

PRUDENTIAL'S PLAN TO DEMUTUALIZE

# Policyholder Information Booklet, Part 1

Notices of the public  
hearing and the  
policyholders' meeting

A description of  
Prudential's plan to  
demutualize  
and go public

A copy of the Plan  
of Reorganization



**Prudential**





# How to Use this Policyholder Information Booklet, Part 1

We want you to be fully informed about **Prudential's** plan to become a stock company through a process known as **demutualization**, all as set forth in our Plan of Reorganization. Our board of directors unanimously approved and adopted this **Plan** on December 15, 2000, and subsequently adopted amendments to the Plan. The process of demutualization is complex. With that in mind, we've designed **Part 1** to provide important information about our Plan in a way that we hope you will find easy to follow.

## A READER-FRIENDLY FORMAT

- A brief overview, called "At a Glance", describes the key aspects of our demutualization.
- A Table of Contents shows how the topics are organized.
- Subject headings throughout Part 1 describe the topics being discussed.
- Charts and diagrams illustrate subjects for quick and easy reference.
- A Glossary, which begins on page 61, defines terms. (The terms included in the Glossary are in bold the first time they appear in these introductory pages and again the first time they appear in the Important Information section, which starts on page 1.)
- Icons, or pictures, point out important information.

## ICONS, OR PICTURES, USED IN PART 1 POINT OUT IMPORTANT INFORMATION



Indicates a brief definition of an important or technical term.  
(In some cases, the Glossary provides more comprehensive definitions.)



Highlights  
key concepts.



Tells you where to look  
for more information.

We hope you find Part 1, along with the Voting Guide, the personalized information and instructions on your Reply Cards and **Part 2**, to be useful resources as you review our Plan and cast your vote. We thank you for participating in this very important process. If terms in Part 1 are unfamiliar to you, please see the Glossary beginning on page 61 where many of the important terms are explained in greater detail. Please note that references to "Prudential", "we", "our" and "us" in Part 1 refer to The Prudential Insurance Company of America before demutualization. Also, the terms "policy" and "policyholder" as used in Part 1 include annuity contracts and contract holders, as the context requires.

## ADDITIONAL INFORMATION AND ASSISTANCE

Part 1 contains a copy of the text of the Plan (with schedules and exhibits in either summary or full form, as indicated) beginning on page 69. Except on days we are closed for business, a complete copy of the Plan, with the full texts of all the exhibits and schedules, as well as all the other publicly available parts of the application for approval of the Plan that we submitted to the **Commissioner**, may be examined at the following Prudential offices:

- **Newark, N.J.** at 33 Washington Street, Suite 901, open Monday, Wednesday, Thursday and Friday between 8:30 a.m. and 4:30 p.m., Tuesday between 8:30 a.m. and 8:00 p.m. and Saturday between 9:00 a.m. and 12:00 p.m. until the date the public hearing record is closed by the Commissioner;
- **Trenton, N.J.** at 33 West State Street, Suite 130, 1st Floor, open Monday, Tuesday, Thursday and Friday between 8:30 a.m. and 4:30 p.m. and Wednesday between 8:30 a.m. and 8:00 p.m. until the date the Commissioner approves or disapproves the Plan; and
- **Millville, N.J.** at 1600 Malone Street, open Monday, Tuesday, Wednesday and Friday between 8:30 a.m. and 4:30 p.m. and Thursday between 8:30 a.m. and 8:00 p.m. until the date the public hearing record is closed by the Commissioner.

You may obtain copies of these documents by writing to us at the address listed below or by calling the number listed below that applies to you. (Copying charges may apply.) If you are a policyholder and would like a complete set of the exhibits to the Plan, you may obtain one set from us free of charge by writing to us at the address below. You may also view many of these documents on our website at [www.prudential.com](http://www.prudential.com).

If you have any questions or need assistance with your materials, please write to us at The Prudential Insurance Company of America, Demutualization Information Center, P.O. Box 14355, New Brunswick, New Jersey 08906-4355 or call us at the numbers below:

- For U.S. policyholders **1-800-243-1701**
- For the hearing impaired TDD **1-800-619-2837**
- For Canadian policyholders **1-800-519-1339**
- For policyholders with foreign addresses (other than Canadians), see the contact information with the **IRS** Form W-8 in your package

# At a Glance: Key Aspects of Prudential's

## Our corporate structure will change.

- We are currently a mutual life insurance company owned by our policyholders. We have no shareholders. We plan to become a stock life insurance company (referred to as **Prudential Insurance** in this Part 1) through a process called “demutualization”.
- If we demutualize, Prudential Insurance will be indirectly owned by **Prudential Financial, Inc.**, and the total value of Prudential, in the form of shares of **Prudential Financial, Inc. stock**, cash and **policy credits**, will be distributed to **eligible policyholders**.
- In addition to the shares of stock being distributed to eligible policyholders, stock of Prudential Financial, Inc. will be sold in an **IPO** to investors, who need not be our policyholders.
- We expect that several companies that are currently our subsidiaries will be transferred by means of an **extraordinary dividend** payment from Prudential Insurance to Prudential Financial, Inc. We refer to this process as “**destacking**” and this dividend as the “**destacking extraordinary dividend**”. Also, we expect that Prudential Insurance will pay an **additional extraordinary dividend** to Prudential Financial, Inc., which could be as much as \$2.5 billion. If we pay these dividends, they will reduce the **surplus and AVR** of Prudential Insurance; however, we do not expect any negative impact on Prudential Insurance’s financial strength ratings nor do we expect its ability to pay claims and policy benefits to be negatively affected.
- We plan to sell a relatively small amount of a separate class of stock (referred to as “**Class B Stock**”) in a **private placement**. The Class B Stock will reflect the performance of the portion of our business that we refer to as the “**Closed Block Business**” and the Prudential Financial, Inc. stock distributed to eligible policyholders in the demutualization and sold in the IPO will then reflect the financial performance of our other businesses, which we refer to as the “**Financial Services Businesses**”. If we sell the Class B Stock, we also plan to sell debt that we refer to as the “**IHC debt securities**” in a private placement.
- The extraordinary dividends and private placements are designed to enhance the financial flexibility of Prudential Financial, Inc. and the price of its stock. If we complete these transactions at the time of the IPO and they achieve their goal, we expect the value of the demutualization compensation received by eligible policyholders to be enhanced.

## Policyholders will enjoy several benefits and protections.

- There will be no adverse change as a result of the demutualization to your premiums or benefits, cash values, policy dividend eligibility or any of our other guarantees or obligations to you under your policy. Some eligible policyholders will receive demutualization compensation in the form of additional policy benefits called “policy credits”.
- If we demutualize, you, as an eligible policyholder, will receive stock of Prudential Financial, Inc., cash or policy credits based on the number of shares of Prudential Financial, Inc. stock allocated to you. An estimate, or an estimated range, of the number of shares allocated to you appears on your policyholder record card (Card 4). You do not need to pay any money or give up your policy to receive this compensation.
- You are an eligible policyholder if you owned one or more insurance policies or annuity contracts issued by Prudential that were **in force** on the **Board Adoption Date** (December 15, 2000). Also, some policyholders and categories of policies are deemed eligible even if they don’t meet these criteria.
- While much of the compensation payable to eligible policyholders will be in the form of stock, some policyholders will receive compensation in the form of cash or policy credits (due to not choosing to receive stock or to legal requirements and other limitations). Those receiving all of their compensation in the form of cash or policy credits or both will be allocated approximately 10% in additional shares, but in any event no fewer than two additional shares.
- If you receive any compensation in the form of cash or policy credits or both, the amount of cash and the value of the policy credits will be determined by multiplying the total number of shares allocated to you for the non-stock compensation by the higher of the IPO price or the “**Top-Up**”, which is explained in this Part 1.
- Policies currently entitled to receive policy dividends as declared by the Prudential board of directors will continue to be entitled to receive policy dividends as declared by the Prudential Insurance board. As part of the demutualization, we will establish special arrangements known as “**closed blocks**” to provide for the reasonable policy dividend expectations of owners of individual participating life insurance policies and annuity contracts included within these closed blocks.

# Demutualization

## There will be changes in policyholders' ownership interests.

- In exchange for shares of stock of Prudential Financial, Inc., cash or policy credits, you will give up your **membership interests** in Prudential, but not your policy. You will be giving up your rights as a member of a mutual company to vote for directors and to receive the remaining value of the company (after payment of policy claims and other debts) if it were ever to cease operations and dispose of its assets.
- As is true for other publicly traded stocks, the value of any Prudential Financial, Inc. stock you receive in our demutualization will fluctuate with changes in the market price for the stock.
- After demutualization, the company will be operated for the benefit of shareholders as well as policyholders. This will create the potential for competing interests between policyholders and shareholders. We believe that we can address these competing interests effectively.
- Our employees, including our officers and directors, will be able to become shareholders of Prudential Financial, Inc. in the future. This will create the potential for competing interests between management (as shareholders) and policyholders. However, we believe that being a public company will result in greater incentive for management to run the company successfully for the benefit of both policyholders and shareholders.
- Becoming a public company may increase the possibility of being acquired by another company. However, provisions in New Jersey law may make a takeover more difficult and we will implement other measures that may delay, deter or prevent an uninvited takeover attempt.

*The terms included in the Glossary are in bold the first time they appear in these introductory pages and again the first time they appear in the Important Information section, which starts on page 1.*

*This “At a Glance” section is only a brief description of key aspects of the Plan — it is not exhaustive in its description of the Plan and the exhibits and schedules to the Plan. For a more complete understanding of the Plan, we urge you to read the rest of Part 1, especially the Plan itself, which begins on page 69. You should also review the other materials included in your package to understand Prudential's demutualization.*

## You need to make important decisions now.

- For Prudential to demutualize, at least one million policyholders who are qualified to vote on the Plan must vote, and at least two-thirds of the votes cast must be in favor of approving it. Your vote will be on the Plan in its entirety and not separately on specific components of the Plan. Your voting card (Card 1) indicates if you are qualified to vote. We recommend that you vote YES to approve the Plan.
- We must receive your vote by 4:00 p.m., Eastern Time, on July 31, 2001. See the Voting Guide and Reply Cards for instructions.
- If we do not receive enough YES votes to approve the Plan to demutualize, we will remain a mutual company, and you will not receive shares of Prudential Financial, Inc. stock, cash or policy credits. None of the elements of the Plan described in this Part 1 would occur. If we do receive enough YES votes to approve the Plan and we do demutualize, eligible policyholders will receive demutualization compensation whether or not they voted YES.
- Some eligible policyholders are being asked to choose whether to receive stock of Prudential Financial, Inc. instead of cash. Your stock election card (Card 3) indicates whether you have this choice and, if you do, explains how to make your choice. If you choose stock, you will not be allocated the additional shares and the Top-Up will not apply to your stock compensation. If Card 3 indicates that you have this choice, you may make a choice even if you do not vote or vote NO on approving the Plan. Please review Part 2 in connection with any decision about becoming a shareholder of Prudential Financial, Inc.
- *Sponsors of ERISA-covered employee benefit plans and owners of individual retirement accounts/annuities should note the following:* We have requested an exemption from the U.S. Department of Labor for the payment of compensation to these eligible policyholders. For more information, see the “Notice of Application by The Prudential Insurance Company of America for Prohibited Transaction Exemption” on page xi. Please contact us if you wish to receive a copy of the U.S. Department of Labor's Notice of Proposed Exemption when it is published. If you wish, you can contact the U.S. Department of Labor in connection with the proposed exemption.

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# Notice of Public Hearing to Be Held by the New Jersey Commissioner of Banking and Insurance on the Plan of Reorganization of The Prudential Insurance Company of America

A public hearing has been scheduled by the Commissioner of Banking and Insurance of the State of New Jersey (the "Commissioner") pursuant to Chapter 17C of Title 17 of the New Jersey Revised Statutes.

- WHY:** To collect comments and information to help the Commissioner decide whether to approve the Plan of Reorganization (the "Plan") approved and adopted by the board of directors of The Prudential Insurance Company of America ("Prudential") on December 15, 2000, and subsequently amended and restated. The Plan proposes to convert Prudential from a mutual life insurance company to a stock life insurance company through a process called "demutualization".
- WHO:** Policyholders who are qualified to vote on the Plan or who are eligible for compensation under the Plan and any other interested persons may attend.
- WHEN:** Beginning at 10:00 a.m., Eastern Time, on July 17, 2001.  
The hearing may continue for additional days immediately following this date or at a future date established by the Commissioner.
- WHERE:** The War Memorial, 200 Barrack and West Lafayette Streets, Trenton, New Jersey. The hearing may be adjourned to another time or place. If the new time and place are announced at the hearing at which the adjournment is taken, Prudential will not be required to give additional individual notices.

**You do not need to appear at the public hearing or submit any statements to the Commissioner to continue your insurance policy or annuity contract, to protect any rights you may have under the Plan or to vote on the Plan (if you are qualified to vote).**

**If you wish to make an oral statement at the hearing:** Send a written notice of your intent to make an oral statement to the New Jersey Department of Banking and Insurance at the address directly below. It should be received by July 10, 2001. The Commissioner has the right to limit the length of any oral statements at the hearing. **If you wish to submit a written statement:** Send your written statement to the New Jersey Department of Banking and Insurance at the address directly below before the date the public hearing record is closed by the Commissioner.

**MAIL TO:** New Jersey Department of Banking and Insurance  
Attention: Prudential Demutualization  
P.O. Box 473  
Trenton, New Jersey 08625-0473

If you want to contact the New Jersey Department of Banking and Insurance by telephone, please call 1-888-224-3710.

New Jersey law requires the Commissioner to approve the Plan if, after the public hearing, the Commissioner finds that:

- Prudential's application to the Commissioner for approval of the Plan conforms to the requirements of Section 17:17C-4 of the New Jersey Revised Statutes;
- the Plan is fair and equitable to Prudential's policyholders;
- the Plan promotes the best interest of Prudential and its policyholders;
- the Plan provides for the enhancement of Prudential's operations;
- the Plan is not contrary to law;
- the Plan is not detrimental to the public; and
- after giving effect to the reorganization, Prudential will have an amount of capital and surplus that the Commissioner deems to be reasonably necessary for its future solvency.

The Commissioner's approval or disapproval of the Plan must be issued within 45 days after the record of the public hearing on the Plan is closed. The public hearing record cannot close until Prudential has certified to the Commissioner that policyholders qualified to vote have voted on the Plan. Prudential will hold a special meeting of Prudential policyholders to vote on the Plan on July 31, 2001 beginning at 10:00 a.m., Eastern Time, at the Hilton Newark Gateway Hotel, One Gateway Center, Raymond Blvd., Newark, New Jersey. **Policyholders may also vote by mail, telephone or Internet.**

Policyholders are advised that they may be entitled to receive a distribution pursuant to this demutualization.

The location of the public hearing is accessible to people with disabilities. Interpreter services will be available at no charge for hearing impaired persons.

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# Notice of Policyholders' Meeting to Vote on the Plan of Reorganization of The Prudential Insurance Company of America

The Prudential Insurance Company of America ("Prudential") has scheduled a special meeting of its policyholders under Chapter 17C of Title 17 of the New Jersey Revised Statutes (the "Policyholders' Meeting").

**WHY:** **To vote on the Plan of Reorganization (the "Plan") approved and adopted by the board of directors of Prudential on December 15, 2000, and subsequently amended and restated.** There will be no business other than this vote conducted at the Policyholders' Meeting. The Plan would convert Prudential from a mutual life insurance company to a stock life insurance company. The vote will be on the Plan in its entirety and not separately on specific components of the Plan. For the Plan to be approved, at least one million of Prudential's policyholders qualified to vote on the Plan must vote and at least two-thirds of the votes cast must be in favor of approval of the Plan.

**WHO:** **Those policyholders who are qualified to vote.** You are qualified to vote if you met both of the following requirements on December 15, 2000 (the date the Prudential board of directors adopted the Plan), which is the record date for being qualified to vote on the Plan: (1) you were the owner of at least one life or health insurance policy or annuity contract issued by Prudential, and that policy or contract was in force and had been in force for at least one year prior to December 15, 2000; and (2) you were at least 18 years old. If, according to our records, you do not meet these criteria, your voting card (Card 1) will tell you that you cannot vote. *Note: You are entitled to only one vote, no matter how many policies or contracts you own or how much their value. If, however, you own policies or contracts in more than one legal capacity (e.g., as an individual owner and as a trustee for others), you may vote in each of your legal capacities. You will receive a separate package of materials containing a separate voting card (Card 1) for each such capacity.*

**WHEN:** Beginning at 10:00 a.m. and ending at 4:00 p.m., Eastern Time, on July 31, 2001.

**WHERE:** **The Policyholders' Meeting will be held at the Hilton Newark Gateway Hotel, One Gateway Center, Raymond Blvd., Newark, New Jersey.** The Policyholders' Meeting may be adjourned to another time or place. If the new time and place for the meeting are announced at the meeting at which the adjournment is taken, Prudential will not be required to give additional individual notices.

**You do not need to appear at the Policyholders' Meeting to vote. Instead, you may vote by mail, telephone or Internet by following the instructions on the back of your voting card (Card 1). All votes must be received by Prudential by 4:00 p.m., Eastern Time, on July 31, 2001 to be counted.**

If you intend to vote in person at the Policyholders' Meeting, please bring the enclosed voting card (Card 1) and policyholder record card (Card 4), which has your policy numbers and control numbers, or a photo identification. If you do not bring your cards, a replacement voting card can be provided to you at the Policyholders' Meeting if you know your policy and control numbers or if you bring a photo identification.

**Prudential's board of directors has unanimously approved and adopted the Plan and recommends that you vote YES to approve the Plan.**

## Questions? Need a replacement voting card?

Call Prudential at the number that applies to you:

- For U.S. policyholders **1-800-243-1701**
- For Canadian policyholders **1-800-519-1339**
- For the hearing impaired TDD **1-800-619-2837**
- For policyholders with foreign addresses (other than Canadians), see the contact information with the IRS Form W-8 in your package

Or write to Prudential at:

The Prudential Insurance Company of America  
Demutualization Information Center  
P.O. Box 14355  
New Brunswick, New Jersey 08906-4355

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# Notice of Application by The Prudential Insurance Company of America for Prohibited Transaction Exemption

**WHY:** Pursuant to the Plan of Reorganization approved and adopted by the board of directors of The Prudential Insurance Company of America (“Prudential”) on December 15, 2000, and subsequently amended and restated, eligible policyholders of Prudential will exchange their membership interests in Prudential for Prudential Financial, Inc. stock, cash or policy credits. Under the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) or the United States Internal Revenue Code of 1986, as amended (“Code”), the receipt of stock of Prudential Financial, Inc., cash or policy credits by employee benefit plans or individual retirement accounts/annuities (“IRAs”) for which Prudential is a “party in interest” or “disqualified person” could be viewed as a prohibited transaction. Prudential has applied for an administrative exemption from the United States Department of Labor (“Department of Labor”) to cover such transactions. Pursuant to the Department of Labor’s regulations at 29 CFR § 2570.43, we are providing interested persons with notice of the pending exemption.

**WHO:** As described below, “interested persons” may comment on the Department of Labor’s proposed exemption when the exemption is issued. For purposes of this exemption, “interested person” generally means the party indicated in the policy issued to or on behalf of an ERISA plan. In the case of an IRA or ERISA-covered tax deferred annuity (“TDA”), “interested person” means the individual to whom the IRA or TDA contract is issued.

## **Required Notice to Interested Persons**

You are hereby notified that the Department of Labor is considering granting an exemption from the prohibited transaction restrictions of the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986. The exemption under consideration will be explained in a Notice of Proposed Exemption (“Notice”), which is expected to be published in the Federal Register in the near future. As a person who may be affected by this exemption, you have the right to comment on the proposed exemption. Comments should be addressed to the Office of Exemption Determinations, Pension and Welfare Benefits Administration, Room N-5649, U.S. Department of Labor, 200 Constitution Avenue NW, Washington, DC 20210 (Application No. D-10984).

The Department of Labor will make no final decision on the proposed exemption until it reviews all comments received in response to the Notice.

## **Obtaining Copies of the Notice and Making Comments**

You have the right to comment on the Department of Labor’s proposed exemption when it is issued. You will have 90 days to comment on the exemption after the Notice is published in the Federal Register. If you wish to be contacted when the Notice is published in the Federal Register so that you may provide comments to the Department of Labor, call 1-877-264-1163 or write to: The Prudential Insurance Company of America, Demutualization Information Center, P.O. Box 14355, New Brunswick, New Jersey 08906-4355.

If you contact us, we will provide you with a copy of the Notice no later than 30 days after the Notice is published in the Federal Register. In addition, the Notice will be posted on Prudential’s website at [www.prudential.com](http://www.prudential.com).

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# Important Information about Prudential's Plan of Reorganization

**NOTE:**

The Important Information that follows is not intended to be a complete summary or a substitute for the Plan of Reorganization. The Plan is included at pages 69 through 124 of Part 1. You should read the Plan in its entirety. The Plan of Reorganization is the document that governs Prudential's demutualization.

If there are differences between this Important Information (or any other explanatory information in your package of materials) and the Plan, the Plan provisions govern.



## Why We Are Planning to Demutualize



**Prudential:** The Prudential Insurance Company of America before the demutualization. References to "we", "our" and "us" in Part 1 mean Prudential.

