No. 14, *Postretirement Benefits Other Than Pensions*. In addition, the Company has non-admitted the prepaid pension expense following SSAP No. 8, *Pensions*.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed in all 50 states, as well as District of Columbia, Guam, Puerto Rico, U.S. Virgin Islands and Canada. The Individual Life and Annuities segment manufactures and distributes individual variable life, term life, universal life and non-participating life insurance, and variable and fixed annuity products. 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- 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.

During the examination period, the Company and its subsidiaries provided a range of insurance, investment management, and other financial products and services to individual and institutional customers in the U.S. and other countries.

Each division and segment has developed a business plan specific to its own products, marketing, distribution, underwriting and pricing and has identified unique initiatives designed to address its own varying strategy.

The Company continues to expand its presence in the "mass affluent market," defined by the Company as households with income or investable assets over \$100,000. The Company has taken steps to improve the quality of services provided to the mass affluent market by the Prudential Agent and Financial Advisor distribution systems. These include increased standards for new hires, increased productivity standards, and transitioning agents from a transaction focus using proprietary products to an approach of offering advice on an array of products manufactured by the Company as well as other companies.

The Company has also expanded its distribution channels and product offers by acquisitions. In addition to the Company's sales force, customers can access the Company through other distribution methods, including independent financial advisors, affinity programs, workplace marketing, and the Internet.

Treatment of Policyholders

The Company maintained a complete record of all complaints that it received since the date of the prior examination, as required by N.J.S.A 17:29-4(10).

REINSURANCE

The Company participates in reinsurance in order to provide greater diversification of business, provide additional capacity for future growth, limit the maximum net loss potential arising from large risks and generally manage certain risks associated with its products. Life reinsurance is accomplished through various plans of reinsurance, primarily yearly renewable terms and conditions.

The Company's reinsurance needs vary by, and are primarily administered through, each of its business divisions. Subject to a company-wide reinsurance policy that emphasizes counter-party market security, the business divisions select the reinsurer(s) which meet their needs based upon, but not limited to, counter-party financial strength, experience, underwriting and pricing. The Company's Enterprise Risk Management ("ERM") area is also responsible for approving reinsurance transactions involving a counter-party that does not meet the Company's minimum counter-party standards. Aggregate reinsurance exposures are discussed periodically with the Enterprise Risk Management Committee, which is comprised of senior Company executives from various parts of the Company.

Most of the Company's ceded reinsurance is undertaken as indemnity reinsurance, which does not discharge the Company as the primary insurer. Ceded balances would represent a liability to the Company in the event the reinsurers were unable to meet their obligations to the Company under the terms of the reinsurance agreement. The Company periodically reviews the financial condition of its reinsurers and amounts recoverable, recording an allowance when necessary for uncollectible reinsurance.

In connection with the demutualization, the Plan of Reorganization required the Company 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 participating individual life insurance policies and annuities 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. The Plan of Reorganization provided that the Company may, with prior consent of the NJDOBI, 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, 2006, the Company had entered into five modified coinsurance agreements covering 90% of the Closed Block policies issued in the United States. One agreement was with an affiliate, Pruco Reinsurance, Ltd., and covered 17% of the Closed Block policies issued in the United States. The implementation of these agreements results in a transfer of risk, which had a positive impact on the Company's Risk Based Capital. The NJDOBI determined that prospective monitoring of these agreements and the financial stability of the respective reinsurers would be handled outside of the examination as a separate matter.