**Prudential Insurance:** The Prudential Insurance Company of America after the demutualization.

**Prudential Financial, Inc.:** The New Jersey stock business corporation organized to be the publicly traded indirect holding company of Prudential Insurance after the demutualization.

**Plan:** The Plan of Reorganization, which is the legal document describing our demutualization.



**membership interests:** We use the terms "membership interests" and "ownership interests" interchangeably in these explanatory materials. See the Glossary for the definition of "membership interests".



Our board of directors considered and rejected other possible courses of action.

### BACKGROUND

During the years that **Prudential** has been a mutual insurance company, we have grown from a company focused primarily on selling life insurance to one of the largest financial services institutions in the United States. Prudential and our subsidiaries now provide a wide range of insurance, investment management and other financial products and services. Although our mutual company structure has worked well in the past, we have had to reexamine keeping this structure in light of the many changes occurring in the global financial services market. These changes include increased competition from companies outside the U.S. and from non-insurance companies, changes in distribution channels for financial services products, and the reorganization into stock companies (through **demutualization**) of many of our competitors.

### OUR BOARD VOTED UNANIMOUSLY TO APPROVE DEMUTUALIZATION

Demutualization is the process by which an insurance company changes its structure from a mutual insurance company owned by policyholders to a stock insurance company owned by shareholders. After considering the changes in the global financial services market and evaluating the other possible courses of action described below, our board of directors concluded that we should demutualize. Our board of directors unanimously approved and adopted the **Plan** based on the following reasons:

- First, we believe that we need to become a publicly traded stock company to compete more effectively in the changing global financial services industry. The financial services industry is rapidly consolidating. Insurance companies, banks and other financial services providers are combining to create a new class of global firms. Access to capital that we will be able to raise in the future by selling stock of **Prudential Financial, Inc.**, the newly-formed holding company that will indirectly own **Prudential Insurance**, and other securities will make it easier for us to fund the development of new products and services and new sales channels that are consistent with our strategy. We will also be able to use **Prudential Financial, Inc. stock**, rather than having to rely on cash, to acquire other companies.
- Second, demutualization will enable us to distribute the total value of Prudential to **eligible policyholders** pursuant to the Plan. This will afford eligible policyholders the opportunity to realize economic value from their "**membership interests**" (or ownership interests) in a way and a form that is otherwise not available to them (except in the unlikely event of our **liquidation**). A policyholder's membership interests cannot be sold separately from the underlying policy, and the membership interests end automatically when the policy ends. Demutualization will separate the membership interests from the underlying policies and will extinguish the membership interests as part of the demutualization. Upon extinguishment of all membership interests, eligible policyholders will be compensated with stock of Prudential Financial, Inc., cash or additional policy benefits referred to as "**policy credits**". Those who receive Prudential Financial, Inc. stock will be able to keep their stock or sell it for cash at market value.
- Third, we will be able to use stock-based compensation programs to recruit and retain high-quality employees and to align their long-term interests with shareholders' interests. Officers and directors will be able to participate in these programs 6 to 12 months after the **Effective Date** of the Plan.
- Fourth, we believe that having stock that is publicly traded will impose on us the discipline of being a public company, such as the requirement to periodically report our financial performance to the financial markets and being compared with similar institutions by financial analysts.

### OUR BOARD CONSIDERED OTHER POSSIBLE COURSES OF ACTION

In deciding whether to demutualize, our board of directors considered the other possible courses of action described below and concluded that none of these would enhance our competitive position as effectively or allow eligible policyholders to realize economic value to the same extent as a demutualization would.

- **Keeping the current mutual company structure:** We could continue as a mutual insurance company. Some mutual insurers have announced their intention to do that. However, we determined that remaining a mutual company would impede our ability to grow in the future because, as a mutual company, we cannot issue stock to raise capital or to acquire other companies. In addition, remaining a mutual company would mean we could not distribute the total value of Prudential to our policyholders.
- **Formation of a mutual holding company:** We could have pursued reorganization into a stock insurance company that would be a subsidiary of a newly-created mutual holding company. Some mutual companies have done this. It would involve our policyholders exchanging their membership interests for membership interests in a mutual holding company. The mutual holding company would retain indirectly ownership of at least 51% of the stock of the insurance company. Policyholders would not receive any compensation in this type of reorganization. We concluded that the 51% ownership requirement would mean that a mutual holding company reorganization would be, at best, only a partial solution to the capital access issue. In addition, and more importantly, this form of reorganization would be less desirable because we could not convey any value to our policyholders. Also, New Jersey law does not permit the formation of a mutual holding company.
- **Sales of subsidiaries:** We could sell the stock (either privately or in an **IPO**) or the assets of one or more of our subsidiaries, individually or by creating a downstream holding company for this purpose. Although this alternative would enable us to convert all or part of the subsidiaries' value to cash, it would not allow us to distribute any value to our policyholders. Further, selling subsidiaries for cash is not as efficient a way to raise capital when needed as the alternatives that would be available to us as a public company. Moreover, selling subsidiaries would mean divesting those businesses, which might not be consistent with our strategy. It also would not change the fact that we would retain our mutual company form, leaving unaddressed the issues discussed above with respect to keeping the mutual company structure.



**IPO:** Initial public offering, or selling of a company's securities to the public for the first time.



For more information on factors considered by our board of directors, see "What Will Happen If We Demutualize" beginning on page 4.

Our board of directors considered a number of other factors in deciding to approve and adopt the Plan to demutualize. The board also considered the opinions of our outside advisors that appear in "Financial Information and Outside Advisor Opinions" at the end of this **Part 1**. These include the opinions described below:

- Our independent consulting actuary, Daniel J. McCarthy, M.A.A.A., of Milliman & Robertson, Inc., rendered an opinion to the board of directors certifying that (1) the methodology and underlying assumptions we are using to allocate compensation among eligible policyholders are reasonable and appropriate and (2) the resulting allocation of compensation among eligible policyholders is fair and equitable. He also rendered an opinion certifying that the assets that have been allocated to the **closed blocks** are in an amount expected to be reasonably sufficient to meet the objective of supporting the policies in the closed blocks and providing for the continuation of **dividend scales** (on which policy dividends are based) in effect on December 15, 2000 (the **Board Adoption Date**) if the experience underlying those scales continues.
- The investment banking firm of J.P. Morgan Securities Inc., one of our financial advisors, rendered an opinion to the board of directors that the demutualization compensation to be distributed to eligible policyholders upon the extinguishment of all membership interests is fair from a financial point of view to the eligible policyholders, as a group.

The **New Jersey Demutualization Law** requires us to obtain the opinions described above. The Plan requires that the opinions be confirmed as of the Effective Date for the Plan to become effective. We paid each of these advisors fees for their professional services, which included rendering these opinions. We were required to pay these fees regardless of whether we agreed with the ultimate conclusions of the advisors. We also agreed to indemnify these advisors against certain liabilities arising out of their engagement. J.P. Morgan Securities Inc. and its affiliates are prohibited under the firm's engagement agreement with us from participating as underwriters in the IPO of Prudential Financial, Inc. stock or any other offerings that may occur in connection with the demutualization. The fee for the fairness opinion rendered by J.P. Morgan Securities Inc. is therefore unrelated to the IPO and to whether the demutualization



The board of directors unanimously approved and adopted the Plan and recommends that you vote YES to approve the Plan.



Your voting card (Card 1) will tell you whether you are qualified to vote on the Plan.

ultimately occurs. We do have commercial banking and other relationships with J.P. Morgan Chase & Co., which owns J.P. Morgan Securities Inc., and its affiliates in the regular course of our business, but those relationships also are unrelated to the IPO and the demutualization. Another of our financial advisors, Goldman, Sachs & Co., will serve as lead managing underwriter for the IPO and will receive a portion of the commission payable to the underwriters upon completion of the IPO. Because of the role of Goldman, Sachs & Co. in leading the IPO, the firm has not provided, nor will it be asked to provide, a fairness opinion on our demutualization.

WE RECOMMEND THAT YOU VOTE YES TO APPROVE THE PLAN

The board of directors unanimously approved and adopted the Plan on December 15, 2000 (the Board Adoption Date), and subsequently amended and restated the Plan. The board concluded that the Plan:

- specifies the manner in which the proposed reorganization shall occur and the reasons for the proposed reorganization;
- is fair and equitable to the Prudential policyholders;
- promotes the best interest of Prudential and its policyholders;
- provides for the enhancement of the operations of Prudential Insurance;
- is not contrary to law; and
- is not detrimental to the public.

The board of directors recommends that you vote YES to approve the Plan to demutualize Prudential. Your vote will be on the Plan in its entirety and not separately on specific components of the Plan.

What Will Happen If We Demutualize

DIFFERENCES BETWEEN MUTUAL AND DEMUTUALIZED STOCK INSURANCE COMPANIES

A mutual insurance company is structured and operated differently from a stock insurance company. The chart that follows contrasts the general characteristics of mutual insurance companies as compared to demutualized stock insurance companies. The chart also illustrates how the rights of policyholders differ in the two structures.

	MUTUAL INSURANCE COMPANIES	DEMUTUALIZED STOCK INSURANCE COMPANIES
Policy Benefits	As provided in policy.	Remain as provided in policy (except that some policies receive policy credits as demutualization compensation).
Who Owns the Company	Policyholders own the company; there are no shareholders.	Shareholders own the company; policyholders do not.
Membership/Ownership Interests – Financial	Eligible policyholders have the right to compensation upon the extinguishment of membership interests in a demutualization and to the remaining value of the insurer in liquidation (after satisfaction of all claims for policy benefits and other creditor claims).	Eligible policyholders will have received demutualization compensation and their membership interests will have ended. The holding company shareholder of the insurer (not the policyholders) has the right to the remaining value of the insurer in liquidation (after satisfaction of all claims for policy benefits and other creditor claims), and the shareholders of the holding company have the right to the remaining value of the holding company in liquidation.

	<b>MUTUAL INSURANCE COMPANIES</b>	<b>DEMUTUALIZED STOCK INSURANCE COMPANIES</b>
<b>Membership/Ownership Interests – Voting</b>	Policyholders have the right to vote on matters submitted to them. Each policyholder generally has one vote no matter how many policies are owned or the value of the policy or policies.	Only shareholders have the right to vote. A shareholder generally has one vote for each share owned on matters submitted to the shareholders.
<b>Transferability of Membership/Ownership Interests</b>	Not transferable separately from the underlying policy; membership interests end when policy ends.	Stock received as demutualization compensation may be sold or transferred even though the policy is retained. Also, the stock may be retained even if the policy is cancelled or transferred.
<b>Existence of Shareholders</b>	Have policyholders but there are no shareholders.	Have both shareholders (of the holding company) and policyholders (of the insurance company).
<b>Dividends to Policyholders</b>	Policy dividends payable as declared by the board of directors.	Policy dividends continue to be payable as declared by the board of directors of the insurer. A closed block provides for reasonable policy dividend expectations for the individual life insurance policies and annuity contracts that are included within it. Reasonable expectations with respect to certain non-guaranteed credits and charges in other types of individual life insurance policies and annuity contracts may be provided for separately.
<b>Dividends to Shareholders</b>	None.	Dividends on stock payable if and as declared by the board of directors of the holding company.
<b>Possible Acquisition by Another Company</b>	Difficult to be acquired in a takeover because a merger with another mutual insurer or a demutualization would be necessary, both of which require policyholder consent.	Less difficult for shares to be acquired in a takeover, although the law and takeover protection measures implemented by the company may provide some protections against an uninvited acquisition.
<b>Ability to Conduct Capital Transactions</b>	Limited—can only raise capital through borrowing or through sale of subsidiary stock or assets.	Increased ability to raise capital—by selling stock and other securities—and can use stock and other securities to pay for acquisitions.
<b>Costs of Doing Business</b>	Incur none of the costs related to being a public company.	Additional ongoing costs of being a public company.

The discussion that follows compares the principal characteristics of Prudential, and your rights as a policyholder, before and after demutualization.

### **YOUR POLICY BENEFITS WILL NOT BE REDUCED**

Our demutualization will not adversely change your premiums or benefits, cash values, eligibility for policy dividends or any of our other guarantees or obligations to you under your policy. If you are an eligible policyholder who will receive additional policy benefits, called “policy credits”, as your demutualization compensation, your policy benefits will increase.

### **OWNERSHIP OF PRUDENTIAL WILL CHANGE**

We are currently a mutual life insurance company. Our policyholders own the company. If we demutualize, we will no longer be a mutual company. Policyholders will not own Prudential Insurance except indirectly to the extent that they retain any Prudential



While a number of things will change if we demutualize, your policy benefits and our other obligations to you under your policy will not be reduced.



### **Prudential Holdings, LLC:**

The New Jersey limited liability company organized to be the direct owner of Prudential Insurance and in turn the wholly owned subsidiary of Prudential Financial, Inc. after the demutualization.



At the time of demutualization, all of the membership interests of all of our policyholders will end and, in exchange, eligible policyholders will receive compensation.



Our policyholders will give up the right to any remaining value of Prudential Insurance in the unlikely event of liquidation.



Our policyholders will give up the right to vote on the election of directors and on extraordinary matters for Prudential Insurance.

Financial, Inc. stock distributed to them in the demutualization or buy the stock later on their own initiative (their ownership of Prudential Insurance would be indirect because Prudential Insurance will be a subsidiary of **Prudential Holdings, LLC**, which will in turn be a subsidiary of Prudential Financial, Inc.).

### **POLICYHOLDERS' MEMBERSHIP INTERESTS WILL BE EXCHANGED FOR ECONOMIC VALUE**

Our policyholders have membership interests in Prudential. Membership interests have many of the same characteristics as ownership, although some, such as transferability, are missing. Membership interests include the right to vote on matters submitted to policyholders, including the election of directors, the right to receive compensation if we ever demutualize, and the right to receive the remaining value (after payment of all policy claims and other debts) if we were ever to liquidate (*i.e.*, to cease operations and distribute the assets remaining after settlement of policy and other claims).

The Plan provides that all eligible policyholders have membership interests that entitle them to receive demutualization compensation. These membership interests arise under: (1) our charter and by-laws or (2) by law or otherwise, including under the Plan. Upon demutualization, all of the membership interests of all of our policyholders will cease to exist and, in exchange, eligible policyholders will receive compensation. You will not have to pay any money or give up your policy to receive demutualization compensation. The compensation will consist of shares of stock of Prudential Financial, Inc., cash or policy credits. Demutualization is thus an opportunity for eligible policyholders to benefit from the value of their membership interests in a way that is otherwise unavailable to them except in the unlikely event of a liquidation.

### **Policyholders Will Give Up Their Right to the Post-Liquidation Value of Prudential**

As members, our policyholders have the right to any remaining value of Prudential (after payment of policy claims and other debts) in the unlikely event that we were to liquidate. In contrast, after demutualization, Prudential Financial, Inc. will be the indirect shareholder of Prudential Insurance, and would have the ultimate right to any remaining value if Prudential Insurance were ever to liquidate. Prudential Insurance's obligations to its policyholders under their policies would, however, receive priority over claims by Prudential Insurance's shareholder. Prudential Insurance policyholders also would continue to receive whatever protections are available to them under the various state insurance guaranty funds. If Prudential Financial, Inc. were ever to liquidate, its shareholders would have the right to any remaining value. Prudential Insurance policyholders who do not own Prudential Financial, Inc. stock would not be shareholders and therefore would not have any claim to the remaining value of Prudential Financial, Inc. in the event of its liquidation.

### **Policyholders Will No Longer Vote in Their Capacity as Policyholders**

As members, our policyholders generally are entitled to vote on the election of directors and on extraordinary matters, such as this proposed demutualization, that are submitted to members for a vote. After demutualization, Prudential Insurance policyholders will not have a right to vote on these matters. Instead, only Prudential Financial, Inc. will vote with respect to Prudential Insurance (through the intermediate holding company, Prudential Holdings, LLC), and only the shareholders of Prudential Financial, Inc. will have the right to vote at meetings of the shareholders of that company. If you receive and retain, or buy, shares of Prudential Financial, Inc. stock, you will be able to vote as a shareholder at meetings of Prudential Financial, Inc. shareholders on those matters submitted to a vote of shareholders. However, if you receive cash or policy credits, and you do not otherwise acquire Prudential Financial, Inc. stock, you will not be able to vote at Prudential Financial, Inc. shareholder meetings. Outside investors who do not own Prudential Insurance policies but who buy shares of Prudential Financial, Inc. stock also will be able to vote at Prudential Financial, Inc. shareholder meetings.

Currently, each of our policyholders that is qualified to vote has one vote on matters submitted to a vote of policyholders, regardless of the number of policies held or the value of those policies. Following demutualization, the number of votes a shareholder may cast at Prudential Financial, Inc. shareholder meetings on matters submitted to a vote of shareholders will depend on how many shares of Prudential Financial, Inc. stock the shareholder owns.



## TRANSFERABILITY OF MEMBERSHIP INTERESTS WILL CHANGE

Our policyholders cannot sell or transfer their membership interests separately from their policies. Also, their membership interests automatically end when the underlying policy terminates. If you receive shares of Prudential Financial, Inc. stock as a result of our demutualization, you may sell the shares or keep them regardless of whether you keep your policy. Being a policyholder of Prudential Insurance will be independent from owning shares of Prudential Financial, Inc. stock. You will be able to terminate your policy and still be a Prudential Financial, Inc. shareholder or you will be able to sell your Prudential Financial, Inc. stock and still be a policyholder. Some eligible policyholders will receive cash or policy credits instead of shares of Prudential Financial, Inc. stock in the demutualization. If you receive cash, you will be able to use the cash in any manner you decide is appropriate, irrespective of what you do with your policy. If you receive policy credits, the credits will remain linked to your policy and your policy benefits will increase.

## PRUDENTIAL INSURANCE AND PRUDENTIAL FINANCIAL, INC. WILL BE OWNED BY SHAREHOLDERS INSTEAD OF POLICYHOLDERS

We are currently owned by our policyholders, and we have no shareholders. Following demutualization, policyholders will not own Prudential Insurance unless they receive shares of Prudential Financial, Inc. stock in the demutualization, in which case their ownership will be indirect through Prudential Holdings, LLC and Prudential Financial, Inc. After demutualization, Prudential Financial, Inc. will be a publicly traded company that will be owned by many shareholders, including eligible policyholders who receive Prudential Financial, Inc. stock as demutualization compensation and also including institutional investors and members of the public (who may or may not be policyholders) who will have bought shares of Prudential Financial, Inc. stock in the market.

### The Potential for Competing Interests between Shareholders and Policyholders

A mutual insurance company is generally operated for the benefit of its policyholders, who are the owners. After demutualization, Prudential Insurance will be owned by its indirect sole shareholder, Prudential Financial, Inc., instead of by its policyholders. Prudential Financial, Inc. will be a public company owned by shareholders. One of Prudential Financial, Inc.'s objectives as a public company will be to maximize profits for its shareholders. We considered that policyholders may be concerned that their interests and those of shareholders might not be the same after demutualization. In particular, shareholders of public companies are primarily interested in financial performance as it relates to share price or shareholder dividends, while policyholders are primarily interested in financial performance as it relates to the ability of their insurance company to pay claims and policy dividends and as it affects the cost of insurance. We believe that both policyholders and shareholders will benefit from business opportunities that our demutualization will make possible because of our increased access to the financial markets, our enhanced financial flexibility and our improved ability to attract and retain good employees. Numerous life insurance companies are organized and operate as stock companies. We believe that, like these companies, we will be able to effectively address competing interests of shareholders and policyholders. For example, we will address the possibility of conflict between shareholders' expectations of dividends and policyholders' expectations of policy dividends by establishing the closed blocks for the owners of dividend-paying individual life insurance policies and annuity contracts included within the closed blocks.

### The Potential for Competing Interests Between Management as Shareholders and Policyholders Will Increase

As a mutual company without stock, we cannot currently provide our employees, officers and directors with stock-based compensation. If we become a stock company, we intend that employees, and also, when the Plan permits, officers and directors, will have the opportunity to receive part of their compensation and benefits in the form of Prudential Financial, Inc. stock options, shares of stock or both. As a result, management will probably become Prudential Financial, Inc. shareholders at some time in the future.

It is possible that management, who run the company, might have interests in their capacity as shareholders of Prudential Financial, Inc. that are not perfectly aligned with the interests of policyholders. However, we believe that our management will have an even greater incentive to make decisions that will make Prudential Insurance successful once they are shareholders of Prudential Financial, Inc. This would inure to the overall benefit of both policyholders and shareholders. We further believe that we will be able



We believe that policyholders would benefit from our being a stock company.



For more information about our plans to use stock and stock options in compensation plans and programs, see "Prudential Financial, Inc. Stock Will Be Used in Compensation Plans and Programs for Employees, Officers and Directors" beginning on page 56.



For more information about the closed blocks, see "Closed Blocks Provide for Policy Dividends after Demutualization" beginning on page 39.



Although the chance of a takeover may be increased following demutualization, the law includes provisions that make a takeover more difficult and we will implement other measures.



For more information about our takeover protections, see "Description of Capital Stock—Provisions of Prudential Financial, Inc.'s Certificate of Incorporation and By-laws" and "—Shareholders Rights Plan" in Part 2 and the Summaries of Exhibits A and B to the Plan on pages 104 and 105 of Part 1, respectively.

to manage competing interests of management shareholders and policyholders. As discussed above, many insurance companies that are stock companies do so.

### THE REASONABLE DIVIDEND EXPECTATIONS OF POLICYHOLDERS ARE PROVIDED FOR IN THE PLAN

Policyholders' reasonable expectations with respect to policy dividends on individual participating life insurance policies and annuity contracts that currently entitle them to receive dividends should not change because of demutualization. That does not mean that policy dividends could not change due to changed experience, as is currently the case. We will establish two closed blocks—one for U.S. business and one for Canadian business—as part of the demutualization. The purpose of the closed blocks will be to provide for the reasonable dividend expectations of owners of individual participating life insurance policies and annuity contracts included in these closed blocks.

Please note that dividends on shares of Prudential Financial, Inc. stock are not the same as policy dividends on insurance policies and annuity contracts. If you will be both a Prudential Financial, Inc. shareholder and a Prudential Insurance policyholder, any dividends payable on Prudential Financial, Inc. stock will be in addition to any dividends payable on your insurance policy or annuity contract.

Some individual policies and annuity contracts allow for specified charges and credits to be changed by the issuing insurer. The Plan also includes provisions that provide for reasonable expectations that policyholders may have formed with respect to such charges and credits.

### THE POSSIBILITY OF BEING ACQUIRED BY ANOTHER COMPANY WILL INCREASE

As a mutual insurer, it is difficult for us to be acquired by another company because a merger with another mutual insurer or a demutualization would be necessary, and policyholder consent is required in both cases. Following demutualization, it would be possible for another company to acquire the stock of Prudential Financial, Inc. or Prudential Insurance because the acquisition impediments associated with the mutual company structure (*i.e.*, need for a merger or demutualization) would no longer be present.

Although it may be easier for a third party to acquire control of Prudential Insurance following demutualization, the New Jersey Demutualization Law makes such an acquisition more difficult than it would otherwise be for the first three years after demutualization. Based on this restriction in the New Jersey Demutualization Law, the Plan provides that for three years following the Effective Date, no person other than Prudential Insurance, Prudential Financial, Inc., any intermediate holding company or employee benefit plans or trusts sponsored by us can acquire 5% or more of the voting power of Prudential Insurance or Prudential Financial, Inc. without the prior approval of the **Commissioner**. To approve an acquisition that is subject to this restriction during the first three years, the Commissioner must find, among other things, that the acquisition would be in the interest of Prudential Insurance policyholders. After the three-year period expires, the New Jersey Demutualization Law and the Plan restrictions would no longer apply, but the restriction in the New Jersey Insurance Holding Company Systems Act would continue to apply. The New Jersey Insurance Holding Company Systems Act prohibits anyone from acquiring control of any New Jersey insurance company or its parent company without the Commissioner's approval. Control generally is defined for this purpose as the ownership of 10% or more of the voting securities of the company.

In addition, Prudential Financial, Inc.'s certificate of incorporation and by-laws will contain provisions that may delay, deter or prevent an uninvited takeover attempt that some shareholders might consider in their best interests. These measures are designed to help the board of directors control the pace, consideration and negotiation of a change in control so that the best interests of Prudential Financial, Inc. can be considered. Prudential Financial, Inc.'s board of directors has also authorized a shareholders' rights plan that will become effective on the Effective Date of the Plan. This rights plan may also create obstacles that could delay, deter or prevent an uninvited takeover attempt that some shareholders might consider in their best interests. The Prudential Financial, Inc. board of directors is also authorized to issue so-called "blank check" preferred stock in one or more classes or series without receiving additional authorization from the shareholders. This authorization makes it more difficult for an uninvited acquiring

person or group to achieve a position of substantial influence or control since additional voting shares may be issued at any time.

In general, the change in control provisions in Prudential Financial, Inc.'s certificate of incorporation and by-laws cannot be altered or terminated by a simple majority of Prudential Financial, Inc. shares voting. Rather, they can be changed only by a larger percentage of shares voting, as specified in Prudential Financial, Inc.'s certificate of incorporation and by-laws. This is expected to make these provisions more durable and more likely to have their intended effects.

Any or all of these provisions—those in the law and those that we will implement—could diminish the market value of Prudential Financial, Inc. stock, especially during the three years that the more restrictive provisions of the New Jersey Demutualization Law and the Plan are in place, because investors might view these various provisions as limiting the transferability of Prudential Financial, Inc. stock. These provisions also provide some protection to management against possible removal, but to a much lesser extent than management is currently protected simply by virtue of our being a mutual company.

These provisions relating to takeovers are intended to enable us to make the transition from a mutual company to a stock company effectively and to protect the longer term interests of shareholders and policyholders.

### **OUR ABILITY TO CONDUCT OTHER CAPITAL TRANSACTIONS WILL IMPROVE**

As a mutual insurer with no stock, we can raise capital only through borrowing or through the sale of assets or stock of our subsidiaries. After demutualization, we will be able to raise capital by selling Prudential Financial, Inc. stock and other securities, including debt with equity features such as convertible bonds, in public and private markets. We will also be able to use Prudential Financial, Inc. stock to acquire other stock companies in stock-for-stock exchanges. As a stock company, however, the only way Prudential Financial, Inc. or any of its affiliates will be able to acquire a mutual company will be through sponsoring its demutualization.

### **THERE WILL BE ADDITIONAL COSTS OF DOING BUSINESS AFTER DEMUTUALIZATION**

Any public company has ongoing costs associated with being listed on a stock exchange and publicly traded. We currently do not bear these costs as a mutual company. Our increased costs could range from \$30 million to \$80 million per year, depending on the number of Prudential Financial, Inc. shareholders. These increased costs will be due primarily to the following:

- making periodic public reports, such as the quarterly and annual reports public companies are required to file with the Securities and Exchange Commission (the SEC); and
- providing shareholder services, including paying transfer agent fees and printing and distributing dividend checks (to the extent that dividends are paid), annual reports, proxy statements and other routine mailings to shareholders.

All companies with publicly traded stock incur these costs, but the anticipated large size of the Prudential Financial, Inc. shareholder population will make them an especially significant factor for us.

### **THE VALUE OF PRUDENTIAL FINANCIAL, INC. STOCK MAY FLUCTUATE**

As is true for other publicly traded stocks, there may be increases or decreases in the price of Prudential Financial, Inc. stock. Fluctuations in the price of a company's stock can result from any of a number of factors, including changes in the company's profits or earnings and overall market conditions (such as changes in interest rates). As a result, if you sell your Prudential Financial, Inc. stock in the future, the price you get for your shares of stock could be lower or higher than the trading price when you received them. If you receive cash or policy credits, which will be valued at the higher of Prudential Financial, Inc. stock's IPO price or the **Top-Up** (explained later in this Part 1), you will not benefit from any increase in the stock price after the **Top-Up Period** has ended, but you also will not suffer any loss in value if the stock price declines.

### **THE COMPOSITION OF THE BOARD OF DIRECTORS WILL CHANGE**

Six members of our board of directors are currently appointed by the Chief Justice of the Supreme Court of New Jersey in accordance with New Jersey law. (These directors,



**Top-Up:** An amount equal to the IPO price for shares of Prudential Financial, Inc. stock plus a market-based appreciation factor: if the average of the closing prices of Prudential Financial, Inc. stock on the primary exchange where it is listed during the first 20 days of trading (the "**Top-Up Period**") exceeds 110% of the IPO price, the amount of that excess, not to exceed 10% of the IPO price, will be added to the IPO price.





After demutualization, the Chief Justice of the New Jersey Supreme Court will no longer appoint any of our directors.



**destacking:** The realignment of the ownership of some of our subsidiaries and some related assets and non-insurance liabilities. Following demutualization, Prudential Financial, Inc. rather than Prudential Insurance will own these.

**extraordinary dividend:** A dividend payment that exceeds limits set by the New Jersey insurance laws for such payments unless the Commissioner has been given prior notice of the dividend payment and has not disapproved it within 30 days after receipt of such notice.



For more detailed information on these transactions, see "The Plan Permits Destacking and Extraordinary Dividends" and "The Plan Permits Issuance of Class B Stock and IHC Debt Securities and Other Capital Raising Transactions" beginning on pages 32 and 35, respectively. Also see the financial information for Prudential Insurance that appears in "Financial Information and Outside Advisor Opinions" beginning on page 125.

who are appointed by the Chief Justice, are referred to as the "**Public Directors**".) Following demutualization, the current Public Directors, along with all of our other current directors, will serve on the boards of directors of Prudential Financial, Inc. and Prudential Insurance. In the case of Prudential Financial, Inc., all directors will be assigned to one of three classes, the result of which will be that one-third of the directors will stand for election by shareholders each year thereafter. We currently anticipate that one-third of the Public Directors will be assigned to each class of directors. In the case of Prudential Insurance, all directors will be elected by the sole shareholder each year. After demutualization, none of the directors of Prudential Financial, Inc. or Prudential Insurance will be appointed by the Chief Justice. Also, as a result of the transition to a public company structure, the initial terms of many of our directors, including Public Directors, will be shorter than their current remaining terms for the mutual company.

## WE PLAN TO CHANGE OUR ORGANIZATIONAL AND CAPITAL STRUCTURE AS PART OF THE DEMUTUALIZATION

We plan to change our organizational and capital structure in connection with the demutualization. As will be explained, these changes are designed to enhance our financial flexibility and to increase the value of the demutualization compensation that will be received by eligible policyholders. However, we are not required to implement any of these changes as a condition to the effectiveness of the Plan, and it is possible that, for any of a number of reasons, we will not implement them, or that we will implement them in part. It is also possible that they will not have the intended effect if we do implement them. These changes are described briefly below and in greater detail later in Part 1.

First, we expect to transfer some of our subsidiaries and some related assets and non-insurance liabilities from Prudential Insurance to Prudential Financial, Inc. We refer to this change as "**destacking**". This transfer to Prudential Financial, Inc. will be accomplished through the payment by Prudential Insurance of an **extraordinary dividend**, which we refer to as the "**destacking extraordinary dividend**". An extraordinary dividend is a dividend payment that exceeds limits set by the New Jersey insurance laws for such payments unless the Commissioner has been given prior notice of the dividend payment and has not disapproved it within 30 days after receipt of such notice. The amount of this destacking extraordinary dividend if it had occurred on December 31, 2000 (based on the statutory book value at December 31, 2000 of the subsidiaries, assets and non-insurance liabilities that we propose to destack) would have been approximately \$3,829 million. Using an extraordinary dividend to accomplish the destacking means that Prudential Insurance will not receive any consideration from Prudential Financial, Inc. in exchange for the destacked subsidiaries and other assets.

Second, we expect that Prudential Insurance will pay an **additional extraordinary dividend**. The Plan permits this dividend to be in an amount of as much as \$2.5 billion. Based upon the statutory book value at December 31, 2000, this dividend would have been \$360 million if it had been paid on December 31, 2000; however, the amount could be substantially larger by the Effective Date. The proceeds of this dividend will be used by Prudential Financial, Inc. and its various other subsidiaries for general corporate purposes. The additional extraordinary dividend and the destacking extraordinary dividend (based on December 31, 2000 statutory book value) will total \$4,189 million, if both are paid in the amounts described. We do not expect that these extraordinary dividends will negatively affect the ability of Prudential Insurance to pay claims or benefits to policyholders, nor do we expect that they will negatively affect Prudential Insurance's financial strength ratings.

Third, we plan to sell shares of a separate class of voting stock of Prudential Financial, Inc. (known as the "**Class B Stock**") and debt securities of Prudential Holdings, LLC (known in this Part 1 and the Plan as the "**IHC debt securities**") in **private placements**. For this purpose, on April 25, 2001, we entered into a subscription agreement pursuant to which institutional investors agreed to purchase 2.0 million shares of Class B Stock at the time of our demutualization. This will generate aggregate gross proceeds of \$175 million. We also are negotiating a commitment with a bond insurer to insure approximately \$1.75 billion of IHC debt securities, which debt we plan to market prior to the IPO. If these sales are completed, the Class B Stock will be designed to reflect the financial performance of a portion of our business that we refer

to as the “**Closed Block Business**”. The principal and interest on the IHC debt securities are expected to be paid out of net cash flows of this business over time, but neither these payments nor the dividends on the Class B Stock will be paid out of the assets comprising the **Closed Block**. The Closed Block, and the payment of policy dividends on **Closed Block Policies**, will not be affected by these securities.

If we complete the sale of the Class B Stock, the portion of our business to which it will relate will consist generally of our traditional participating individual life insurance and individual annuity products, which historically has yielded lower returns on capital invested than many of our other businesses. The Prudential Financial, Inc. stock allocated and distributed to eligible policyholders in the demutualization and sold in the IPO will then be expected to reflect the performance of all the other businesses of Prudential Financial, Inc. (including the other businesses of Prudential Insurance), which we refer to as the “**Financial Services Businesses**”.

As noted, we believe that selling the Class B Stock and the IHC debt securities would improve the value and investment attributes of the Prudential Financial, Inc. stock. This is the reason we are planning to sell them at the time of the demutualization (rather than later). However, there can be no assurance that such improvements will result if we complete these sales or that we will complete them.

Finally, the Plan also permits us to raise funds in other ways in connection with the demutualization. Prudential Financial, Inc. and Prudential Holdings, LLC may conduct a private or public offering of debt, additional common stock of Prudential Financial, Inc., preferred stock or other equity securities of Prudential Financial, Inc. or Prudential Holdings, LLC, or securities convertible into any of these (such as options). Prudential Financial, Inc. and Prudential Holdings, LLC may also borrow funds from banks. If we decide to raise funds in any of these ways as permitted by the Plan, we must notify the Commissioner beforehand. In addition, any such offering of equity securities would be subject to the Commissioner’s specific approval. We have no current intentions to raise funds in any of these ways, other than the IPO and the private placements of Class B Stock and the IHC debt securities that are described above.

## PRUDENTIAL INSURANCE WILL HAVE LESS SURPLUS AFTER THE DEMUTUALIZATION AND RELATED TRANSACTIONS

Following the demutualization, the destacking extraordinary dividend and the additional extraordinary dividend, Prudential Insurance will be an indirect, wholly owned subsidiary of Prudential Financial, Inc. and will have significantly less **surplus and AVR** than Prudential has today. Our current estimate is that the surplus and AVR of Prudential Insurance will decrease, on a pro forma statutory basis as of December 31, 2000, from \$11.7 billion to \$7.0 billion as a result of completing these transactions on the basis described. In addition, on or before demutualization, we will cease offering participating insurance and annuity products in the U.S., although Prudential Insurance and its affiliates will continue to sell other life insurance policies and annuity contracts. Even after this reduction, Prudential Insurance’s surplus and AVR will remain substantial, however, and we do not believe that this reduction will negatively affect the ability of Prudential Insurance to pay claims and benefits to policyholders nor do we believe it will negatively affect Prudential Insurance’s financial strength ratings.

The Plan permits us to do the destacking and the other transactions in connection with the demutualization (rather than waiting until later) because we believe that if we do them when we demutualize, they could have a favorable impact on the price of Prudential Financial, Inc. stock in the IPO. If so, that would increase the value of the compensation received by all eligible policyholders in the demutualization. However, no assurance can be given that we will complete these transactions or that they will in fact have a favorable impact on the IPO price of Prudential Financial, Inc. stock if we do them when we demutualize.

## WHAT WILL HAPPEN IF THE PLAN DOES NOT BECOME EFFECTIVE

The Plan may not become effective. For example, the Commissioner may decide not to approve the Plan or policyholders may not vote in favor of approving the Plan. If the Plan does not become effective, we will remain a mutual life insurance company, our policyholders will continue to have non-transferable membership interests, and no compensation will be paid to eligible policyholders. In addition, none of the other consequences or benefits described in “What Will Happen If We Demutualize” will occur. Thus, the IPO, the destacking, the private placements and the other changes would not occur.



**Closed Block Business:** A portion of our business consisting of the Closed Block and certain assets and liabilities related to the Closed Block that are held outside the Closed Block. See Schedule 3.3(c)(i) to the Plan and Part 2.



**surplus and AVR:** Surplus represents the amount by which an insurer’s assets exceed its liabilities. AVR refers to the “asset valuation reserve” that insurers are required to maintain in addition to surplus.



For more information about the financial impact on Prudential Insurance of the demutualization, the destacking extraordinary dividend and the additional extraordinary dividend, see “Financial Information and Outside Advisor Opinions” beginning on page 125. For information on the impact of these transactions and the issuances of Class B Stock and the IHC debt securities on Prudential Financial, Inc., see Part 2.



**Board Adoption Date:**

December 15, 2000, the date the Plan was unanimously approved and adopted by our board of directors.



**Designated Subsidiary:**

The U.S. operations of Pruco Life Insurance Company, Pruco Life Insurance Company of New Jersey and Prudential Select Life Insurance Company of America. For more information on Designated Subsidiary policyholders, see "Some Policyholders of Designated Subsidiaries Are Deemed Eligible Policyholders" beginning on page 16.



For more information on Transferred Canadian Policies and Rewritten Health Policies, see "Owners of Some Transferred Policies Are Deemed Eligible Policyholders" beginning on page 15.

## Compensation for Eligible Policyholders

### ELIGIBLE POLICYHOLDERS WILL RECEIVE DEMUTUALIZATION COMPENSATION

Your eligibility to receive demutualization compensation as part of the Plan is based on your status as an eligible policyholder. An eligible policyholder is a policyholder who was, or was deemed for purposes of the Plan to be, the owner on or as of December 15, 2000 (the Board Adoption Date), of one or more **eligible policies**. In general, an eligible policy is a policy that was, or was deemed to be, **in force** as of December 15, 2000 (the Board Adoption Date). If your package includes personalized Reply Cards, we have determined that you are an eligible policyholder or a qualified voter or both. The discussion below explains the rules we used to determine whether a policy is an eligible policy, who is an owner, and when a policy is in force.

### Which Policies Are "Eligible Policies"?

Your policy must satisfy item 1 (issuer of policy), item 2 (type of policy) and item 3 (in force requirement) described below to be an eligible policy.

#### 1. Issuer of Policy.

Your policy must have been issued by one of the following:

- Prudential (including its Canadian branch);
- a **Designated Subsidiary** in the U.S.;
- Prudential and **National Life** jointly pursuant to a reinsurance agreement;
- Prudential's Canadian branch originally, but the policy was transferred by Prudential to **London Life** in 1996 and one of the following applies (we refer to these policies as "**Transferred Canadian Policies**"):
  - it remained in force with London Life;
  - it was replaced with a London Life policy according to a contractual provision in your original Prudential policy; or
  - it was renewed with **Great-West** (the acquirer of London Life) because it could no longer be renewed with Prudential or London Life; or
- Prudential originally, but the policy was transferred in 1999 by Prudential to an **Aetna Company** where it was succeeded by an Aetna Company health insurance policy following notice that the health insurance policy was being cancelled or not renewed by Prudential (we refer to these health insurance policies as "**Rewritten Health Policies**").

#### 2. Type of Policy.

Your policy must be one of the following:

- an individual or group life insurance policy (including a pure endowment contract), annuity contract or health insurance policy;
- a funding agreement;
- a guaranteed investment contract;
- a **supplementary contract**; provided, however, that any supplementary contract issued to effect the annuitization of an individual deferred annuity contract is treated with such deferred annuity contract as one policy; or
- a certificate or other evidence of an interest in a group insurance policy or annuity contract issued to a trust established by Prudential, the holder of which certificate or other evidence is a person that is deemed for purposes of the Plan to be the owner of a separate policy under Section 5.4 of the Plan.

#### 3. In Force Requirement.

Your policy must have been or be deemed to have been in force as of December 15, 2000 (the Board Adoption Date) with Prudential (or, as applicable, a Designated Subsidiary, London Life, National Life, Great-West or an Aetna Company).

- Details follow on page 15 about when a policy is and is not considered to have been in force.

- For specific in force rules for the Transferred Canadian Policies and Rewritten Health Policies, see the general discussion in “Owners of Some Transferred Policies Are Deemed Eligible Policyholders” and the detailed discussion in Article VI of the Plan.
- Policies issued to or reinstated or repurchased by **ADR Claimants** as described in the ADR Memorandum after December 15, 2000 (and within the relevant time period as described in the ADR Memorandum) will be considered to have been in force on December 15, 2000.

Please note that if Prudential or a Designated Subsidiary had ceded your policy to another company by reinsuring it with that company (in what is known as an indemnity reinsurance transaction), that reinsurance would not have changed your status as an otherwise eligible policyholder. The reason is that indemnity reinsurance would not have resulted in Prudential’s (or the Designated Subsidiary’s) having ceased to be directly obligated on the policy. If Prudential had assumed your policy from another company in what is known as an assumption reinsurance transaction, your policy is an eligible policy if it satisfies item 2 (type of policy) and item 3 (in force requirement) above. The reason it is an eligible policy is that Prudential would have become directly obligated to you under your policy.

**THE FOLLOWING ARE NOT ELIGIBLE POLICIES BECAUSE THEY DO NOT MEET THE ABOVE CRITERIA:**

- any policy, contract or other instrument issued outside the U.S. by a Designated Subsidiary or issued by any other subsidiary of Prudential that is not a Designated Subsidiary;
- any policy or contract issued by another insurance company that was ceded to Prudential (or a Designated Subsidiary) by means of reinsurance in an indemnity reinsurance transaction;
- any policy or contract issued by Prudential (or a Designated Subsidiary) that was transferred to another insurer by means of assumption reinsurance or by means of being replaced by another policy or contract issued by the other insurer (except in the limited circumstances involving the Transferred Canadian Policies and the Rewritten Health Policies);
- a certificate of insurance or other evidence of interest in a group insurance policy or annuity contract (except in the limited circumstances involving group policies and contracts that were issued to Prudential-established trusts as described in Section 5.4 of the Plan);
- a limited insurance agreement; and
- an administrative services only contract.