Effective August 1, 2004, the Company entered into a yearly renewable term agreement with a subsidiary, Prudential Arizona Reinsurance Captive Company ("PARCC"), in which the Company assumes over 90% of the mortality risk associated with the Term Essential/Term Elite risks PARCC previously assumed from PLAZ and PLNJ under two separate 90% automatic coinsurance agreements. The Company will reinsure, on a first dollar quota share basis, an amount equal to eight-ninths of the policy risk amount assumed by PARCC, up to \$900,000. The Company will automatically reinsure 100% of the policy risk assumed by PARCC in excess of \$900,000. For all 2002 through 2004 Term Essential/Term Elite policies issued by PLAZ, the Company will automatically reinsure, on a first dollar quota

share basis, an amount equal to 100% of the policy risk amount assumed by PARCC under their coinsurance agreement with PLAZ. The Company, in turn, cedes, via twenty-two different yearly renewable term treaties with third party reinsurers, the majority of the Term Essential/Term Elite mortality risk assumed from PARCC.

In addition to the reinsurance arrangements described above, effective July 1, 2004, the Company had entered into an automatic coinsurance treaty with PARCC which covers all Appreciable Life and Variable Appreciable Life policies that are on extended term insurance, where such extended term insurance commenced in the calendar years 1998 through 2002 and where the amount of extended insurance is less than \$500,000. The Company automatically reinsures to PARCC, on a first dollar quota share basis, an amount equal to 80% of the policy risk amount.

Finally, in conjunction with executing the PARCC reinsurance agreements cited above related to the Term Essential/Term Elite business, recaptures of two yearly renewable term agreements between PLAZ, PLNJ, and the Company along with an automatic coinsurance agreement between PLAZ and Pruco Reinsurance, Ltd. of Bermuda were completed. The two yearly renewable term agreements and the automatic coinsurance agreement were recaptured since the agreements covered certain Term Essential/Term Elite policies that are now part of the PARCC reinsurance transaction.

The Company has entered into reinsurance agreements with PLAZ and PLNJ. In each case the Company has agreed to reinsure excess loss through a yearly renewable term contract. In addition, the Company has agreed to co-insure 100% of the Lifetime Five benefit feature sold on PLAZ annuities.

In the third quarter of 2005, the Company entered into a coinsurance agreement with Gibraltar Life Insurance Company, Ltd. (“Gibraltar”), an affiliate of the company, under which it assumes 100% of Gibraltar’s U.S. dollar denominated annuity business. Reserves and premium assumed for the year ended December 31, 2006, were \$2.0 billion and \$1.3 billion, respectively. Effective February 1, 2007, the Company was no longer reinsuring Gibraltar’s new business due to the volatility of the international reserves. See the “SUBSEQUENT EVENTS” section of this report for further details.

The Company has entered into reinsurance agreements with The Prudential Life Insurance Company, Ltd. (“PLIC Japan”), The Prudential Life Insurance Company of Korea, Ltd., and The Prudential Life Insurance Company of Taiwan, all of which are affiliates of the Company. In each case, the Company has agreed to reinsure certain individual life insurance policies through a yearly renewable term contract. In addition, the Company has agreed to co-insure U.S. dollar denominated policies sold by PLIC Japan.

On June 1, 2006, the Company acquired the variable annuity business of Allstate Financial (“Allstate”) through a reinsurance transaction for \$635.0 million pre-tax of total consideration, consisting primarily of a \$628.0 million ceding commission. The reinsurance arrangement with Allstate included a coinsurance arrangement associated with the separate account liabilities assumed. The assets acquired included primarily cash of \$1.4 billion that was subsequently used to purchase investments. The liabilities assumed primarily included a liability for policyholders’ account balances of \$1.5 billion associated with the coinsurance agreement.

Also in 2006, the Company entered into a yearly renewable term agreement with a subsidiary, Universal Prudential Arizona Reinsurance Company (“UPARC”) to assume mortality risk that UPARC had assumed from PLAZ. Reserves and premium assumed for the year ended December 31, 2006, were \$71.0 million and \$79.0 million, respectively.

There are no non-affiliated reinsurers that were owned in excess of 10% or controlled, either directly or indirectly, by the Company or by any representative, officer, trustee, or director of the Company.

The examination team reviewed a sample of reinsurance agreements to determine the extent of risk transfer. The agreements reviewed appeared to adequately transfer risk.