**THE FOLLOWING ARE NOT ELIGIBLE POLICIES BECAUSE THE PLAN SPECIFICALLY MAKES THEM INELIGIBLE:**

- a policy purchased or reinstated on or after February 10, 1998 (except policies repurchased or reinstated as a form of relief in **ADR**) by certain officers, directors and employees of Prudential or Prudential affiliates (and certain relatives of such officers, directors and employees). The officers, directors and employees to whom this rule applies have been notified separately;
- a structured settlement that is owned by a Prudential affiliate; and
- a policy where Prudential or a Prudential affiliate is both the owner of record and the beneficial owner (policies held by or on behalf of employee benefit plans of Prudential and Prudential affiliates that are subject to **ERISA** and individual retirement annuity contracts where Prudential or a Prudential affiliate serves as a custodian are not included in this group).

The text in the bullet directly above describes the general Plan rule that policies where Prudential or an affiliate is both the owner of record and the beneficial owner will not be considered eligible policies for purposes of the Plan. Thus, neither Prudential nor an affiliate will receive demutualization compensation for owning these policies. However, Prudential or an affiliate will receive demutualization compensation with respect to the



For more information about ADR Claimants, see “Special Provisions for ADR Claimants” beginning on page 58 and the ADR Memorandum beginning on page 108, which is attached as Exhibit E to the Plan.





Only owners of eligible policies can receive demutualization compensation.

following policies that it owned and that were in force on December 15, 2000: (1) policies held by or on behalf of employee benefit plans of Prudential or an affiliate that are subject to ERISA, and (2) individual retirement annuity contracts where Prudential or an affiliate serves as a custodian. In both these cases, Prudential or an affiliate is the nominal owner of these policies with fiduciary obligations under ERISA or state law to the beneficial owners. Prudential or an affiliate will be obligated, just like any other eligible policyholder subject to fiduciary duties under ERISA or state law, to use the demutualization compensation for the benefit of the persons covered under these employee benefit plans or individual retirement annuities.

### Are You the "Owner"?

Policy ownership for purposes of receiving demutualization compensation is determined based on our records (or, as applicable, the records of a Designated Subsidiary, London Life, National Life, Great-West or an Aetna Company) on or as of December 15, 2000 (the Board Adoption Date). The ownership rules for who receives compensation may differ in limited circumstances from the ownership rules governing who may vote on the Plan. The general rules governing ownership for determining who receives demutualization compensation are summarized below and situations where ownership rules differ for voting purposes are identified.

- In general, the owner of an individual insurance policy is the insured and the owner of an individual annuity contract is the person to whom the contract is payable by its terms unless, in either case, a different person is designated as the owner in the applicable records, in which case that different person is the owner.
- If more than one person owns a policy, they are considered together to be one owner, and they are entitled to receive jointly any compensation to be paid. The personalized Reply Cards in this package identify joint owners.
- The owner of a structured settlement is the entity named as the owner in the policy (subject to any modification reflected in any subsequent documents in the applicable records).
- If you own policies in more than one capacity (for example, you own a policy as an individual and another policy as a trustee for one or more insureds), you are treated as a separate owner of a policy in each capacity. You should have received a separate package of materials and separate Reply Cards in each of your capacities, and you can vote in each capacity. If you did not receive separate packages, please let us know.
- An assignee of a policy is its owner only if the policy has been assigned by an absolute assignment of ownership that has been filed according to both the terms of the policy and the rules for the assignment of such policy in effect at the time of the assignment, in each case as shown in the applicable records. Otherwise, the assignor is the owner. In the case of an assignment of a security interest in a policy where the assignor retains ownership of the policy, the assignor is the owner.
- The owner of a group insurance policy, group annuity contract, guaranteed investment contract or funding agreement is generally the person or entity identified in the applicable records as the policyholder or contract holder. In other words, generally the holder of a certificate or other evidence of interest (such as an employer holding a participation agreement) under a group policy will not receive demutualization compensation from us, although the group policyholder may have obligations concerning the use or distribution of compensation it receives as owner. There is an exception to this general rule, as set forth in Section 5.4 of the Plan, if the group policy was issued to a trust established by Prudential. If the exception applies, we look through the Prudential-established trust and consider each participating employer or, if there are no participating employers, each individual participating in the group policy (*e.g.*, certificate holders), as the case may be (and not the trustee), to be an owner of a separate policy for purposes of allocating compensation. However, such participating employer or individual participating in the group is not considered an owner of a policy for purposes of being qualified to vote on the Plan; rather, the trustee identified as the policyholder in the applicable records is considered the owner qualified to vote. In these cases, both the participating employers or individuals participating in the groups (as the eligible policyholders) and the trustee (as the qualified voter) will have received packages of materials with Reply Cards personalized to reflect the status of each.



If you are a group policyholder, please refer to the Group Guide that was sent to you separately for additional information. The Group Guide can also be viewed at [www.prudential.com](http://www.prudential.com).

- If there is an ownership situation that is not expressly covered by the Plan, we will presume that the person reflected in the applicable records and determined by us in good faith to be the owner is the owner.

### **Was Your Policy "In Force" as of December 15, 2000 (the Board Adoption Date)?**

Whether or not your policy was in force as of December 15, 2000 (the Board Adoption Date) is determined based on our records (or, as applicable, the records of a Designated Subsidiary, London Life, National Life, Great-West or an Aetna Company). Your policy was in force as of December 15, 2000 (the Board Adoption Date) if it had become in force prior to or on this date and had not ceased to be in force by then. In general, it is the case that a policy will be considered to have become in force when all requirements and payment obligations, if any, necessary to issue the policy were received. A policy is not considered to have become in force solely because insurance coverage is or has been provided prior to issuance of the policy by means of a limited insurance agreement. A policy will generally be considered to have ceased to be in force (1) upon the expiration of any applicable grace period when it has lapsed for non-payment of premiums and has not been continued as reduced paid-up insurance or extended term insurance; (2) when it has been surrendered or terminated; or (3) when it has matured by death. A policy is considered matured by death once notice of death is reflected in the applicable records as having been received. If a policy had lapsed prior to December 15, 2000 (the Board Adoption Date), it is considered to have been reinstated and consequently to have been in force on that date if all requirements for reinstatement had been met and the reinstatement was reflected on the applicable records as of December 15, 2000.

In addition to these general in force rules, Article VI of the Plan contains specific in force rules for individual life insurance policies, structured settlements, Transferred Canadian Policies, certain policies issued to ADR Claimants, Rewritten Health Policies, group annuity contracts, guaranteed investment contracts and funding agreements, group life and health policies and group credit insurance policies.

### **We Have a Process for Resolving Inquiries**

We have set up internal procedures to help us resolve inquiries and disputes as to the ownership of policies and whether policies were in force as of December 15, 2000 (the Board Adoption Date). A complete copy of these procedures is included in the Commissioner's public record for the hearing on the Plan. You may also obtain a copy of these procedures or simply make us aware of any facts and circumstances you believe we should consider by visiting our website or by writing or calling us. For how to reach us, see "Additional Information and Assistance" at the bottom of page i. We will take into account the results of these procedures when we determine ownership and in force status for the purpose of distributing demutualization compensation.

### **SOME OF THE ELIGIBLE POLICYHOLDERS HAVE BEEN "DEEMED" TO BE ELIGIBLE FOR COMPENSATION**

The New Jersey Demutualization Law permits a demutualizing life insurer to "deem" persons to be eligible policyholders in its plan of reorganization even if they were not the owners of policies issued by and in force with the mutual insurer on the board adoption date. The Plan deems eligible for demutualization compensation owners of policies described in this "Some of the Eligible Policyholders Have Been 'Deemed' to be Eligible for Compensation" section. We currently estimate that deemed eligible policyholders (who would not otherwise be eligible) represent fewer than 1 million of the 11 million total eligible policyholders. For the reasons discussed below, we believe that deeming these policyholders to be eligible for compensation is fair and equitable to our policyholders and in the best interest of Prudential and our policyholders.

### **Owners of Some Transferred Policies Are Deemed Eligible Policyholders**

#### ***Transferred Canadian Policyholders***

In 1996, we sold most of our Canadian branch business to London Life, which has since been acquired by Great-West. In connection with this sale to London Life, we made commitments to the regulators in New Jersey and Canada that the proprietary rights of these transferred policyholders would be taken into account if we were to demutualize. As a result of these commitments, the owners on December 15, 2000 (the Board Adoption Date) of these Transferred Canadian Policies (or certain successor policies, as described below) that were in force with either London Life or Great-West, as



If you have facts or circumstances you want us to consider about whether on December 15, 2000 (the Board Adoption Date), you were an owner or your policy was in force, please call us, write to us, or contact us at [www.prudential.com](http://www.prudential.com).

applicable, on that date are deemed eligible to receive demutualization compensation if one of the following applies:

- they maintained the policies originally issued by Prudential, even though London Life became their insurer on these policies;
- they converted their original Prudential policies to London Life policies pursuant to contractual provisions in their original Prudential policies; or
- they renewed their policies with Great-West because they could no longer renew with Prudential or London Life.

Some policies issued by Prudential in Canada were not sold to London Life in 1996 and remain in force with Prudential. The owners of these policies are not Transferred Canadian Policyholders. Rather, these policyholders are eligible for demutualization compensation based on our general rules (*i.e.*, ownership of a policy issued by Prudential that was in force with Prudential on December 15, 2000).

### **Prudential HealthCare Policyholders**

In 1999, we sold substantially all of the assets and liabilities of our group managed and indemnity healthcare business (known as Prudential HealthCare) to various of the Aetna Companies by indemnity reinsurance and other related transactions. By operation of the general Plan rules, if on December 15, 2000 (the Board Adoption Date), a Prudential HealthCare policyholder owned a group health insurance policy issued by and still in force with Prudential, that is, such policy had not yet been rewritten by an Aetna Company (or terminated), that policyholder is eligible for demutualization compensation. In addition, if, by December 15, 2000, the health insurance policy had been succeeded by an Aetna Company health insurance policy following notice that such policy was being cancelled or not being renewed by Prudential, the owner of that policy (which we refer to as a “Rewritten Health Policy”) on December 15, 2000 is being deemed eligible to receive demutualization compensation provided the health insurance policy was in force with an Aetna Company on that date.

### **Owners of Some ADR Policies Will Be Deemed Eligible Policyholders**

In 1995, some policyholders and former policyholders asserted claims against Prudential in a class action lawsuit. As part of the settlement of that class action, a claims resolution, or ADR, process was instituted whereby claims were evaluated on an individual basis and relief was awarded accordingly. Pursuant to commitments we have made to these ADR Claimants, we will provide ADR Claimants who rescinded their policies, or who gave up their right to acquire a policy, as part of the form of ADR relief they chose an option to change their form of ADR relief and repurchase their policies. The Plan deems to be eligible policyholders those ADR Claimants who have expressed interest in repurchasing their policies and have completed all requirements to repurchase their policies within 45 days of the date of the letter forwarded to them by Prudential specifying those requirements. In addition, any policy issued or reinstated as a result of an initial ADR relief choice implemented after December 15, 2000 (the Board Adoption Date) but prior to the Effective Date of the Plan will be deemed to have been in force as of the Board Adoption Date and the ADR Claimant will be eligible to receive compensation for such a policy.

### **Some Policyholders of Designated Subsidiaries Are Deemed Eligible Policyholders**

Our Plan deems the owners on December 15, 2000 of policies issued in the U.S. by, and in force on December 15, 2000 with, three of our life insurance subsidiaries—the U.S. operations of Pruco Life Insurance Company and Pruco Life Insurance Company of New Jersey (together “**Pruco Life**”) and Prudential Select Life Insurance Company of America—to be eligible policyholders. In most, although not all, other demutualizations, only policyholders of the parent mutual company received demutualization compensation, generally because only those policyholders held policies issued by the demutualizing company. For the same reason, we determined that, absent special circumstances, policies issued by our subsidiaries should not be eligible for demutualization compensation.

We have concluded that special circumstances do exist with respect to policyholders with policies issued in the U.S. by the Designated Subsidiaries. We further concluded that it would be fair and equitable and in the best interest of Prudential and our



For more information, see “Special Provisions for ADR Claimants” beginning on page 58 and the ADR Memorandum, beginning on page 108, which is attached as Exhibit E to the Plan.



Owners of policies issued in the U.S. by three of our life insurance subsidiaries will be eligible to receive compensation.

policyholders to include these policyholders as eligible policyholders. We believe that owners of policies issued in the U.S. by Designated Subsidiaries could expect to be treated the same as Prudential policyholders in our demutualization. The special circumstances for including Pruco Life policyholders with policies issued in the U.S. are described below.

- Prudential and Pruco Life offered substantially similar products, through the same sales force, to customers in the same demographic and geographic markets in the United States.
- Policies substantially similar to many of the best-selling policies sold by Pruco Life in the U.S. were also sold by Prudential as the products were discontinued by Pruco Life. Consequently, whether Prudential or Pruco Life sold a particular policyholder one of these products could have been largely a matter of timing.
- The pricing of life insurance policies issued in the U.S. by both Prudential and Pruco Life has been based on the pooled mortality experience of these companies.
- Various programs sponsored jointly by Prudential and Pruco Life have enabled Prudential policyholders to exchange or convert their policies into Pruco Life policies. The purpose of these programs was to allow us to match competition and keep customers by providing customers with an opportunity to update their policies. Approximately one-third of the current U.S. policyholders of Pruco Life hold their policies as a result of an exchange, conversion or replacement of a Prudential policy.
- The way we issued life insurance and annuity products in the U.S. through Pruco Life was part of our overall strategy for the sale of life insurance and annuity products in the United States. Our decisions to offer certain U.S. life insurance and annuity products through Pruco Life rather than through Prudential generally were based on business reasons (such as tax and securities laws considerations) that would not have been relevant or apparent to our policyholders.

The two Prudential Select Life Insurance Company of America life insurance policies are being deemed eligible for compensation for reasons related to a reinsurance transaction.

Policyholders of our property and casualty subsidiaries (known as the PRUPAC companies) and customers of our non-insurance businesses (such as Prudential Securities, our former HMOs and mutual funds) could not be deemed eligible because the New Jersey Demutualization Law limits “policyholders” who may be considered eligible for demutualization compensation to individual or group owners of life insurance, health insurance or annuity or pure endowment contracts. Prudential’s property and casualty subsidiaries and non-insurance businesses could not legally have issued life insurance policies and annuity contracts.

Similarly, the special circumstances discussed above do not exist with respect to policyholders of Prudential’s foreign subsidiaries and non-U.S. customers of the Designated Subsidiaries. Because Prudential is not licensed to conduct insurance business in the countries where its foreign subsidiaries operate or where any of its Designated Subsidiaries have overseas operations, the same overlap that exists between Prudential and Pruco Life could not, and does not, exist between Prudential and its foreign subsidiaries or between Prudential and the non-U.S. operations of its Designated Subsidiaries. As a result, policyholders of Prudential’s foreign subsidiaries and non-U.S. customers of Designated Subsidiaries are not eligible nor are they being deemed eligible to receive demutualization compensation.

We estimate that distributing compensation in the demutualization to the owners of the eligible policies issued in the U.S. by the Designated Subsidiaries will not diminish the total amount of compensation for Prudential eligible policyholders by more than 6.5%.

**In Some Limited Circumstances, Participating Employers or Individuals Participating in a Group under Group Insurance Policies and Annuity Contracts Are Deemed the Eligible Policyholders Instead of the Group Policyholders**

In general, we will distribute demutualization compensation to the person or entity designated in a group insurance policy or group annuity contract as the policyholder or contract holder. However, in the relatively few cases specified in Section 5.4 of the Plan where a group insurance policy or group annuity contract has been issued to a trust



Holders of policies issued outside the U.S. by these Designated Subsidiaries and customers of our other subsidiaries are not eligible for demutualization compensation.



established by Prudential, we will look through the Prudential-established trust and allocate and distribute compensation directly to the participating employers, or if there are no participating employers, each individual participating in the group (*e.g.*, certificate holders), as the case may be, as if Prudential had not established the trust and each such participating employer or individual participating in the group were a separate policyholder.

Except in these limited situations, participating employers and individuals participating in groups, such as certificate holders, covered by group policies or contracts are not eligible to receive compensation from us under the Plan. However, in many cases, the group policyholder may be required by law to use the compensation for the benefit of participating employers or individuals participating in the groups. If you are a group policyholder, please consult the **Group Guide** that was sent to you separately for more information (or view the Group Guide on our website at [www.prudential.com](http://www.prudential.com)).



For more information about the Plan's allocation principles and methodology, see the Summary of Exhibit F to the Plan beginning on page 112.

HOW WE WILL DETERMINE DEMUTUALIZATION COMPENSATION FOR ELIGIBLE POLICYHOLDERS

As an eligible policyholder, you will receive compensation (whether it takes the form of stock of Prudential Financial, Inc., cash or policy credits) based on an allocation to you of a number of shares of Prudential Financial, Inc. stock. As described below, this allocation of shares is equal to the sum of your **fixed component** and your **variable component** of compensation. If you are to receive cash or policy credits instead of Prudential Financial, Inc. stock, this allocation of shares is done only to determine the amount of cash or the value of the policy credits you will receive—you will not receive shares of stock.

The Plan provides for two components of compensation for eligible policyholders: (1) a fixed component and (2) a variable component. Each of these two components potentially consists of two elements—a basic element and, for eligible policyholders receiving no stock, an additional element.

The following chart summarizes who receives which components:

RECIPIENTS	COMPONENT OF COMPENSATION
All eligible policyholders.	<b>Basic fixed component</b> equal to eight shares.
Allocated to all eligible policyholders.	<b>Basic variable component</b> based on policies' contributions to <b>surplus</b> . Note: eligible policyholders whose eligible policies have not and are not expected to contribute to surplus will be allocated a basic variable component that equals zero.
All eligible policyholders who will be receiving cash, policy credits or both (but no Prudential Financial, Inc. stock).	<b>Additional fixed component</b> equal to two shares.
Eligible policyholders who will be receiving cash, policy credits or both (but no Prudential Financial, Inc. stock) who have been allocated 26 or more shares of basic fixed and basic variable components.	<b>Additional variable component</b> equal to: <ul style="list-style-type: none"> <li>■ one share if allocated at least 26 but fewer than or equal to 35 shares</li> <li>■ two shares if allocated at least 36 but fewer than or equal to 45 shares</li> <li>■ if allocated 46 or more shares, 10% of such allocated basic shares (rounded to the nearest whole number), reduced by the two shares allocated as the additional fixed component.</li> </ul>



Your policyholder record card (Card 4) estimates the number, or range, of the total basic fixed and basic variable shares that we currently expect will be allocated to you.

The estimated number or range of the total basic fixed and basic variable shares allocated to you appears on your policyholder record card (Card 4). If your policyholder record card (Card 4) shows your estimate as eight shares rather than a range, this means your basic allocation consisted only of a basic fixed component because your basic variable component was equal to zero. If your basic variable component is greater than zero, your estimate is expressed as a range. Please note that the estimates do not reflect any additional fixed components or additional variable components. The actual number of shares ultimately allocated to you could differ from the number or range of shares

shown. Remember that the estimated allocation of shares on your policyholder record card (Card 4) does not necessarily mean that you will receive shares of Prudential Financial, Inc. stock—you might instead receive cash or policy credits, or both, based on the number of shares ultimately allocated to you.

### **Each Eligible Policyholder Will Be Allocated a Basic Fixed Component**

Each eligible policyholder will be allocated eight shares (subject to the **Share Adjustment** described on page 22) of Prudential Financial, Inc. stock, which we refer to as the “basic fixed component”. Each eligible policyholder will be allocated this basic fixed component, and only one basic fixed component, regardless of the number of eligible policies the eligible policyholder owns (in the same capacity) or their value. In the aggregate, the basic fixed component represents approximately 14.4% of the total basic fixed and basic variable compensation being distributed to all eligible policyholders in the demutualization.



Each eligible policyholder will be allocated eight shares of Prudential Financial, Inc. stock as the basic fixed component.

### **Each Eligible Policyholder Will Be Allocated a Basic Variable Component**

In addition to the basic fixed component, each eligible policyholder will be allocated a basic variable component. This basic variable component is based on estimates of the relative contributions of the eligible policies to Prudential’s surplus in the past and the future. The calculation of the basic variable component for each eligible policy will take into account the type of eligible policy, when it was issued, and the policy size, among other factors. If the expected contribution to Prudential’s surplus over the lifetime of your eligible policy (reflecting both estimated past contributions and estimated future contributions) is negative or zero, then your basic variable component will equal zero. Negative and positive contributions offset each other. If all your eligible policies have a zero basic variable component, you will be allocated only a basic fixed component (unless you are also allocated an additional fixed component as described below). If your policyholder record card (Card 4) shows your estimate as eight shares rather than a range, this means your basic allocation consisted only of a basic fixed component because your basic variable component was equal to zero.