ACCOUNTS AND RECORDS

Evaluation of Controls in Information Systems

The Information Systems (“IS”) infrastructure for all of the Company is maintained by Corporate Technology Management (“CTM”), and smaller IS groups within the various business units. CTM is responsible for maintaining the Company’s overall technology infrastructure utilized for data processing by the business units within the Company, and for overall information systems standards, while business unit Information Technology (“IT”) is responsible for developing and maintaining their respective business applications. CTM is independent of the business units and its organization includes two data centers.

The IS portion of the examination was performed in accordance with the NAIC Handbook. The review of IS controls included IS management and organizational controls; application and operating system software change controls; system and program development controls; overall systems documentation; logical and physical security controls; contingency planning; local and wide area networks, personal computers, and mainframe controls.

We evaluated the control testing performed by the Company’s Risk Management function, IAD, and PwC, and performed testing of end user computing and IS outsourcing controls. As a result of the procedures performed, the IT Examination Team obtained reasonable assurance that IT general controls and general application controls were functioning as management intended and that an effective system of controls is in place and conducive to the accuracy and reliability of financial information processed and maintained by the Company. There are no reportable items related to our review of IS controls.

Administrative Offices

While the primary management and financial reporting activities are conducted from the Home Office in Newark, New Jersey, the Company maintains several administrative offices, including the following:

- **Ft Washington (Dresher) PA:** Individual Life Insurance and Annuity operations including new business, and claims processing; Group Life, Disability and Long-Term Care Insurance operations, including case installation, premium and commission processing.
- **Louisville, KY:** A third-party vendor performs Individual Life Insurance Remittance processing.
- **Woodland Hills, CA:** Mortgage loan operations
- **Woodbridge, NJ:** Treasury Operations, some Individual Annuity and Retirement Services operations.
- **Parsippany, NJ:** Real Estate operations.
- **Roseland, NJ:** Information Systems area for Group Life and Disability Insurance operations including claim processing.
- **Minneapolis, MN:** Individual Life Insurance operations including commission processing.
- **Jacksonville, FL:** Intermediate and Weekly Premium Policy operations, as well as Individual Life Insurance commission processing.
- **Scranton, PA:** A majority of Group Annuity and Retirement Services operations.
- **Dubuque, IA:** Retirement processing
- **Portland, ME:** Group Disability claims processing

FINANCIAL STATEMENTS

Net Admitted Assets as of December 31, (000's)	<u>2006</u>	<u>2001</u>
Bonds NOTE 1	\$ 104,149,654	\$ 76,341,076
Preferred Stocks	2,555,409	531,080
Common Stocks	8,335,380	3,804,285
Mortgage loans on real estate:		
First liens	16,369,513	13,152,633
Real Estate:		
Properties occupied by the Company	302,714	384,398
Properties held for sale	4,455	-
Properties acquired in satisfaction of debt	-	150,926
Properties held for production of income	-	74,630
Cash & cash equivalents	2,930,701	5,250,740
Short-term investments	3,704,878	3,440,425
Contract Loans	6,685,821	7,057,420
Other invested assets	2,616,231	5,627,180
Receivables for securities	97,820	111,519
Aggregate write-ins for invested assets	723,957	911,842
	<hr/>	<hr/>
Subtotal cash and invested assets	148,476,533	116,838,154
	<hr/>	<hr/>
Investment income due and accrued	1,410,292	1,358,806
Premiums and considerations:		
Uncollected premiums and agents' balances in the course of collection	537,069	71,346
Deferred premiums and agents' balances and installments booked but		
deferred and not yet due	847,575	478,454
Accrued retrospective premiums	44,665	-
Reinsurance:		
Amounts recoverable from reinsurers	60,973	\$153,264
Other amounts receivable under reinsurance contracts	12,711	6,573
Amounts receivable relating to uninsured plans	1,442	1,721
Net deferred tax asset	1,026,473	783,840
Guaranty funds receivable or on deposit	83,136	102,850
Electronic data processing equipment	8,813	83,054
Receivable from parent, subsidiaries and affiliates	357,218	256,749
Leasehold improvements	-	111,871
Aggregate write-ins for invested assets NOTE 3 c.	186,482	642,335
From Separate Accounts Statement	92,763,293	63,304,729
	<hr/>	<hr/>
Total Net Admitted Assets	<u>\$ 245,816,675</u>	<u>\$ 184,193,746</u>

FINANCIAL STATEMENTS (Continued)

Liabilities as of December 31, (000's)	<u>2006</u>	<u>2001</u>
Aggregate reserve for life contracts	\$ 87,720,995	\$ 78,459,554
Aggregate reserve for accident and health contracts	2,531,792	1,678,314
Liability for deposit-type contracts	21,658,835	10,166,044
Contract claims:		
Life	1,171,793	2,112,683
Accident and health	63,084	46,048
Policyholders' dividend and coupons due and unpaid	18,680	41,939
Provision for policyholders' dividends and coupons payable in following calendar year:		
Dividends apportioned for payment	2,340,182	2,478,388
Amount provisionally held for deferred dividend policies not included above	20	544
Premium and annuity considerations received in advance	31,022	213,337
Contract liabilities not included elsewhere:		
Provision for experience rating refunds	336,222	-
Other amounts payable on reinsurance including assumed and ceded	7,392	-
Interest maintenance reserve	1,089,054	1,321,926
Commissions to agents due or accrued	44,594	72,454
Commissions and expense allowance payable on reinsurance assumed	23,184	4,586
General expenses due or accrued	1,479,837	1,721,580
Transfer to Separate Account due or accrued (net)	(430,754)	(228,663)
Taxes, licenses and fees due or accrued	108,464	155,873
Current federal income taxes due or accrued including realized gains/(loss)	875,389	-
Unearned investment income	301	14,245
Amounts withheld or retained by company as agent or trustee	52,097	545,514
Remittances and items not allocated	596,027	358,759
Liability for benefits for employees and agents	581,544	67,663
Borrowed money and interest thereon	6,555,697	946,116
Miscellaneous Liabilities:		
Asset valuation reserve	2,291,020	2,346,965
Reinsurance in unauthorized companies	26,185	38,555
Funds held under reinsurance treaties with unauthorized reinsurers	573	-
Payable to parent, subsidiaries and affiliates	159,171	426,491
Liability for amounts held under uninsured plans	306	535
Payable for securities	86,185	150,154
Net adj. in assets and liab. due to foreign exchange rates	-	91,757
Unearned premium reserve	-	115,184
Aggregate write-ins for liabilities		
Securities sold under agreement to repurchase	10,984,703	-
Cash collateral held for loaned securities	6,365,359	10,196,175
Other liabilities	630,432	1,128,188
From Separate Accounts Statement	92,444,781	63,102,645
Total Liabilities	<u>\$ 239,844,166</u>	<u>\$177,773,553</u>

FINANCIAL STATEMENTS (Continued)

Capital and Surplus as of December 31, (000's)	<u>2006</u>	<u>2001</u>
Common capital stock	\$ 2,500	\$ 5
Surplus notes NOTES 2 and 3 a.	693,212	989,483
Gross paid in and contributed surplus	1,716,308	3,735,209
Aggregate write-in for special surplus funds	735,085	1,467,321
Unassigned funds (surplus)	<u>2,825,404</u>	<u>228,177</u>
Total Capital and Surplus	<u>5,972,509</u>	<u>6,420,195</u>
Total Liabilities, Capital, and Surplus	<u>\$ 245,816,675</u>	<u>\$ 184,193,746</u>

FINANCIAL STATEMENTS (Continued)