As a general rule, the contributions to Prudential’s surplus made by an eligible policyholder’s eligible policies will be estimated based only on those policies that are in force on the Board Adoption Date (December 15, 2000). However, in some cases, the contributions to surplus for a policy will include all or part of the financial experience of a prior policy that the existing policy replaced. This approach for determining contributions to surplus is consistent with the approach taken in the demutualizations of large U.S. life insurers. Using actuarial standards of practice as a guide, Prudential’s financial management practices were examined to determine when a current policy should be viewed as a continuation of a prior policy for purposes of determining contributions to surplus. Generally, if important financial elements of the prior policy were carried over to the new policy that replaced it, the past contributions to surplus of the prior policy will be added to those of the new policy. Some examples include:

- modernizations of certain group annuity policies where guaranteed pension benefits to retirees were carried over from the prior policy to a new policy;
- group life or health or group annuity policies issued to employers where the sponsoring company was merged into another and a new policy was issued which covered the merged entity; and
- certain individual annuity contracts where a unique replacement-only contract with no surrender charges was issued as a replacement.

Please contact us if you wish to request a complete copy of Exhibit F to the Plan, which contains a further discussion of the principles underlying the calculation of contributions to surplus and policy continuity. See “Additional Information and Assistance” on page i of this Part 1 for instructions on contacting us to request additional information.

### ***Why the Basic Variable Component Calculations Are Based on Estimated Past and Future Contributions to Surplus***

According to established actuarial standards of practice, the allocation of the variable component among eligible policyholders should reflect what each such policyholder contributes to the value of Prudential. While it is not possible to precisely calculate what each policy contributes to value, ignoring estimated future profits would clearly



We used both estimated past and future contributions to surplus in our allocation calculations.

produce an unrepresentative result. Acquirers of life insurance companies generally take future earnings potential into account in deciding how much to pay for such companies. For example, if future profits were not taken into account, most recently issued policies would have negative actuarial contributions, due to their high acquisition costs, and would receive no variable component. This result would contrast with the view of outside investors, who would ascribe value to these policies' expected contributions over time to the company's surplus. Thus, the principle of allocating the variable component according to value would be violated. The value of future contributions to surplus has been taken into account in the allocation of compensation in most major U.S. demutualizations.

For these reasons, and because it is 100% of the value of Prudential that is being distributed to eligible policyholders upon demutualization, we believe it is important that the calculation of eligible policyholders' relative shares of Prudential's value take into account all relevant factors, *i.e.*, estimated past and future contributions to surplus.



We allocated the basic variable component to both participating and non-participating policies.

### ***The Basic Variable Component Calculations Do Not Distinguish between Participating and Non-Participating Policies***

Our allocation methodology makes no distinction between **participating policies** and **non-participating policies**. In some of the other life insurer demutualizations, only participating policies were allocated a variable component. If we had limited the basic variable component to our eligible policyholders with participating policies, they would generally have been allocated more compensation than they are allocated under our Plan, and our eligible policyholders with non-participating policies would have been allocated less. Allocating a basic variable component of compensation to eligible policyholders with non-participating policies results in aggregate compensation to eligible policyholders with participating policies being reduced by approximately 11.8%. Non-participating policies issued by Prudential include payout annuity contracts and some guaranteed investment contracts and single-sum annuity contracts. Non-participating policies issued by the Designated Subsidiaries include interest-sensitive and variable life insurance policies and some deferred annuity contracts. We believe that it is fair and equitable to allocate a basic variable component of compensation to each eligible policyholder (although it amounts to zero for some) for the following reasons:

- New Jersey law does not distinguish between participating and non-participating policies with respect to rights in a demutualization, rights in liquidation or voting rights. These are the key components of the membership interests in exchange for which all eligible policyholders—those with non-participating policies as well as those with participating policies—will receive demutualization compensation.
- Because many of our most widely selling products are written on both participating and non-participating policy forms, we believe that customers tend to focus on the particular protection and investment features of the product they are purchasing rather than on whether or not a policy is designated as participating.
- The passage of time and changes in the economic environment have blurred the distinctions between participating and non-participating policies. Today, policies that are labeled “participating” in terms of contract language may or may not contain elements of participation in the economic sense; similarly, products that are labeled “non-participating” in terms of contract language also may or may not contain elements of economic participation.
- Many policies issued in the U.S. by Pruco Life were substantially similar in product design and features to policies we issued through Prudential. However, most of the Pruco Life policies are called “non-participating” whereas most of the comparable Prudential policies are called “participating”. We believe that these similar products should be treated similarly in our demutualization.

### **Other Rules for Calculating Demutualization Compensation for Some Eligible Policyholders**

In general, demutualization compensation for a group policyholder will be calculated on the basis of the group's estimated relative contributions to surplus in the past and future. The group will receive a single basic fixed component (and a single additional fixed component, if applicable) plus a basic variable component (and an additional variable component, if applicable) based on the estimated contributions to surplus of the entire group, including members no longer present. However, in those relatively few cases

described in Section 5.4 of the Plan where we look through trusts established by Prudential to the underlying participating employers or, if there are no participating employers, to each individual participating in the group policy (e.g., certificate holders), as the case may be, the calculations will be made as though the Prudential-created trust had not been interposed. That is, calculations will be made on a participating employer-by-participating employer or individual participant-by-individual participant basis as if each such participating employer or individual participating in the group policy is a separate policyholder. Each will receive a separate basic fixed component (and a separate additional fixed component, if applicable), and the basic variable component (and additional variable component, if applicable) of each will be based on its own, not its share of the “group’s”, estimated past and future contributions to surplus. Contributions to surplus of former members of the “group” are therefore not considered in these cases.

In the case of an eligible policy that is a reinstated policy, or any policy reinstated or repurchased pursuant to the ADR Memorandum attached as Exhibit E to the Plan, the determination of the policy’s estimated past and future contributions to surplus will be based on the original issue date of the policy and without regard to any lapse and reinstatement or any repurchase pursuant to the ADR Memorandum. For ADR Claimants, if an eligible policy is reinstated because of a form of ADR relief, or because of a policy that would have been in effect if the ADR Claimant had made a different choice of ADR relief, or because of a repurchase option described in the ADR Memorandum, additional calculations may be needed that could result in a larger estimate, based on the past and future contributions to surplus of a different policy.

**Eligible Policyholders Receiving Cash or Policy Credits or Both Instead of Stock Will Be Allocated an Additional Fixed Component and Possibly an Additional Variable Component**

Each eligible policyholder who will receive demutualization compensation in the form of cash or policy credits or both, and no Prudential Financial, Inc. stock, will be allocated a single additional fixed component equal to two shares of Prudential Financial, Inc. stock. They will also be allocated an additional variable component equal to:

- one share of Prudential Financial, Inc. stock if the basic fixed and basic variable components allocated to the eligible policyholder total at least 26 but fewer than or equal to 35 shares;
- two shares of Prudential Financial, Inc. stock if the basic fixed and basic variable components allocated to the eligible policyholder total at least 36 but fewer than or equal to 45 shares; or
- 10% of the number of shares allocated to the eligible policyholder as the total basic fixed and basic variable components (rounded to the nearest whole number) if this total is 46 or more shares, reduced by the two shares that constitute the additional fixed component.

No eligible policyholder who receives Prudential Financial, Inc. stock will receive any additional fixed or variable components. Additional components are not reflected in the estimate or estimated range on your policyholder record card (Card 4). If the additional components apply to you, they will equal in the aggregate approximately 10% more in allocated shares, but in any event no fewer than two additional shares. A reason for the additional components is to include in the amount of demutualization compensation that will be distributed to eligible policyholders who are receiving only cash or policy credits value that should result from the anticipated future savings inherent in having a smaller shareholder population due to these policyholders receiving cash or policy credits in lieu of stock in the demutualization. The additional components, together with the “Top-Up”, which is designed to provide additional compensation depending on the performance of shares of Prudential Financial, Inc. stock during the first 20 trading days, are intended to provide eligible policyholders who are receiving demutualization compensation in the form of cash or policy credits with their full share of the aggregate value that is being distributed to all eligible policyholders. Our independent consulting actuary, Daniel J. McCarthy, M.A.A.A., of Milliman & Robertson, Inc. has confirmed in his actuarial opinion that the use of the additional components and Top-Up in determining the amount of compensation allocable to eligible policyholders who receive their compensation in forms other than stock of Prudential Financial, Inc. is fair and



Additional fixed and variable components are not reflected on your policyholder record card (Card 4).



For more information about the Top-Up, see “The Amount of Cash and Value of Policy Credits Will Be Based on the Higher of the IPO Price for Prudential Financial, Inc. Stock or the Top-Up” beginning on page 25.





For more information on the Stock Election, see "Some Eligible Policyholders Will Be Able to Choose to Receive Shares of Prudential Financial, Inc. Stock Instead of Cash" beginning on page 26.



If a Share Adjustment is made, you will still receive compensation having approximately the same relative value as you would otherwise have received.



See "Financial Information and Outside Advisor Opinions", beginning on page 125, for a copy of the actuarial certifications we received confirming the fairness of our allocation.

equitable because (1) it reflects, in valuing their membership interests, the element of that value that is associated with savings in shareholder servicing costs and (2) it enables an adjustment in valuing their membership interests essentially analogous to the adjustment that takes place with respect to eligible policyholders who receive only stock if there is a significant short-term increase in the price of stock.

Some eligible policyholders will be able to choose to receive Prudential Financial, Inc. stock instead of cash (we refer to this choice as the "**Stock Election**"). If this election applies to you and you do not return the stock election card (Card 3), you will probably (depending on the cut-off threshold) receive cash, which will include the additional components and possibly the Top-Up (depending on the performance of Prudential Financial, Inc. stock). In contrast, if you choose Prudential Financial, Inc. stock on the stock election card (Card 3) and return it, you will receive Prudential Financial, Inc. stock. Note that eligible policyholders to whom the Stock Election applies will forfeit the additional components of compensation if they choose stock. Also, they will not receive the Top-Up with respect to any stock compensation they receive. Applicability of the Stock Election is based upon an eligible policyholder's total basic fixed and basic variable components for such policyholder's eligible policies not required under the Plan to receive cash or policy credits and before any additional fixed or additional variable components have been calculated. The allocation of the additional fixed and additional variable components will have no impact on an eligible policyholder's ability to choose to receive stock instead of cash.

### **The Total Number of Shares Could Be Adjusted**

The total number of shares of Prudential Financial, Inc. stock to be allocated to all eligible policyholders is currently expected to be 616.5 million. The Plan allows us, with the Commissioner's approval, to increase or decrease the total number of shares of Prudential Financial, Inc. stock to be allocated among eligible policyholders (we refer to this as the "Share Adjustment"). We might make a Share Adjustment to increase or decrease the share price of Prudential Financial, Inc. stock sold in the IPO after taking into account the advice of our investment banking advisors. If we do make a Share Adjustment, we will make proportional adjustments to other related numbers of shares of stock, including the basic fixed component of eight shares of Prudential Financial, Inc. stock. Proportional adjustments will also be made to the basic variable component and to the additional fixed and additional variable components. In the event of a Share Adjustment, you will receive demutualization compensation having approximately (subject to rounding) the same relative value as the compensation you would have received if no Share Adjustment had been made.

### **Actuarial Fairness Certifications Are Required by Law**

The New Jersey Demutualization Law requires that Prudential and the Commissioner each appoint a qualified and independent actuary to provide actuarial certifications with respect to the reasonableness and appropriateness of the methodology and underlying assumptions used to allocate compensation among eligible policyholders. Our independent consulting actuary, Daniel J. McCarthy, M.A.A.A., of Milliman & Robertson, Inc., has provided the required certifications to the board of directors, rendering opinions (1) that the methodology and underlying assumptions we are using to allocate compensation among eligible policyholders are reasonable and appropriate and (2) that the resulting allocation of compensation is fair and equitable. The Plan requires that these opinions be confirmed as of the Effective Date for the Plan to become effective. The Commissioner has retained Charles Carroll, M.A.A.A., of Ernst & Young, L.L.P., to provide the additional actuarial certification required by the New Jersey Demutualization Law.

### **DEMUTUALIZATION COMPENSATION WILL BE IN THE FORM OF STOCK OF PRUDENTIAL FINANCIAL, INC., CASH OR POLICY CREDITS**

The number of shares allocated to you will be the basis for calculating the amount of compensation you actually will receive, whether it is distributed to you in the form of shares of Prudential Financial, Inc. stock, cash or policy credits. The form of demutualization compensation you will receive depends on a number of factors. The chart that follows generally summarizes which eligible policyholders will receive which form of compensation. For further details, please see the discussion that follows the chart.

TYPE OF ELIGIBLE POLICYHOLDER OR ELIGIBLE POLICY	FORM OF DEMUTUALIZATION COMPENSATION
All eligible policyholders other than those described below	Shares of Prudential Financial, Inc. stock
Individual retirement policies or annuities issued or held in association with certain tax-qualified plans and owners of certain tax-qualified individual retirement annuities ("IRAs") and tax deferred annuities ("TDAs") (or policies related to such annuities)	Policy credits
Allocated 50 (or some lower cut-off number below 50) or fewer shares and does not elect stock rather than cash	Cash payable in U.S. dollars
Owns an eligible policy that is subject to a judgment lien, creditor lien (other than a policy loan) or a bankruptcy proceeding as of the Effective Date and is not required to receive policy credits	Cash when notified that policy no longer subject to lien (subject to requirements of applicable law)
Owns an eligible policy with mailing address outside the U.S. as of the Effective Date (other than Canadians described below) and is not required to receive policy credits	Cash payable in U.S. dollars
Owns an eligible policy denominated in Canadian dollars	Cash payable in Canadian dollars
Address not known as of the Effective Date and policyholder not required to receive policy credits	Cash payable when we locate policyholder (subject to abandoned property laws)



See the chart on page 25 for a description of which types of policy credits are being credited to which types of eligible policyholders.

While many eligible policyholders will receive shares of Prudential Financial, Inc. stock, and many will be able to choose to receive shares of Prudential Financial, Inc. stock instead of cash, some will have no choice but to receive the form of compensation specified for them. For example, no eligible policyholder will be able to choose to receive, or not to receive, policy credits. Also, if you have multiple eligible policies, it is possible that you will receive a combination of forms of compensation, depending on the types of eligible policies you hold. If you are eligible to receive more than one form of compensation, and any of your eligible policies have contributed to our surplus, your total compensation will be allocated among the forms of compensation you are eligible to receive in the same proportion as the relative contributions to surplus of your eligible policies. If none of your eligible policies have contributed to our surplus, the fixed component will be allocated pro rata among your eligible policies based on the number of eligible policies.

### **The General Rule Is that Eligible Policyholders Will Be Entitled to Receive Shares of Prudential Financial, Inc. Stock**

Much of the demutualization compensation will be payable in the form of shares of Prudential Financial, Inc. stock. Unless you are to receive policy credits or cash due to the circumstances identified in the chart above and described in the text below, your compensation will be in shares of Prudential Financial, Inc. stock equal to the total of your basic fixed and basic variable components. This means:

- You will not be able to affirmatively choose to receive cash or policy credits.
- You will not be allocated an additional fixed or additional variable component.
- The Top-Up will not apply to you (although if you receive a combination of forms of compensation because you hold different types of eligible policies, you may receive the Top-Up for the non-stock portion of your compensation).

You do not have to pay any money or give up your policy to receive any of the forms of demutualization compensation, including stock.

### **Some Eligible Policyholders Will Receive Cash**

Your compensation will be in cash if you are not required by the Plan to receive policy credits for your eligible policy and if any of the following applies:



If you are receiving stock, your policyholder record card (Card 4) will tell you.



If you are receiving cash, your policyholder record card (Card 4) will tell you. If you can choose stock instead of cash, your stock election card (Card 3) will tell you.



Please let us know if your policy has ceased to be subject to a judgment lien or creditor lien.



If you are receiving policy credits, your policyholder record card (Card 4) will tell you.

- You are an eligible policyholder who is allocated (in respect of one or more eligible policies not required to receive cash or policy credits) a number of shares equal to or less than the “cut-off” established by Prudential and you did not indicate to us that you would prefer to receive shares of Prudential Financial, Inc. stock. We refer to this choice that some eligible policyholders have as the “Stock Election”. A detailed discussion of the Stock Election begins on page 26 of Part 1.
- Your mailing address is outside the U.S. as of the Effective Date.
- You are an eligible policyholder for whom we do not have a valid address as of the Effective Date. In this situation, we will pay you the cash when we locate you (subject to the unclaimed property acts and escheat laws of applicable jurisdictions).
- Your eligible policy is subject to a judgment lien or creditor lien (other than a policy loan we made) as of the Effective Date. In this case, you will receive cash when Prudential Insurance receives written evidence reasonably satisfactory to it that your eligible policy is no longer subject to the judgment lien or creditor lien. In the case of a policy subject to a bankruptcy proceeding, you will receive cash if Prudential Insurance receives written evidence reasonably satisfactory to it that your eligible policy is no longer subject to the bankruptcy proceeding unless prior to that time Prudential Insurance is or becomes required by law to pay the cash to another party such as a trustee in bankruptcy.
- Your eligible policy is denominated in Canadian dollars—the cash you receive will be payable in Canadian dollars based on an exchange rate published in the Wall Street Journal on the business day before the Effective Date.

You do not have to pay any money or give up your policy to receive any of the forms of demutualization compensation, including cash. If you receive cash, it will be in U.S. dollars unless your eligible policy is denominated in Canadian dollars, in which case the cash will be in Canadian dollars, as described above. Unless the Stock Election applies to you, you will not be able to choose to receive stock instead of cash. No one can choose policy credits instead of cash (or stock). The cash that you will receive will equal the number of shares allocated to you (including, if you are not receiving any stock, the additional fixed component and any additional variable component) multiplied by the higher of the IPO price or the Top-Up. For cash payments, we will report, deduct and remit withholding taxes to the **IRS** to the extent required by law.

### Some Eligible Policyholders Will Receive Policy Credits

If your eligible policy is a certain type of policy on the Effective Date as described below, your compensation for that policy will be in policy credits instead of shares of Prudential Financial, Inc. stock or cash in order to protect the tax-qualified status of your policy or benefit plan. The tax-qualified status could be jeopardized if the owners of these eligible policies were to receive compensation for them in any form other than policy credits. Depending on the type of eligible policy, policy credits consist of dividend accumulations, dividend additions, increases in account value or other policy-related benefits.

As specified in Article VIII of the Plan, you will receive policy credits for your eligible policy if the policy is:

- An individual retirement annuity described in **Code** Section 408(b) or another similar product (as set forth in the Plan under the definition of “IRA”).
- A tax deferred annuity described in Code Section 403(b) or an individual life insurance policy related to such annuity (as set forth in the Plan under the definition of “TDA”).
- An individual life insurance policy or individual annuity contract that has been issued or distributed directly to you as a participant in connection with a qualified plan under Code Section 401(a) or 403(a) (as set forth in the Plan under the definition of “Other Qualified Plans”).

If you are receiving policy credits for any eligible policies, you will not be able to choose to receive stock or cash instead, nor will eligible policyholders receiving stock or cash be able to choose to receive policy credits instead—the only eligible policyholders who will receive policy credits are those who must do so to protect their

tax status. You do not have to pay any money or give up your policy to receive these policy credits. The policy credits you will receive will be based on the number of shares allocated to you (including, if you are not receiving any stock, the additional fixed component and any additional variable component) multiplied by the higher of the IPO price or the Top-Up. Also, you will receive the additional fixed component and any additional variable component allocable to these eligible policies in the same form or forms of policy credits.

The form of policy credits you will receive will depend on the type of policy, as explained in the chart that follows. Please remember when reading this chart that not every policy of a type listed below will receive compensation in the form of policy credits—only those that must receive policy credits to protect their tax status.