Summary of Operations for the Year Ended December 31, (000's)	<u>2006</u>	<u>2001</u>
Premium and annuity considerations for life and accident and health contracts	\$ 24,068,831	\$ 16,057,224
Considerations for supplementary contracts with life contingencies	19,916	12,347
Net investment income	7,269,687	7,046,171
Amortization of interest maintenance reserve	92,776	49,677
Separate Accounts net gain from operations excluding unrealized gains or losses	26,466	29,299
Commission and expense allowance on reinsurance ceded	459,079	52,129
Reserve adjustments on reinsurance ceded	(3,452,407)	-
Miscellaneous Income:		
Income from fees associated with investment management, administration, and contract guarantees from S/A	833,879	644,594
Aggregate write-ins for miscellaneous income NOTE 3 d.	275,896	259,726
Total Income	<u>29,594,123</u>	<u>24,151,167</u>
Death benefits	3,448,976	4,326,668
Matured endowments	5,157	59,326
Annuity Benefits	4,720,655	4,714,306
Disability benefits and benefits under A&H contracts	632,117	575,851
Surrender benefits and other fund withdrawals	10,348,653	10,475,261
Group conversions	(1,480)	(165)
Interest and adjustments on contract or deposit-type contract funds	726,045	318,584
Payments on supplementary contracts with life contingencies	27,358	32,741
Increase in aggregate reserves for life and A&H contracts	4,112,814	1,017,207
Total Benefits	<u>24,020,295</u>	<u>21,519,779</u>

FINANCIAL STATEMENTS (Continued)

Summary of Operations (continued) for the Year Ended December 31, (000's)	<u>2006</u>	<u>2001</u>
Commissions on premium, annuity considerations and deposit-type contracts	\$ 233,310	\$ 270,843
Commissions and expense allowances on reinsurance assumed	938,721	6,893
General insurance expenses	1,155,120	2,632,837
Insurance taxes, licenses and fees	247,077	277,067
Increase in loading on deferred and uncollected premiums	1,228	(6,841)
Net transfers to or (from) Separate Accounts	2,886,310	(2,324,712)
Aggregate write-ins for deductions		
Payments under employees, agents, directors benefit plans not included above	66,857	19,696
Self-insured liabilities and miscellaneous deductions	5,093	-
Interest on taxes and miscellaneous items	218	-
Change in special reserves	141	-
Miscellaneous deductions	(14,368)	59,642
Reserve transfers from other insurers	(25,701)	-
Reserve adjustment on reinsurance assumed	(955,034)	-
Total Benefits and Expenses	<u>28,559,267</u>	<u>22,455,204</u>
Net gain from operations before dividends to policyholders and federal income taxes	1,034,856	1,695,962
Dividends to policyholders	405,519	2,691,104
Net gain from operations after dividends to policyholders and before federal income taxes	629,337	(995,142)
Federal income taxes	366,409	(628,934)
Net gain from operations after dividends to policyholders and Federal income and before realized capital gains or (losses)	262,928	(366,208)
Net realized capital gains (losses) less capital gains tax and transfers to the IMR	180,985	(529,887)
Net Income	<u>\$ 443,913</u>	<u>\$ (896,095)</u>

FINANCIAL STATEMENTS (Continued)