TYPE OF TAX-QUALIFIED ELIGIBLE POLICY	TYPE OF POLICY CREDIT
<b>Premium Paying Individual Life Insurance</b> <ul style="list-style-type: none"> <li>■ Non interest sensitive</li> <li>■ Interest sensitive or variable</li> </ul>	<ul style="list-style-type: none"> <li>■ Dividend accumulations</li> <li>■ Increase in account value</li> </ul>
<b>Fully Paid-Up Individual Life</b> <ul style="list-style-type: none"> <li>■ Non interest sensitive</li> <li>■ Interest sensitive or variable</li> </ul>	<ul style="list-style-type: none"> <li>■ Dividend accumulations</li> <li>■ Increase in account value</li> </ul>
<b>Reduced Paid-Up Individual Life Insurance</b> <ul style="list-style-type: none"> <li>■ Non interest sensitive face amount of less than \$1,000</li> <li>■ Non interest sensitive face amount equal to or more than \$1,000</li> <li>■ Interest sensitive or variable in fixed reduced paid-up status</li> <li>■ Interest sensitive or variable in variable reduced paid-up status</li> </ul>	<ul style="list-style-type: none"> <li>■ Increase in reduced paid-up insurance</li> <li>■ Dividend accumulations</li> <li>■ Increase in reduced paid-up insurance</li> <li>■ Increase in account value</li> </ul>
<b>Extended Term Individual Life Insurance</b> <ul style="list-style-type: none"> <li>■ Policy credit does not extend term period to original maturity</li> <li>■ Policy credit extends term period to original maturity</li> </ul>	<ul style="list-style-type: none"> <li>■ Extension of expiration date</li> <li>■ Extension of expiration date and endowment upon maturity</li> </ul>
<b>Individual Annuity</b> <ul style="list-style-type: none"> <li>■ Deferred annuity not in pay status</li> <li>■ Deferred annuity issued to guarantee a defined benefit</li> <li>■ Annuity in payout status</li> <li>■ "Retirement Annuity"</li> </ul>	<ul style="list-style-type: none"> <li>■ Increase in account value</li> <li>■ Increase in defined benefit</li> <li>■ One-time addition to one of the payments</li> <li>■ Dividend accumulations</li> </ul>
<b>Group Annuity</b> <ul style="list-style-type: none"> <li>■ Funding IRAs or Section 403(b) tax deferred annuities</li> </ul>	<ul style="list-style-type: none"> <li>■ Increase in account value</li> </ul>

#### The Amount of Cash and Value of Policy Credits Will Be Based on the Higher of the IPO Price for Prudential Financial, Inc. Stock or the Top-Up

If you receive demutualization compensation in the form of cash or policy credits, you will not actually be issued the shares of Prudential Financial, Inc. stock allocated to you with respect to such compensation. The amount of the cash or value of the policy credits you receive instead of stock will be equivalent to the dollar value of your share allocation for the non-stock compensation. It will include the additional fixed and any additional variable component of compensation allocable to you if all of the compensation you receive is in the form of cash and policy credits. We will determine the dollar value by multiplying the total number of shares allocated to you for the non-stock compensation by the higher of:



- the IPO price for shares of Prudential Financial, Inc. stock, or
- the Top-Up, which is an amount equal to the IPO price for shares of Prudential Financial, Inc. stock plus a market-based appreciation factor: if the average of the closing prices of Prudential Financial, Inc. stock on the primary exchange where it is listed during the first 20 days of trading, known as the “Top-Up Period”, exceeds 110% of the IPO price, the amount of that excess, not to exceed 10% of the IPO price, will be added to the IPO price.

Thus, the amount of cash or value of policy credits you will receive will be “topped-up” to reflect the average of the closing prices of Prudential Financial, Inc. stock on the primary exchange where it is listed during the first 20 trading days; but you will receive this Top-Up benefit only if the increase is greater than 110% of the IPO price, and the benefit is capped at 10% of the IPO price. If the average of the closing prices of shares of Prudential Financial, Inc. stock during the Top-Up Period is equal to or less than the IPO price, or is greater than 100% but less than or equal to 110% of the IPO price, then the amount of cash or the value of policy credits distributed to you will be based on the IPO price. The Top-Up starts at 110% to reflect the fact that if you are receiving only cash or policy credits (or both), you will already have been allocated approximately 10% in additional compensation. If you are receiving part of your demutualization compensation in the form of shares of Prudential Financial, Inc. stock, the Top-Up will apply only to the non-stock portion of your compensation.

## **Some Eligible Policyholders Will Be Able to Choose to Receive Shares of Prudential Financial, Inc. Stock Instead of Cash**

If you are allocated shares equal to or less than a “cut-off” number (50 or a lower number of shares that will be set at or before the Effective Date) as your total basic fixed and basic variable components for your eligible policies that are not otherwise required under the Plan to receive policy credits or cash, you will be able to choose to receive shares of Prudential Financial, Inc. stock (instead of cash) with respect to those policies. We refer to this choice as the “Stock Election”. If the Stock Election applies to you, it is reflected on your stock election card (Card 3). In that case, it is probable (although it is not certain because the cut-off number could change) that you will receive cash instead of stock with respect to those eligible policies unless you indicate on Card 3 that you would prefer to receive shares of Prudential Financial, Inc. stock and you return your Card 3 to us (or respond by telephone or the Internet) so we receive it by 4:00 p.m., Eastern Time, on July 31, 2001.

If you want to receive cash with respect to your policies to which the election applies, you do not need to return the stock election card (Card 3) or notify us—it will happen automatically as long as the number of shares allocated to you for those policies remains at or below the final cut-off number. That will ultimately depend on the number of shares that the board of directors selects as the cut-off. Whether your allocation for those policies is above or below the cut-off will be determined before including any additional fixed or additional variable components you may receive. In addition, we will not include shares allocated to you for eligible policies that must receive cash or policy credits when determining whether your total basic allocation is above or below the cut-off. The Plan sets the maximum number of shares for the cut-off at 50. If the final number is 50, then those eligible policyholders who are allocated 50 shares or less for their eligible policies not required to receive policy credits or cash, and (before any additional fixed and additional variable components have been added) will receive cash with respect to such policies unless they affirmatively elect to receive shares of Prudential Financial, Inc. stock for them instead. The board of directors may set the number lower than 50, but not lower than the fixed component of eight shares, at any time prior to the Effective Date. For purposes of illustration in this Part 1 and **Part 2**, we use 30 as the cut-off number, although it is our intent that the cut-off will be as close to the maximum of 50 as possible, depending on market conditions. The board’s decision regarding the cut-off could depend, among other things, on how many eligible policyholders do, and how many do not, elect to receive shares of Prudential Financial, Inc. stock and the size of the IPO (which will have an effect on the amount of cash available). Therefore, the cut-off number could change after you make your election. If it does and the number of shares allocated to your eligible policies to which the election applies is greater than the new cut-off, you will receive shares of Prudential Financial, Inc. stock even if you did not elect to receive stock.

If you are allocated more than 50 shares with respect to your eligible policies that are not required to receive policy credits or cash, the Stock Election will not apply to you—you will receive shares of Prudential Financial, Inc. stock for the shares



If you can choose to receive shares of Prudential Financial, Inc. stock instead of cash, that choice is indicated on your stock election card (Card 3).

allocated to such policies. In this circumstance, you will not be able to choose a different form of compensation for any of your policies, although you may sell your shares of stock after they have been issued to you.

**Factors to Consider If You Are an Eligible Policyholder Who May Choose to Receive Stock Instead of Cash**

If you are an eligible policyholder who may choose to receive shares of Prudential Financial, Inc. stock instead of cash for some or all of your eligible policies, you may wish to consider the factors discussed below.

After demutualization, all eligible policyholders, including those who have received their demutualization compensation in the form of cash or policy credits, will remain Prudential Insurance policyholders unless their policies cease to be in force for some other reason. There will be no reduction in Prudential Insurance’s contractual policy obligations and benefits under any policies. However, if you receive cash or policy credits instead of shares of stock of Prudential Financial, Inc., you will no longer own your insurer, either directly or indirectly, because you will not have any ownership interests in either Prudential Financial, Inc. or Prudential Insurance. You will not be a Prudential Financial, Inc. shareholder unless you later acquire shares of Prudential Financial, Inc. stock on your own initiative. Accordingly, unless you acquire shares at a later time, you will not share in any dividends paid on shares of Prudential Financial, Inc. stock or increases in share value (or losses in value) of Prudential Financial, Inc. stock. Also, you will not have any right to vote as a shareholder of Prudential Financial, Inc. unless you acquire shares on your own.

On the other hand, if you receive only cash (or policy credits or a combination of both), you will be allocated additional fixed and additional variable components of compensation. In addition, if you receive any of your compensation in the form of cash (or policy credits), you will receive the further benefit of the Top-Up with respect to this non-stock compensation if the average of the closing prices of Prudential Financial, Inc. stock on the primary exchange where it is listed during the first 20 trading days increases above 110% of the IPO price for shares of Prudential Financial, Inc. stock. Those who receive stock will not be allocated the additional shares. Also, the Top-Up would not apply to any stock compensation you receive; however, as an owner of stock, you will benefit in terms of the value of your shares from increases in the price of Prudential Financial, Inc. stock during the Top-Up Period.

Part 2 provides additional information about the stock of Prudential Financial, Inc. from an investor’s perspective. It tells you, among other things, about the risks of investing in Prudential Financial, Inc. These include risks of events that could have a negative impact on our business and cause the value of Prudential Financial, Inc. stock to fall.

The chart that follows identifies some factors to consider if you are deciding whether to elect to receive shares of Prudential Financial, Inc. stock instead of cash.

	IF YOU RECEIVE SHARES OF PRUDENTIAL FINANCIAL, INC. STOCK	IF YOU RECEIVE CASH
<b>Additional compensation</b>	You will not be allocated an additional fixed component or an additional variable component.	If you receive cash and no stock, your compensation will include an additional fixed and potentially an additional variable component, <i>i.e.</i> , additional compensation equal in the aggregate to approximately 10% of the compensation allocated to you before the additional components, but in any event no fewer than two additional shares.



Dividends on shares of stock are different from dividends on policies.



We urge you to read both Part 1 and Part 2 of this Policyholder Information Booklet.

	IF YOU RECEIVE SHARES OF PRUDENTIAL FINANCIAL, INC. STOCK	IF YOU RECEIVE CASH
<b>Top-Up benefit</b>	As an owner of stock, you will benefit in terms of the value of your shares from increases in the price of Prudential Financial, Inc. stock during the Top-Up Period. However, while those who receive cash or policy credits will actually realize the benefit, your benefit remains unrealized until you choose to sell your shares; thus, if you do not sell your shares during the Top-Up Period, any increase could be lost if the value of the stock declines after the Top-Up Period.	If the average of the closing prices over the first 20 days of trading exceeds 110% of the IPO price, the amount of cash you receive will be determined by multiplying the total number of shares allocated to you for the non-stock compensation by the Top-Up.
<b>Increases and decreases in the price of the stock</b>	The stock price may rise or fall from the IPO price in the first 20 trading days or thereafter. The value of your shares will rise or fall accordingly. You may hold your shares of stock as an investment or sell them for cash in the future at the then market price.	The amount of cash you will receive will not decrease if the stock price goes down after the IPO. It will increase if during the Top-Up Period the average of the closing prices of Prudential Financial, Inc., stock exceeds 110% of the IPO price, but that increase will be capped at 10% of the IPO price. After the Top-Up Period, you will not benefit from any increase in the price of stock above the IPO price, nor will you suffer from any decrease below the IPO price.
<b>Commissions or fees</b>	You will not pay a commission upon receipt of your stock. However, you will pay a commission or fee on any future sale of your stock, unless you sell your shares in the Commission-Free Sales and Purchases Program described later in this Part 1.	You will not pay any commission or fee on the cash you receive in lieu of stock.
<b>Policyholder dividends</b>	Policyholder dividends will not be affected by your decision to elect Prudential Financial, Inc. stock instead of cash.	Policyholder dividends will not be affected by your decision not to elect Prudential Financial, Inc. stock instead of cash.
<b>Shareholder dividends</b>	You will be entitled to any dividends declared on your stock by Prudential Financial, Inc.'s board of directors.	You will not receive any shareholder dividends paid by Prudential Financial, Inc.
<b>Ownership</b>	Through your Prudential Financial, Inc. stock, you will have an indirect ownership interest in your insurer.	You will not have any ownership interest in your insurer.
<b>Voting at shareholder meetings</b>	As a shareholder of Prudential Financial, Inc., you will have one vote per share on matters submitted to shareholders at meetings of that company's shareholders.	You will not have a vote at meetings of Prudential Financial, Inc. shareholders or, at meetings of Prudential Insurance's shareholder. There will be no more policyholders' meetings or policyholder votes.
<b>Tax considerations</b>	<p>You will not be taxed when you receive your shares of stock. However, if you sell them in the future, the proceeds will generally be taxed as a long- or short-term capital gain, depending on the holding period (which will include both the time you held your policy and the time you held your stock).</p> <p>Any cash dividends you receive in the future on your stock as a shareholder will be taxed as ordinary income.</p>	The full amount of the cash will be taxed as a long- or short-term capital gain (depending on how long you owned your eligible policy) in the year it is received by or made available to you.

### ***Reasons for the Stock Election Feature in Our Plan***

Prudential Financial, Inc. will have one of the largest shareholder populations in the United States. Without the Stock Election (or if everyone to whom it applies elects stock instead of cash), Prudential Financial, Inc. could have as many as 9 million shareholders after taking into account the eligible policyholders who will be required to receive their compensation in cash and policy credits. A shareholder population of that size would make it very difficult and expensive for Prudential Financial, Inc. to conduct any business that requires a shareholder vote, such as the annual election of the board of directors. Having fewer shareholders would make it easier and less costly to conduct business. Because of the large shareholder population, the certificate of incorporation of Prudential Financial, Inc. will initially include a 25% quorum requirement, which is lower than typical. (A “quorum” is the minimum percentage of shares that must participate in any shareholder vote.) This quorum requirement may increase over time to 50% pursuant to a provision in the Prudential Financial, Inc. certificate of incorporation in the event shareholders in fact participate (in person or by proxy) in annual elections to an increasing extent. Even with the reduced quorum requirement, the size of the shareholder population is likely to make it difficult to achieve a quorum when needed.

Having such a large shareholder population also will make it very expensive to provide traditional shareholder services. Depending on the size of the shareholder population, we estimate that the costs of the necessary shareholder administration expenses will be between \$30 million and \$80 million per year. Reducing the size of the shareholder population would reduce these costs, and reduced costs would result in higher earnings for Prudential Financial, Inc. We have been advised by the financial advisor that will be leading our IPO, Goldman, Sachs & Co., that if we can reduce the size of our shareholder population, and consequently our future costs, at the time of demutualization, that should help us to enhance the IPO price for Prudential Financial, Inc. stock and, as a result, the value of the distributions we will be making to all eligible policyholders in the demutualization. However, no assurance can be given that such a price enhancement will occur.

The Plan includes the Stock Election for the reasons given above. Even if all eligible policyholders who have a choice do not elect stock, the majority of the stock of Prudential Financial, Inc. will be owned by our policyholders immediately after the IPO (although this could change over time as policyholders sell their stock).

The Stock Election is not applicable to eligible policyholders who are allocated more shares than the cut-off. We determined with the assistance of our financial advisor that a cut-off number higher than 50 shares or no cut-off at all would be inadvisable given the large amount of cash that could be needed to fund the payments for those who must receive cash and those who potentially could receive cash because they do not choose stock instead. The same reasons could lead our board of directors to determine that the cut-off should be lower than 50 shares even though it is our intention that the cut-off be as close to the maximum of 50 as possible, subject to market and other conditions. Further, we believe that eligible policyholders who are allocated such a small number of shares are likely to be interested in receiving a cash distribution as their form of demutualization compensation. For these reasons as well as those discussed above, we have designed the Stock Election to apply only to this group of eligible policyholders. By doing this, we provide these eligible policyholders with the convenience of receiving cash, unless they prefer stock, while at the same time furthering our goal of reducing our shareholder population to make it easier and less costly to conduct business requiring a shareholder vote.

We believe the Stock Election is an important feature of our Plan. Prudential’s Plan is not the only one with a stock election feature. However, a number of other demutualizing companies have not included one in their plans of reorganization. Our eligible policyholders to whom this Stock Election applies all have a choice with respect to whether they will receive stock or cash, and it is important for Prudential Financial, Inc. to move toward a smaller, less costly, shareholder population. Accordingly, we believe that the Plan as a whole—including not only the Stock Election, but also the additional fixed and additional variable components of compensation and the Top-Up for those who cannot receive stock or do not choose to do so—is fair and equitable to policyholders and in the best interest of Prudential and our policyholders.



The Stock Election is intended to help us reduce our enormous shareholder population to a more manageable and less costly size.



For more information on the quorum requirement, see “Description of Capital Stock—Common Stock—Voting Rights” in Part 2 and the Summary of Exhibit A to the Plan on page 104.



Eligible policyholders who may elect stock instead of cash are not being forced to take cash—they have a choice.



Shares of Prudential Financial, Inc. stock will be sold to the public in an IPO.



An IPO is an important feature of our Plan—it serves to establish a value for cash and policy credits and a trading market for Prudential Financial, Inc. stock.

Note that none of the eligible policyholders to whom the Stock Election applies are required to take cash instead of shares of Prudential Financial, Inc. stock. All of these eligible policyholders have the ability to choose to receive shares of Prudential Financial, Inc. stock rather than cash by electing to do so on the stock election card (Card 3), or via telephone or the Internet, so that we receive it by 4:00 p.m., Eastern Time, on July 31, 2001.

## The Plan Includes an Initial Public Offering (IPO)

As part of the Plan, shares of Prudential Financial, Inc. stock will be sold to the public in an IPO. The Plan will become effective on the date the IPO is completed. The IPO must be completed within 12 months after the Commissioner approves the Plan, unless the Commissioner agrees to extend this 12-month period. Although in theory a mutual insurer could demutualize without an IPO, Prudential's Plan, like most recent demutualizations, calls for one for the reasons discussed in this section.

Under the New Jersey Demutualization Law, the Commissioner may approve a plan that includes the sale of additional shares of stock if the mutual insurer demonstrates: (1) a need for additional capital or (2) that a sale would not significantly dilute the value of the shares distributed to policyholders. In our case, we expect the number of shares to be sold in the IPO to be less than the total number of shares allocated to eligible policyholders who will receive their distribution in the form of cash or policy credits. In effect, the shares sold in the IPO will represent shares that were allocated, but not distributed, to such eligible policyholders. In addition, investors who purchase shares in the IPO will pay a market price that will be determined in the IPO offering process. Accordingly, the value of the shares distributed to policyholders will not be diluted by the sale of these allocated shares in the IPO. Further, we believe that the IPO should have the result of enhancing rather than diluting the economic value of the demutualization compensation being distributed to eligible policyholders because the IPO will encourage interest in the stock and assist in the establishment of a public market for the stock. However, no assurance can be given that an enhancement in value will in fact result.

The IPO is important for establishing a trading market for Prudential Financial, Inc. stock, so that eligible policyholders who receive stock will be able to sell their shares. In addition, proceeds from the IPO may be used to pay cash to eligible policyholders and to fund policy credits. Also, by establishing a market and a market price (at the IPO and at the end of the Top-Up Period) for shares of Prudential Financial, Inc. stock, the IPO will provide a means to determine the value of the shares that will be distributed in the form of cash or policy credits to eligible policyholders.

### **IPO PROCEEDS WILL FUND SOME PAYMENTS OF CASH TO ELIGIBLE POLICYHOLDERS**

Prudential Financial, Inc. currently intends to offer 89,000,000 shares of Prudential Financial, Inc. stock in an IPO underwritten by underwriters and up to an additional 13,350,000 shares that would become issuable upon exercise of the underwriters' option to purchase additional shares. There can be no assurance as to the size of the IPO. We estimate that there will be approximately 543,600,000 shares of Prudential Financial, Inc. stock outstanding following the IPO and the demutualization.

We estimate that Prudential Financial, Inc. will receive net proceeds from the IPO of approximately \$1,879 million to \$3,245 million (or \$2,162 million to \$3,734 million if the underwriters' option to purchase additional shares is exercised in full), assuming an IPO price within a range of \$22.00 to \$38.00 per share. Assuming an IPO price of \$30.00 per share, which is the mid-point of this range, we estimate that Prudential Financial, Inc. will receive net proceeds from the IPO of \$2,562 million, or \$2,948 million if the underwriters' option to purchase additional shares is exercised in full.

We presently intend that Prudential Financial, Inc. will:

- use the net proceeds of the IPO, other than proceeds obtained from any exercise of the underwriters' option to purchase additional shares, to make certain cash payments to eligible policyholders receiving cash in the demutualization, and
- retain any remaining proceeds for general corporate purposes.



We based the information above on assumptions we have made as to the number of shares of Prudential Financial, Inc. stock and the amount of cash and policy credits that we will distribute to eligible policyholders in our demutualization.

We currently intend to use the IPO proceeds in the manner described above. In addition, it is our current intention that the maximum amount of proceeds raised in the IPO will not exceed the amount that would be required if we were to use IPO proceeds to fully fund the payment of cash and policy credits to eligible policyholders; however, the amount of IPO proceeds could be less than the amount needed to fully fund the payment of cash and policy credits.

### THE IPO WILL ESTABLISH A MARKET FOR THE STOCK

We intend to encourage the establishment of an active trading market for the stock of Prudential Financial, Inc. through the IPO and by maintaining a listing of Prudential Financial, Inc. stock on the New York Stock Exchange. We have concluded that an IPO would be the best method for building a market for subsequent trading (as well as for establishing a basis for determining the value of the non-stock demutualization compensation). This is due in part to our expectation that institutional investors are likely to be major participants in the IPO; historically, the trading of shares among institutional investors has helped to develop an active trading market in such shares.

The New Jersey Demutualization Law requires that if a plan of reorganization does not provide for registration and public trading of the common stock of the reorganized insurer or its holding company as of the effective date, the insurer must take additional steps to establish a market for the stock. Although our Plan does provide for the registration and listing of Prudential Financial, Inc. stock, we have also committed in the Plan to take additional steps to encourage the establishment of a public market for the stock. These steps include facilitating coverage by research analysts, conducting presentations to potential investors and analysts, and securing a specialist firm to make a market. The IPO and these additional steps should benefit eligible policyholders who receive Prudential Financial, Inc. stock and wish to sell their shares in the future. There is no certainty that a market will exist, however, nor does the existence of a market imply that the share price will remain at any particular level.

### THE TERMS OF THE IPO CANNOT BE DETERMINED YET

The terms of the IPO (including the number of shares of Prudential Financial, Inc. stock to be sold and the price per share) will not be determined until the time of the IPO. At that time, the boards of directors of Prudential and Prudential Financial, Inc. and the investment bankers underwriting the IPO will consider, among other things, prevailing market conditions, our financial performance, estimates of our business potential and earnings prospects, an analysis of these factors in relation to the market value of companies in similar businesses and investor interest. Accordingly, there can be no assurance as to the terms of the IPO, including the number of shares of Prudential Financial, Inc. stock to be sold, the price per share and the amount of the proceeds. After the IPO, Prudential Financial, Inc. stock will be traded on a national stock exchange, and the price will be determined by the market.