Changes in Capital and Surplus for the year ended December 31,	2006	2005	2004	2003	2002	2001
(000's)						
Capital and surplus, December 31, Previous Year	<u>\$ 7,065,246</u>	<u>\$ 8,420,498</u>	<u>\$ 7,471,577</u>	<u>\$ 5,699,378</u>	<u>\$ 6,420,194</u>	<u>\$ 8,679,521</u>
Net income (loss)	443,913	2,169,955	1,877,637	1,231,126	(489,560)	(896,095)
Change in net unrealized gains or (losses)	986,900	(571,825)	199,325	752,288	(24,005)	232,910
Change in net deferred income tax	471,861	(193,313)	(92,304)	36,341	582,256	(503,171)
Change in non-admitted assets and related items	(596,812)	(450,431)	(442,839)	371,377	(829,347)	(941,663)
Change in liability for reinsurance in unauthorized companies	(2,321)	4,754	(10,330)	15,635	4,632	(24,271)
Change in reserve on account of change in valuation basis: (increase) or decrease	1,559	780	45,820	(345,136)	25,540	135,997
Change in asset valuation reserve	(82,844)	(55,185)	(13,543)	(8,516)	215,952	721,809
Surplus (contributed to) withdrawn from Separate Accounts	5,630	32	1,999	(384)	2,696	11,009
Other changes in surplus in Separate Accounts Statement	(8,676)	4,571	(2,289)	9,871	13,590	(12,577)
Change in surplus notes	693	693	693	(299,254)	905	905
Cumulative effect of changes in accounting principles	(1,642)	(31,077)	-	-	-	2,270,897
Capital changes	-	-	-	-	2,495	-
Surplus adjustment	(1,224,332)	(764,000)	(600,000)	30,744	-	1,050,000
Dividends to stockholders	(1,080,904)	(1,485,761)	-	-	(228,000)	(4,305,077)
Aggregate write-ins for gains and losses in surplus	(5,762)	15,555	(15,248)	(21,893)	2,030	-
Net change in capital and surplus for the year	<u>(1,092,737)</u>	<u>(1,355,252)</u>	<u>948,921</u>	<u>1,772,199</u>	<u>(720,816)</u>	<u>(2,259,327)</u>
Capital and surplus, December 31, Current Year	<u>\$ 5,972,509</u>	<u>\$ 7,065,246</u>	<u>\$ 8,420,498</u>	<u>\$ 7,471,577</u>	<u>\$ 5,699,378</u>	<u>\$ 6,420,194</u>

NOTES TO THE FINANCIAL STATEMENTS

The examination of the Company's financial position as of December 31, 2006, resulted in the following notes and comments that are deemed to require special explanation or description.

1. Statutory Deposits

The Company is maintaining statutory deposits with the following jurisdictions:

<u>Jurisdiction</u>	<u>Description of Deposit</u>	<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>
Arkansas	US Treasury Notes	\$ 179,478	\$ 205,101
Canada	Miscellaneous	29,518,513	29,518,513
Georgia	US Treasury Notes	54,042	51,725
New Jersey	US Treasury Notes	1,915,123	2,137,572
New Mexico	US Treasury Notes	108,085	103,449
North Carolina	US Treasury Notes	537,063	566,681
Republic of Korea	US Treasury Bonds	38,395	41,107
U.S. Virgin Islands	US Treasury Notes	<u>703,906</u>	<u>753,627</u>
Totals		<u>\$33,054,605</u>	<u>\$33,377,775</u>

The deposits held by the State of New Jersey, the Company's state of domicile, are held for the benefit of all policyholders. All other deposits are held for the benefit of specific jurisdictions and limited groups of policyholders.

2. Surplus Notes

The Company did not issue any new surplus notes during the examination period. The following table provides information relating to the surplus notes that were retired during the examination period:

<u>Date Issued</u>	<u>Interest Rate</u>	<u>Amount of Notes</u>	<u>Date of Maturity</u>
04/28/1993	6.875%	\$300,000,000	04/15/2003

The following table provides information relating to the outstanding surplus notes as of December 31, 2006:

<u>Date Issued</u>	<u>Interest Rate</u>	<u>Amount of Notes</u>	<u>Statement Value</u>	<u>Interest Paid Current Year</u>	<u>Total Interest Paid</u>	<u>Date of Maturity</u>
07/01/1995	8.30%	\$350,000,000	\$343,418,000	\$29,000,000	\$320,000,000	07/01/2025
07/01/1995	7.65%	250,000,000	249,834,000	19,000,000	210,000,000	07/01/2007
07/15/1995	8.10%	100,000,000	99,960,000	8,000,000	89,000,000	07/15/2015
Totals		<u>\$700,000,000</u>	<u>\$693,212,000</u>	<u>\$56,000,000</u>	<u>\$619,000,000</u>	

The surplus notes listed in the table above were distributed pursuant Rule 144A under the Securities Act of 1933, underwritten by Goldman Sachs & Co., CS First Boston, Merrill

Lynch & Co., J.P. Morgan Securities Inc., and Prudential Securities Incorporated (a former affiliate), and are administered by the Company as a registrar/paying agent.

The surplus notes are subordinate in right of payment to claims, prior claims and senior indebtedness.

The surplus notes have the following restrictions on payments:

1. Each payment of principal and interest on the surplus notes may be made only with the prior written approval of the Commissioner. Approval will only be granted if, in the judgment of the Commissioner, the then current and projected financial condition of the Company warrants such payments;
2. Pursuant to applicable New Jersey law, any payment of principal or interest on the surplus notes may be only out of surplus, earnings, or profits of the Company;
3. If these conditions to payment are not met, the applicable scheduled maturity date or scheduled interest payment date will be extended until such, time, if any, at which conditions are met. Interest will continue to accrue on any unpaid principal amount of the surplus notes during the period of such extension. Interest will not accrue on interest.

See the “SUBSEQUENT EVENTS” section of this report for further details.

3. Permitted/Prescribed Practices

The following practices, while permitted or prescribed by the NJDOBI, are not in accordance with the NAIC Accounting Practices and Procedures Manual.

- a. The Company received approval from the NJDOBI to issue Fixed Rate Surplus Notes (“Notes”). The interest payments on the Notes are pre-approved, and principal repayment is subject to a Risk-Based Capital test. The NAIC practices provide for Insurance Commissioner pre-approval of every interest and/or principal payment at the time the payment is made. The Notes matured in April of 2003, however, the Company made interest payments in 2002.
- b. The Company received approval from the NJDOBI to report, in Exhibit 7, the net reserve for synthetic guaranteed investment contracts containing minimum investment related guarantees on qualified pension plan assets. The assets are owned by the trustees of such plan, who invest the assets under the terms of investment guidelines agreed to with the Company. The investment related guarantees may include a minimum rate of return on the underlying assets and/or a guarantee of liquidity to meet plan cash flow requirements.
- c. New Jersey law allows insurance companies domiciled in New Jersey to admit leasehold improvements as admitted assets. NAIC statutory accounting practices require non-admittance of leasehold improvements.
- d. In conjunction with the Company’s reinsurance of the U.S. Regulatory Closed Block in 2003, the Company received approval from the NJDOBI to report the initial MODCO reserves ceded to the reinsurer as “Aggregate write-ins for miscellaneous

income” in the revenue section of the Summary of Operations. Although not specifically outlined in statutory guidance, industry practice is to report this amount in “Premium and annuity considerations for life and accident and health contracts” in the Summary of Operations.

A reconciliation of the Company’s net income and capital and surplus at December 31 2006 between NAIC SAP and practices prescribed and permitted by the NJDOBI is shown below:

For the Year Ended December 31,	2006
Net Income (Loss), New Jersey state basis	\$ 443,913,154
State Prescribed Practices (Income)	-
State Permitted Practices (Income)	-
Net Income (Loss), NAIC SAP	<u>443,913,154</u>
Statutory Surplus, New Jersey state basis	5,972,509,085
State Prescribed Practices (Surplus)	
1) Admit Leasehold Improvements	(45,009,744)
State Permitted Practices (Surplus)	-
1) Admit Leasehold Improvements	-
Statutory Surplus, NAIC SAP	<u>\$ 5,927,499,341</u>

SUBSEQUENT EVENTS

The subsequent events period considered for the examination was December 31, 2006 through the date of the examination report incorporated herein.