On or prior to the Effective Date, we must receive an opinion from a qualified, nationally recognized investment banker, which we expect will be J.P. Morgan Securities Inc., stating that in all material respects the managing underwriters for the IPO have conducted the offering process in a manner that is consistent with customary practices for similar offerings. We will deliver a copy of this opinion to the Commissioner. The Plan also requires that we receive confirmation from J.P. Morgan Securities Inc. that the fairness opinion they delivered to the board of directors at the time the board approved and adopted the Plan is still valid. J.P. Morgan Securities Inc. and its affiliates are prohibited under the firm's engagement agreement with us from participating as underwriters in the IPO of Prudential Financial, Inc. stock or any other offerings that may occur in connection with the demutualization. J.P. Morgan Securities Inc. will be paid a fee totaling approximately \$2 million for being a financial advisor to Prudential with respect to its demutualization and for providing the opinions described in this paragraph; the fee will be payable whether or not we agree with the opinions. We do have commercial banking and other relationships with J.P. Morgan Chase & Co., which owns J.P. Morgan Securities Inc., and its affiliates in the regular course of our business, but those relationships are unrelated to the IPO and the demutualization.



We discuss these assumptions in "Unaudited Pro Forma Condensed Consolidated Financial Information" in Part 2.



We will require the managing underwriters for the IPO to conduct the offering process in a manner that is consistent with customary practices for similar offerings.



The Plan provides that the Commissioner and the Commissioner's financial advisors will be given access to the process and information that leads to the pricing of the Prudential Financial, Inc. stock in the IPO, with the understanding that at the conclusion of the process the board of directors (or a committee thereof) will make the final pricing determination in executive session. The Commissioner will need to find that the terms of the IPO promote the best interests of eligible policyholders.

We have received a no-action letter from the SEC stating that eligible policyholders who receive shares of Prudential Financial, Inc. stock as demutualization compensation under the Plan and who are not our "affiliates" (as defined for this purpose under federal securities laws), prior to and after the Effective Date may resell such shares in the public market without restriction. Very few eligible policyholders are likely to be "affiliates"—these "affiliates" generally will include only certain directors of Prudential or Prudential Financial, Inc. and also employee benefit or similar plans for employees of Prudential and Prudential affiliate companies.

#### THE PLAN DOES NOT PROVIDE SUBSCRIPTION RIGHTS OR PREEMPTIVE RIGHTS

As is typical with most major life insurer demutualizations during the past 10 years, the Plan does not provide policyholders with "subscription rights" (that is, rights to purchase stock directly from the company at a fixed price), nor will they have "preemptive rights" (that is, rights ahead of all other investors to buy additional stock that may be issued by the company). Our eligible policyholders are being compensated for their membership interests through the distribution of shares of stock of Prudential Financial, Inc., cash and policy credits equal to the total value of Prudential at the time of demutualization.

## The Plan Permits Destacking and Extraordinary Dividends



**destacking extraordinary dividend:** The extraordinary dividend of the stock of various subsidiaries and some related assets and non-insurance liabilities of Prudential Insurance that may be made on or within 30 days after the Effective Date to accomplish the destacking.



The destacking will reduce the surplus and AVR of Prudential Insurance, but it will not negatively affect its financial strength ratings or negatively affect its ability to pay policy claims and benefits.

#### A DESTACKING IS EXPECTED TO OCCUR AS PART OF THE DEMUTUALIZATION

On the Effective Date of the Plan, we will become a stock insurance company, Prudential Insurance, which will be owned by Prudential Holdings, LLC. Prudential Holdings, LLC will in turn be owned by Prudential Financial, Inc. Prudential Holdings, LLC and Prudential Financial, Inc. will be newly-formed holding companies. Prudential Financial, Inc. will be the public company whose shares we expect to list for trading on the New York Stock Exchange and sell in the IPO. On the Effective Date (or within 30 days after), we intend to transfer some of our subsidiaries and some related assets and non-insurance liabilities from Prudential Insurance to Prudential Financial, Inc. We refer to this change as "destacking". We will make this transfer by means of the destacking extraordinary dividend. The value of this dividend (based on the statutory book value at December 31, 2000 of the subsidiaries, assets and non-insurance liabilities that are proposed to be destacked) would have been approximately \$3,829 million if the destacking had occurred on December 31, 2000. Using an extraordinary dividend to accomplish the destacking means that Prudential Insurance will not receive any consideration from Prudential Financial, Inc. in exchange for the destacked subsidiaries and other assets. After the destacking extraordinary dividend has been paid, Prudential Insurance on a pro forma basis as of December 31, 2000, would have approximately \$3,829 million less surplus and AVR, but we do not expect that reduction to negatively affect the financial strength ratings of Prudential Insurance or negatively affect its ability to pay policy claims and benefits.

The principal subsidiaries that we plan to destack are our: (1) property and casualty insurance companies; (2) principal securities brokerage companies; (3) international insurance companies; (4) principal asset management operations; and (5) international securities and investments, domestic banking, residential real estate brokerage franchise and relocation services operations. As a result of the destacking, these subsidiaries (and other assets), which are currently our assets, will become assets of Prudential Financial, Inc. instead—they will not be assets of or owned by Prudential Insurance. Prudential Insurance will retain only our core U.S. life insurance businesses, including Pruco Life Insurance Company and Pruco Life Insurance Company of New Jersey. The destacking will establish Prudential Financial, Inc.'s ownership of Prudential Insurance and the destacked subsidiaries in parallel ownership chains, rather than "stacked" ownership under Prudential Insurance.

The destacking will provide us with a number of benefits. Our corporate structure will resemble that of other publicly traded, diversified financial services companies. The destacking will diversify the sources of cash flow to Prudential Financial, Inc. by permitting the destacked subsidiaries to pay dividends to Prudential Financial, Inc. directly rather than through Prudential Insurance. Restrictions imposed by insurance laws on dividends from Prudential Insurance to Prudential Financial, Inc. would not apply to dividends from the non-insurance subsidiaries to Prudential Financial, Inc. after these subsidiaries are destacked from under Prudential Insurance. Similarly, after the destacking, dividends paid by the property and casualty insurance companies to Prudential Financial, Inc. would be affected only by the dividend restrictions applicable to them and not also by restrictions on Prudential Insurance's ability to pay such dividends on to Prudential Financial, Inc. (because such dividends would be payable directly, not through Prudential Insurance). The destacking is also intended to benefit Prudential Insurance, both directly and indirectly, by: (1) reducing the earnings volatility inherent in owning property and casualty insurance and retail securities businesses; and (2) reducing the proportion of Prudential Insurance's capital that is invested in subsidiaries to a level more comparable to that of other large life insurers. We believe the destacking will result in a better positioning of both Prudential Insurance and Prudential Financial, Inc. to obtain and thereafter retain higher claims-paying ability and credit ratings. In addition, we believe that destacking will permit a more efficient use of our capital and will position us better for making acquisitions after we are a public company. However, no assurance can be given that these results will in fact occur.



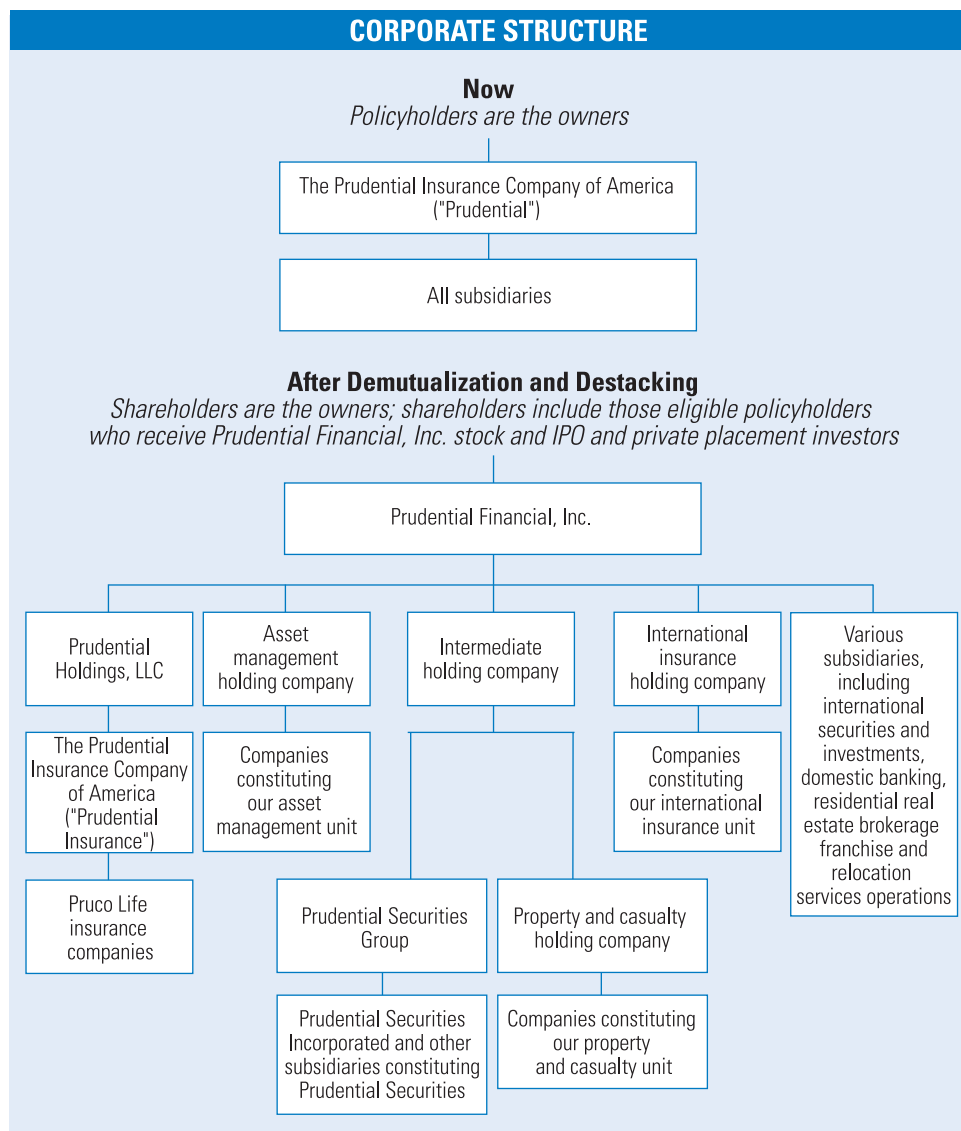
For more information on the destacking, see Schedule 3.3(a) to the Plan beginning on page 101.

While a number of other insurance companies and their affiliates have reorganized in various ways to achieve a comparable corporate structure, destacking generally has not been done at the time of other demutualizations. We are planning to do it as part of our demutualization (rather than later) for a number of reasons. First, our financial strength is such that we can do it then without affecting our ability to carry out our obligations to our policyholders—we do not believe there will be any negative effects on Prudential Insurance's financial strength ratings or any negative effects on its ability to pay policy claims and benefits. Second, we have a broader range of businesses than many other insurance companies, and destacking would mean that those businesses that are affected by restrictions placed on insurance companies, such as limitations on dividends and on investments in subsidiaries, would no longer be subject to such restrictions and limitations. We believe that realizing these benefits of destacking at the time of our demutualization should have a positive impact on the share price for Prudential Financial, Inc. stock in the IPO and immediately thereafter. A higher share price in the IPO and immediately thereafter would be beneficial to all eligible policyholders, especially to those who receive cash and policy credits based on Prudential Financial, Inc.'s IPO price or the Top-Up. However, no assurance can be given that the destacking will have a positive impact on the share price.

The destacking cannot occur if disapproved by the Commissioner. The Commissioner's review of the destacking will occur separately from the review of the demutualization. Elements of the destacking are also subject to review by various other state and federal regulators. We have initiated or are in the process of initiating such reviews. We have no reason to believe that the destacking will be disapproved or that any required regulatory approvals or consents will not be forthcoming. However, if the destacking is disapproved or if all necessary approvals or consents are not obtained in time, we will proceed with the demutualization without the destacking or with only a partial destacking, if we have the approvals necessary to do that—that is, we would change the ownership of only some of these subsidiaries, assets and non-insurance liabilities. We also may decide at a later time to abandon or postpone the destacking or parts of the destacking for other reasons.

Even though the destacking is being reviewed by the Commissioner separately from the demutualization, the public hearing on the Plan will be an opportunity for the Commissioner and interested persons to hear comments on the entire Plan, which includes the destacking. Your vote on approval of the Plan necessarily includes the destacking, whether or not we proceed with it. You may not vote separately on this or on any of the other elements of the Plan—your vote may only be in favor of or against approval of the entire Plan.

The diagram that follows illustrates on a simplified basis the ownership structure now and immediately after the demutualization and destacking:



**WE EXPECT TO PAY AN ADDITIONAL EXTRAORDINARY DIVIDEND IN ADDITION TO THE DESTACKING EXTRAORDINARY DIVIDEND**

On or within 30 days after the Effective Date of the Plan, we expect Prudential Insurance to pay an additional extraordinary dividend to Prudential Financial, Inc. of up to \$2.5 billion. We estimate (based on the statutory book value of Prudential at December 31, 2000) that this additional extraordinary dividend would have been in the amount of \$360 million if it had occurred on December 31, 2000; however, this amount could be substantially larger by the Effective Date. This additional extraordinary dividend would be in addition to the destacking extraordinary dividend (if the destacking occurs).

The payment of this additional extraordinary dividend would increase Prudential Financial, Inc.'s cash liquidity. With this increased liquidity, Prudential Financial, Inc. would have greater financial flexibility. We believe this would be viewed favorably by the capital markets and considered a more efficient use of Prudential's capital. As a result, we believe the additional extraordinary dividend should help to increase the value of Prudential Financial, Inc. stock at the time of the IPO and immediately thereafter and therefore enhance the value of the demutualization compensation received by eligible policyholders. No assurance can be given that the value would in fact be enhanced, however.

The Commissioner will not approve the Plan in the absence of a finding that after giving effect to the reorganization, including the additional extraordinary dividend, if any, the reorganized insurer will have an amount of capital and surplus the Commissioner deems to be reasonably necessary for its future solvency. The additional extraordinary dividend would also be reviewed by the Commissioner separately from the demutualization. If the Commissioner disapproves this additional extraordinary dividend, or if the Prudential Insurance board of directors decides not to pay it, we could still proceed with the demutualization without paying this dividend—like the destacking, this additional extraordinary dividend need not be completed in order for us to demutualize. The cumulative impact on a statutory pro forma basis as of December 31, 2000 of the \$540 million in cash payments to eligible policyholders that will be directly funded by Prudential Insurance as part of the demutualization, the \$360 million additional extraordinary dividend and the destacking extraordinary dividend would have been to reduce the surplus and AVR of Prudential Insurance by \$4,729 million, from \$11,908 million to \$6,979 million.

### THESE EXTRAORDINARY DIVIDENDS WILL AFFECT PRUDENTIAL INSURANCE

On a pro forma statutory accounting basis, if the demutualization, an additional extraordinary dividend in the amount of \$360 million and the destacking extraordinary dividend had occurred as of December 31, 2000, they would have reduced Prudential Insurance's surplus and AVR by approximately \$4,729 million and total assets by approximately \$4,213 million. In addition, Prudential Insurance would have experienced a pro forma statutory net loss of \$51 million for the year ended December 31, 2000, instead of reported net income of \$149 million, if the demutualization, destacking and an additional extraordinary dividend of \$360 million had occurred on January 1, 2000. Although the destacking extraordinary dividend and the additional extraordinary dividend will mean that Prudential Insurance will not have some of the assets and revenue sources that Prudential now has, Prudential Insurance's statutory pro forma assets, and surplus and AVR, would be \$191.8 billion and \$7.0 billion, respectively. We expect that the combined impact of the two extraordinary dividends will be a reduction in our **risk-based capital ratio**. We nonetheless do not expect Prudential Insurance's claims-paying and financial strength ratings to be negatively affected, and we do not believe the ability of Prudential Insurance to pay policy claims and benefits will be diminished. In addition, we expect the capital markets will value our stock more highly at the time of the IPO if we complete the destacking at that time and if we retain the proceeds of the additional extraordinary dividend at Prudential Financial, Inc. However, there can be no assurance that the stock will in fact be valued more highly as a result.



For more information about the financial impact of the demutualization, the destacking extraordinary dividend and the additional extraordinary dividend on Prudential Insurance, see "Financial Information and Outside Advisor Opinions" beginning on page 125.

## The Plan Permits Issuance of Class B Stock and IHC Debt Securities and Other Capital Raising Transactions

### THE PLAN PERMITS US TO SELL CLASS B STOCK, WHICH WILL REFLECT THE PERFORMANCE OF OUR CLOSED BLOCK BUSINESS, AND IHC DEBT SECURITIES

The discussion that follows provides the background for why we plan to issue the Class B Stock. As a mutual insurer, we have historically issued most of our individual life insurance and annuity products as participating policies—that is, policies that give policyholders the right to participate in divisible surplus to the extent dividends are apportioned. These participating policies historically have yielded lower returns on capital invested than many of our other products and businesses, and we will cease offering participating policies in the U.S. on or before our demutualization. As part of the demutualization, we will establish two closed blocks to provide for the reasonable policy dividend expectations of owners of policies included within the closed blocks. The larger closed block, which we refer to as the "Closed Block", is for U.S. business, and the other, much smaller, one is for Canadian business. The amount of the assets set aside for the Closed Block Policies will be calculated so that the assets, together with the investment cash flows they produce and anticipated revenues from the Closed Block Policies, are expected to be reasonably sufficient to provide for all guaranteed policy benefits for the Closed Block Policies and expenses and taxes charged to the Closed Block as well as policy dividend payments for such policies according to the year 2000 dividend scales if the experience underlying the year 2000 scales continues, and for appropriate adjustments in the scales if the experience changes.



For a discussion of the closed blocks, see "Closed Blocks Provide for Policy Dividends after Demutualization" beginning on page 39.



**Closed Block Policies:** The individual participating life insurance policies and annuity contracts included within the Closed Block.





**Class B Stock:** The shares of a separate class of voting stock of Prudential Financial, Inc. that we plan to sell in a private placement.



For a further description of the Closed Block Business and the Class B Stock and the IHC debt securities we are planning to sell, see Schedule 3.3(c)(i) of the Plan beginning on page 103 and "Demutualization and Related Transactions—Related Transactions—Class B Stock and IHC Debt Issuances" in Part 2.

On or within 30 days after the IPO, we plan to sell 2.0 million shares of Class B Stock, which will be expected to reflect the performance of (1) the assets of the Closed Block and the Closed Block Policies and related liabilities and (2) related assets held outside the Closed Block which support the Closed Block Policies (the "**Surplus and Related Assets**") and related assets and liabilities held outside the Closed Block. We refer to the assets and liabilities of the Closed Block and these related assets and liabilities collectively as the "Closed Block Business"; thus, the Closed Block Business will consist of more assets and liabilities than are in the Closed Block. Dividends on the Class B Stock will depend on the Closed Block Business, but will not be paid out of assets comprising the Closed Block. If we complete the sale of the Class B Stock, the Prudential Financial, Inc. stock distributed to eligible policyholders in the demutualization and sold in the IPO will then be expected to reflect the performance of all our businesses except the Closed Block Business. We refer to these other businesses in the aggregate as our "Financial Services Businesses". We also plan to sell debt securities of Prudential Holdings, LLC (which we refer to in this Part 1 as the "IHC debt securities"). The interest and principal on the IHC debt securities are expected to be paid out of the net cash flows of the Closed Block Business over time, but not out of the assets comprising the Closed Block. We intend that the IHC debt securities will be insured by a bond insurer. The Class B Stock and IHC debt securities are being sold in private placements (offerings not available to the general public) to investors who need not be our policyholders. On April 25, 2001, we entered into a subscription agreement pursuant to which institutional investors agreed to purchase the 2.0 million shares of Class B Stock at the time of our demutualization, which will generate aggregate gross proceeds of \$175 million. We also are negotiating a commitment with a bond insurer to insure approximately \$1.75 billion of IHC debt securities, which debt we plan to market prior to the IPO.

The reason we are planning to sell the Class B Stock and IHC debt securities at the time of our demutualization (rather than later) is that we believe doing so then will improve the value and investment attributes of the Prudential Financial, Inc. stock allocated among and distributed to eligible policyholders in the demutualization. We believe that this will enhance the price of the Prudential Financial, Inc. stock in the IPO because we will be able to separate the financial results of the Closed Block Business from the Financial Services Businesses; as a result, the Prudential Financial, Inc. stock will reflect the performance of our Financial Services Businesses only, without reflecting the relatively lower returns that we have historically experienced with respect to the policies included in the Closed Block. There can be no assurance that we will complete the sales of the Class B Stock and IHC debt securities, however, or that such enhancements will result if we do complete these sales.



You can see the prospective apportionment of our assets, attributed equity and earnings between the Financial Services Businesses and the Closed Block Business, if we complete the sale of the Class B Stock and IHC debt securities, in "Unaudited Pro Forma Condensed Consolidated Financial Information" in Part 2.