Effective February 1, 2007, the Company ceased reinsuring U.S. dollar denominated fixed annuities from Gibraltar”. On June 7, 2007, the Company received approval from the NJDOBI for Gibraltar to recapture the remainder of the liabilities it was reinsuring with the Company. The liabilities assumed from Gibraltar were approximately \$2.1 billion and were recaptured by Gibraltar in the third quarter of 2007. Additionally, the Company recognized a gain of approximately \$250.0 million on the transaction, which consisted mainly of the releases of asset adequacy testing reserves and a return of the unamortized portion of the expense allowance paid to Gibraltar. On July 2, 2007, the Company sold \$1.1 billion of securities to Gibraltar in connection with the recapture discussed above.

On March 20, 2007, at the Company’s annual meeting, the Company discussed plans for additional dividends totaling \$1.3 billion. The first dividend request will be for a dividend to stockholders of \$97.0 million. The second dividend request of \$1.2 billion will be for an extraordinary dividend for a return of capital. On May 4, 2007, the NJDOBI approved the Company’s request to declare and pay an ordinary dividend of \$97 million and an extraordinary dividend of \$1.2 billion. On May 14, 2007, the ordinary dividend of \$97 million and \$903 million of the extraordinary dividend were paid. On August 24, 2007, an additional \$170 million of the extraordinary dividend was paid. On September 24, 2007, the remaining \$127 million of the extraordinary dividend was paid.

On April 30, 2007, the Company transferred \$1.0 billion of assets from the qualified pension plan to the medical benefits component of the postretirement plan under Section 420 of the

Internal Revenue Code. The Section 420 transfer (the “transfer”) resulted in a reduction of the prepaid benefit for the qualified pension plan and an offsetting decrease in the accrued benefit liability for the postretirement plan. In addition, the non-admitted assets related to the prepaid pension benefit were reduced by \$1.0 billion. Prior to the transfer, the accrued benefit liability for the postretirement plan had a balance of approximately \$600.0 million. As a result of the transfer of \$1.0 billion of assets into the postretirement plan, a prepaid postretirement asset of approximately \$400.0 million was established, with a corresponding increase to non-admitted assets of \$400.0 million. The net effect on the Company’s capital and surplus was an increase of approximately \$600.0 million, as a result of the net effect of the changes to the non-admitted assets.

On June 22, 2007, the Company received approval from NJDOBI to make a principal payment of \$250.0 million on the 7.65% Surplus Note on July 1, 2007, and to make scheduled interest payments totaling \$28.1 million on surplus Notes totaling \$700.0 million. The interest payments were made as follows:

- On July 1, 2007, the Company made a \$9.6 million interest payment on the 7.65% Surplus Notes due 2007 (Aggregate principal amount equals \$250.0 million.). The interest payment represented interest in arrears from January 1, 2007 through July 1, 2007.
- On July 1, 2007, the Company made a \$14.5 million interest payment on the 8.30% Surplus Notes due 2025 (Aggregate principal amount equals \$350.0 million.). The interest payment represented interest in arrears from January 1, 2007 through July 1, 2007.
- On July 15, 2007, the Company made a \$4.1 million interest payment on the 8.10% Surplus Notes due 2015 (Aggregate principal amount equals \$100.0 million.). The interest payment represented interest in arrears from January 15, 2007 through July 15, 2007.

SUMMARY OF EXAMINATION RECOMMENDATIONS

The full scope coordinated multi-state risk focused examination of the Prudential yielded no reportable recommendations.

CONCLUSION

The undersigned hereby certify that an examination has been made of the **Prudential Insurance Company of America** and the foregoing report is true to the best of our knowledge and belief.

Respectfully submitted,

/S/
Craig A. Moore, CFE
Examiner-In-Charge
Representing the State of New Jersey

Under the Supervision of

/S/
Kenneth O'Connor, CFE
Reviewer
Representing State of New Jersey

State of New Jersey
County of Mercer

Subscribed and sworn to before me, Catherine M. Liptak, on this 26th day of February, 2008.

/S/
Notary Public of New Jersey

My commission expires: January 21, 2013