We will use the entire net proceeds from the sale of the Class B Stock and the majority of the net proceeds from the sale of the IHC debt securities in our Financial Services Businesses. This use of these proceeds should increase the value of the Financial Services Businesses. The investors in the Class B Stock have agreed, and we expect that the insurer of the IHC debt securities will agree, to this use of these proceeds. Although we are seeking to grow our Financial Services Businesses, we expect the Closed Block Business to diminish over time as policyholder benefits are paid in full and no new policies are added to the Closed Block. As described above, after we sell the Class B Stock, the Prudential Financial, Inc. stock is expected to reflect the performance of our Financial Services Businesses. We will apportion all our assets and liabilities and earnings between the Financial Services Businesses and the Closed Block Business. Although the Financial Services Businesses and the Closed Block Business are not legally separate companies, we will present financial information for each of them generally as if they were separate companies.

As mentioned above, we have entered into a subscription agreement for the sale of the Class B Stock, and we plan to market the IHC debt securities prior to the IPO. The subscription agreement contains conditions to the investors' commitments. Also, successful conclusion of the negotiations with the bond insurer is not assured, and any commitment obtained from the bond insurer will also contain conditions to its obligations. Accordingly, the terms of the Class B Stock and the IHC debt securities, if issued, could vary from those described herein. However, we will issue the Class B Stock and the IHC debt securities only if we believe that the terms of their issuances will improve the value and investment attributes of Prudential Financial, Inc. stock.

## **POLICY DIVIDENDS ON CLOSED BLOCK POLICIES WILL NOT BE AFFECTED BY THE CLASS B STOCK AND THE IHC DEBT SECURITIES**

Within the Closed Block Business, the assets of the Closed Block and their cash flows will inure to the benefit of the owners of Closed Block Policies through policy dividends after payment of benefits, expenses and taxes. The earnings on, and distribution of, the Surplus and Related Assets over time will be the source or measure of the payment of interest and principal with respect to the IHC debt securities and of the payment of dividends on the Class B Stock. Neither payments of principal and interest on the IHC debt securities nor dividends on the Class B Stock will be paid out of assets comprising the Closed Block. Generally, the assets of the Closed Block cannot be used for purposes other than the payment of benefits, expenses and taxes and policy dividends on the Closed Block Policies. If we complete the sale of the Class B Stock and IHC debt securities, policy dividends on the Closed Block Policies will not be affected by dividends paid to owners of Class B Stock, or by interest and principal paid on the IHC debt securities.



Policy dividends on Closed Block Policies will not be affected by dividends paid to owners of Class B Stock and interest and principal paid on the IHC debt securities.

## **THE RIGHTS OF SHAREHOLDERS OWNING CLASS B STOCK**

Issuance of the Class B Stock will affect the dividend, voting and liquidation rights of the Prudential Financial, Inc. stock.

If we complete the sale of the Class B Stock, dividends declared and paid on the Prudential Financial, Inc. stock will depend upon the financial performance of the Financial Services Businesses. Dividends declared and paid on Prudential Financial, Inc. stock will not depend upon or be affected by the financial performance of the Closed Block Business unless the Closed Block Business were to have poor results from business operations that completely depleted Prudential Insurance's surplus. Dividends declared and paid on the Prudential Financial, Inc. stock also will not be affected by decisions with respect to dividend payments on the Class B Stock except as discussed below (and in greater detail in Part 2). If Class B Stock is issued, holders of Prudential Financial, Inc. stock generally will be entitled to receive dividends out of assets of the Financial Services Businesses legally available for the payment of dividends when, as and if declared by the Prudential Financial, Inc. board of directors and as if the Financial Services Businesses were a separate company. 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 generally will be entitled to receive the surplus of the Closed Block Business no longer required to support the Closed Block for regulatory purposes. In the case of each class of stock, dividend payments will depend on the extent to which Prudential Financial, Inc. and Prudential Insurance, as a whole, are able to pay dividends, and the payment of dividends to either class of shareholders will be wholly within the discretion of the Prudential Financial, Inc. board of directors. The board of directors could decide to pay a smaller dividend than the maximum that could be paid or none at all. You should be aware, however, that if, in a given period, we could pay dividends on the Class B Stock and we choose not to pay dividends on the Class B Stock in an amount equal to or greater than certain threshold amounts, then cash dividends cannot be paid on the Prudential Financial, Inc. stock.



For more information on dividend rights of holders of Class B Stock and holders of Prudential Financial, Inc. stock, see "Description of Capital Stock—Common Stock—Dividend Rights" in Part 2.

Because holders of Prudential Financial, Inc. stock and holders of Class B Stock will all be common shareholders of Prudential Financial, Inc., they will vote together (one share, one vote) on all matters submitted to a vote of the shareholders of Prudential Financial, Inc., except as otherwise required by law and except that holders of Class B Stock will have specified class voting or consent rights with respect to proposed issuances of additional shares of Class B Stock and of certain other types of securities and on other matters directly affecting the Class B Stock. If we complete the sale of the Class B Stock, holders of the Class B Stock would have less than 1% of the aggregate voting power with respect to matters submitted to a vote of all shareholders.



For more information on the respective rights of Prudential Financial, Inc. shareholders and Class B Stock shareholders in a liquidation, see "Description of Capital Stock—Common Stock—Liquidation Rights" in Part 2.

In the event of a liquidation, dissolution or winding-up of Prudential Financial, Inc., holders of Prudential Financial, Inc. stock and holders of Class B Stock would be entitled to receive a proportionate share of the net assets of Prudential Financial, Inc. that remain after paying all claims and other liabilities and the liquidation preferences of any preferred stock. We expect that the proportionate shares of such net assets that each class would be entitled to receive would be based on the market value of the Prudential Financial, Inc. stock determined over a specified trading period ending 60 days after the IPO and the issuance price of the Class B Stock.





For more information on exchangeability and convertibility of Class B Stock, see "Description of Capital Stock—Common Stock—Exchange and Conversion Provisions" in Part 2.



You should review the Risk Factors in Part 2 regarding these and other issues for investors in the stock of Prudential Financial, Inc.



We expect that the IHC debt securities will be secured by a pledge of some of the shares of common stock of Prudential Insurance held by Prudential Holdings, LLC.

If we complete the sale of Class B Stock, the Class B Stock will be exchangeable for or convertible into shares of Prudential Financial, Inc. stock at any time at Prudential Financial, Inc.'s discretion, at the discretion of the holders of Class B Stock in the event of certain regulatory events, or mandatorily in the event of a change of control of Prudential Financial, Inc. or a sale of all or substantially all of the Closed Block Business. Also, commencing in 2016, the Class B Stock will be convertible into shares of Prudential Financial, Inc. stock at the discretion of the holders of the Class B Stock. Upon any such exchange or conversion of the Class B Stock, the separation of the Closed Block Business and the Financial Services Businesses would cease and any benefits of such separation would also cease.

### **IF THE SALES OF THE CLASS B STOCK AND THE IHC DEBT SECURITIES ARE COMPLETED, THE CLOSED BLOCK BUSINESS AND THE FINANCIAL SERVICES BUSINESSES WILL BE SEPARATED FOR FINANCIAL PURPOSES**

If the sales of the Class B Stock and IHC debt securities are completed, the Closed Block Business and the Financial Services Businesses will be separated for financial purposes, although they will not be legally separate companies. The holders of each class of stock will be subject to all of the risks associated with an investment in Prudential Financial, Inc., which will include all of its businesses, assets and liabilities. In addition, Prudential Financial, Inc. will be permitted to transfer assets between the businesses for value in limited circumstances.

Having two classes of common stock could result in potential conflicts of interest between the holders of the two classes. Prudential Financial, Inc.'s board of directors will have a fiduciary duty to all holders of Prudential Financial, Inc. stock and Class B Stock and will intend to resolve any such conflicts in a manner it deems fair to such holders.

### **OTHER IMPORTANT TERMS OF THE IHC DEBT SECURITIES**

As noted above, we are negotiating a commitment with a bond insurer to insure approximately \$1.75 billion of IHC debt securities. This insurance will insure the payments of principal and interest on the IHC debt securities under certain circumstances. We expect that these debt securities will also be secured by a pledge of some of the shares of common stock of Prudential Insurance owned by its parent, Prudential Holdings, LLC. The amount of IHC debt securities that can be sold is limited so that the amount of Prudential Insurance stock that would be pledged will be no more than 49% of the total amount of outstanding Prudential Insurance stock. This pledge means that in the unlikely event that Prudential Holdings, LLC were to default on the IHC debt securities, the bond insurer and the holders of the IHC debt securities would be able, in specified circumstances, to seek to foreclose on these shares and thus become shareholders of Prudential Insurance; however, any such foreclosure that would result in an acquisition of control over Prudential Insurance (within the meaning of the New Jersey Insurance Holding Company Systems Act) would be subject to the prior approval of the Commissioner. If foreclosure were to occur, some of the shares of Prudential Insurance stock previously held indirectly by Prudential Financial, Inc. would then be held by the bond insurer or holders of the IHC debt securities, and that could depress the market value of Prudential Financial, Inc. stock. In addition, we anticipate that the terms of the IHC debt securities will contain various covenants, such as prohibitions on Prudential Holdings, LLC's incurrence of indebtedness other than the IHC debt securities, limiting dividends payable by Prudential Insurance with respect to the Closed Block Business, and limitations on the business activities of Prudential Holdings, LLC and the non-insurance business activities of Prudential Insurance.

### **THE SALES OF THE CLASS B STOCK AND IHC DEBT SECURITIES MIGHT NOT BE COMPLETED**

If we complete the sales of the Class B Stock contemplated by the subscription agreement referred to above, we will receive total gross proceeds of \$175 million. Prudential Financial, Inc. will retain these proceeds for general corporate purposes. We expect that total gross proceeds from a sale of the IHC debt securities, if completed, would be approximately \$1.75 billion. We expect that we will be required to deposit a portion of the proceeds from the sale of the IHC debt securities in a debt service coverage account as a source of payment of principal and interest and as security for the IHC debt securities, but that most of the proceeds will be distributed by Prudential Holdings, LLC to its parent, Prudential Financial, Inc., and retained there for general corporate purposes.

The completion of the sale of the Class B Stock is subject to conditions that may not be satisfied, and successful conclusion of negotiations with the bond issuer is not assured. Unlike the IPO, these private placements need not be completed in order for us to demutualize. Your vote on the Plan includes a vote on these transactions, whether or not we proceed with them. You cannot vote separately for or against these elements of the Plan—your vote will be on the entire Plan. If we proceed with the demutualization but do not issue any Class B Stock, we will not issue the IHC debt securities, and the Prudential Financial, Inc. stock allocated and distributed in our demutualization and sold in the IPO will reflect the performance of all of our businesses, including both the Closed Block Business and the Financial Services Businesses. As noted above, we believe that the sales of these securities will improve the value and investment attributes of Prudential Financial, Inc. stock. If we do not sell them, these intended benefits will not be achieved. There is also no assurance that we will achieve the intended benefits even if we do complete the sale of the Class B Stock and the IHC debt securities, however.



The completion of the sales of the Class B Stock and the IHC debt securities is not assured and is not a condition to completion of the demutualization.

### THE PLAN PERMITS OTHER CAPITAL RAISING TRANSACTIONS

In addition to the IPO, and the private placements of Class B Stock and the IHC debt securities, which we plan to complete as described above, Prudential Financial, Inc. and Prudential Holdings, LLC may also raise funds for use in connection with the Plan prior to, on or within 30 days after the Effective Date through one or more of the following: (1) a private or public offering of debt, additional common stock of Prudential Financial, Inc., preferred stock or other equity securities of Prudential Financial, Inc. or Prudential Holdings, LLC; options, warrants, purchase rights, subscription rights or other securities exchangeable for or convertible into any of these; or a combination of these items; or (2) bank borrowings. The amounts of such other capital raising transactions, if they occur, would be determined by the boards of directors of the applicable companies or authorized committees thereof. Prior notice of other capital raising transactions would need to be given to the Commissioner, and any sale by Prudential Financial, Inc. or Prudential Holdings, LLC of preferred stock or other equity securities, or securities exchangeable for or convertible or exercisable into Prudential Financial, Inc. stock, must be subject to the specific approval of the Commissioner pursuant to the New Jersey Demutualization Law.

## Closed Blocks Provide for Policy Dividends after Demutualization

Policies that are currently entitled to receive policy dividends as declared by our board of directors will continue after demutualization to be entitled to receive policy dividends from Prudential Insurance on the same basis. The New Jersey Demutualization Law requires a plan of reorganization of a mutual insurer to provide for the reasonable dividend expectations of owners of participating individual life insurance policies and annuity contracts through establishment of a “closed block” or some other method acceptable to the Commissioner. Our Plan complies with this requirement by using two closed blocks—one for the U.S. business, which we refer to as the “Closed Block”, and another, much smaller, one for Canadian business. This discussion focuses on the U.S. Closed Block first, and the Canadian closed block discussion follows.

Establishing the Closed Block means we will set aside assets supporting the Closed Block Policies in such a way that those assets, together with the revenue from those assets and the Closed Block Policies, are expected to be reasonably sufficient to support the business in the Closed Block until the last policy in the Closed Block has terminated and to provide for continuation of the dividend scales in effect on the Board Adoption Date (December 15, 2000) if the experience underlying those scales continues, and for appropriate adjustments in the scales if the experience changes. Closed Block Policies will continue to receive dividends if and when they are declared by Prudential Insurance’s board of directors. Details follow.

### ESTABLISHMENT OF THE CLOSED BLOCK

The Closed Block will include traditional participating individual and joint whole life insurance policies, individual term life insurance policies and individual retirement annuity contracts that are currently paying or are expected to pay policy dividends based on experience (or that currently pay no dividends only because they are in extended term insurance status), along with all supplementary benefits and riders attached to these policies. Not all participating policies will be included in the Closed Block. For



**dividend scale:** A schedule of amounts declared annually by a company’s board of directors, payable to owners of some participating policies. Such amounts are based on the recent experience of groups of similar policies.



The Closed Block does not include all policies.

example, no group policies will be included, regardless of whether they are currently paying or are expected to pay policy dividends. This does not mean that such policies will not continue to receive policy dividends if and when declared by the board of directors.

We will set aside assets for the benefit of the Closed Block Policies. The amount of the assets set aside when the Closed Block is established will be calculated so that the assets, together with the investment cash flows they produce and anticipated revenues from the Closed Block Policies, are expected to be reasonably sufficient to provide for all guaranteed policy benefits and expenses and taxes charged to the Closed Block as well as policy dividend payments according to the year 2000 dividend scales, if the experience underlying the year 2000 scales continues.

To calculate the amount of assets to be set aside to fund our Closed Block, we first had to identify what experience underlies our 2000 dividend scales. During 1997, 1998 and 1999, we reviewed the various components of experience for our participating individual life insurance business and concluded that it would be appropriate to adopt dividend scales for 1998, 1999 and 2000 that were the same as the scales originally adopted for 1997 with some minor adjustments. During this period, there were changes in experience, but the effects of these changes in many respects offset each other. Because we adopted essentially the same scales for each of the past four years despite these changes in experience, we concluded that the appropriate way to measure the experience underlying the 2000 dividend scales is to average the various components of experience as they were used in setting the levels of the dividend scales in each of the four years 1997 through 2000. This approach is different from the approach taken in other demutualizations, which have generally used only the most recent year's experience. The approach we have taken results in greater funding for the Closed Block than if we had used only the most recent year's experience.



For more information on Closed Block assets, see "Unaudited Pro Forma Condensed Consolidated Financial Information—Unaudited Pro Forma Closed Block Information" in Part 2.

Assets included in the Closed Block will consist initially of policy loans, accrued investment income, and premiums due on Closed Block Policies, as well as a large portion of the bonds, mortgage loans and other investments in the Individual Insurance and Annuity ("IIA") segment of Prudential's general account. The bonds, mortgage loans and other investments selected at the Closed Block Funding Date (described below) were a pro rata share of each of the existing assets of the IIA segment, with some exceptions. Certain assets were not selected for the Closed Block (*e.g.*, stock of insurance and investment subsidiaries, some partnership and joint venture interests and assets in default). Also, since it was impractical to select and manage a pro rata share of numerous mortgage pools for the Closed Block, specific mortgage pools were selected in such a way so as to approximately match on a proportional basis the aggregate cash flow patterns over time of all of the mortgage pools in the IIA segment. Subsequently, the Closed Block will also include assets derived from the reinvestment of cash flows resulting from these investments and from the Closed Block Policies. The Plan includes standards for the investment of Closed Block assets, namely, that they be managed in the aggregate to seek a high level of return consistent with the preservation of principal and equity and to reflect the Closed Block's duration and its ability to take risks consistent with the nature of the Closed Block and the investment objectives for it.

The amount of assets used to fund the Closed Block was initially determined on July 1, 2000 (the "Closed Block Funding Date") based on Closed Block Policies that were in force on that date. The amount of assets used to fund the Closed Block on the Closed Block Funding Date was \$48.7 billion. Because the Closed Block includes policies issued up to the Effective Date of the Plan (and in some instances after the Effective Date), the initial funding will be adjusted slightly to take account of Closed Block Policies issued on and after July 1, 2000. The funding at the time of the Effective Date will reflect other components of experience of the Closed Block after the Closed Block Funding Date. These adjustments will have no effect on the ability of the Closed Block to achieve its purpose. The initial amount of assets for the Closed Block will be less than the amount of liabilities Prudential carries on its balance sheet for the Closed Block Policies. The differential relates to the fact that because the laws, regulations and accounting standards governing the calculation of these liabilities for balance sheet purposes generally require that conservative assumptions and methods be used, the actual cost of fulfilling all obligations with respect to Closed Block Policies, including future policy dividends, is expected to be less than the amount currently set as a liability. Funding the Closed Block on this basis is consistent with the funding of closed

blocks established in connection with the demutualizations of other life insurers in the United States. Moreover, we expect that in our case the ratio of assets to liabilities for Closed Block Policies will be higher than in any prior demutualization of a major U.S. life insurer.

The New Jersey Demutualization Law requires us to obtain the certification of a qualified and independent actuary with respect to the reasonableness and sufficiency of the assets allocated to the Closed Block. Our independent consulting actuary, Daniel J. McCarthy, M.A.A.A., of Milliman & Robertson, Inc., rendered an opinion to our board of directors certifying that the assets that have been allocated to the Closed Block are in an amount expected to be reasonably sufficient to meet the objective of supporting the Closed Block Policies and providing for the continuation of dividend scales in effect on December 15, 2000 (the Board Adoption Date) if the experience underlying those scales continues. This opinion is included in “Financial Information and Outside Advisor Opinions” found at the end of Part 1. The Plan requires this opinion to be confirmed as of the Effective Date for the Plan to become effective. The New Jersey Demutualization Law also requires a certification by an independent actuary appointed by the Commissioner. The Commissioner has retained Charles Carroll, M.A.A.A., of Ernst & Young, L.L.P., to provide an actuarial certification addressing this subject.



Our independent consulting actuary has certified as to the reasonableness and sufficiency of the assets allocated to the Closed Block.

### OPERATION OF THE CLOSED BLOCK

The Closed Block will be operated for the benefit of the Closed Block Policies, as described in the Plan and the Closed Block Memorandum, which is attached to the Plan as Exhibit G and included in this Part 1 in summary form. So long as the Closed Block is in effect, the assets allocated to the Closed Block, the cash flows from those assets and the revenues on Closed Block Policies cannot be used for any purpose other than the payment of benefits on Closed Block Policies (including policy dividends) and some administrative expenses and taxes, except in the unlikely event that Prudential Insurance were to be required to use Closed Block assets to pay guaranteed benefits on policies not included in the Closed Block because poor results from business operations outside of the Closed Block completely deplete Prudential Insurance’s surplus. Assets set aside for the Closed Block remain assets of Prudential Insurance’s general account. The establishment of the Closed Block would not affect the priority of the claims of policyholders of Closed Block Policies in relation to the claims of all other policyholders and creditors of Prudential Insurance in the event of liquidation or rehabilitation due to the insolvency of Prudential Insurance.



The Closed Block assets will be assets of Prudential Insurance and would be available, along with Prudential Insurance’s other general assets, to satisfy the claims of all of the company’s policyholders and creditors should the need ever arise.

As described below, however, there are limited situations where assets allocated to the Closed Block may be transferred outside the Closed Block for other purposes.

Prudential Insurance will pay all guaranteed benefits under all policies, including the Closed Block Policies and policies that are not in the Closed Block, in accordance with the terms of the policies. The existence of the Closed Block will have absolutely no effect on Prudential Insurance’s obligations or Prudential Insurance’s ability to pay guaranteed benefits. If the assets allocated to the Closed Block, the investment cash flows from those assets and the revenues from the Closed Block Policies were to prove insufficient to pay the guaranteed benefits under Closed Block Policies, Prudential Insurance would make such guaranteed payments from general funds. Prudential Insurance is not required to pay policy dividends on Closed Block Policies from general funds, and the goal in establishing the Closed Block is to provide for policy dividends to be paid from the Closed Block. Prudential Insurance is, however, permitted to pay policy dividends from general funds if it should ever decide to do so.

Premiums received for Closed Block Policies, investment cash flows from the assets allocated to the Closed Block and policy benefits paid on the Closed Block Policies, including policy dividends, will be credited to or charged against the Closed Block, as provided in the Plan and the Closed Block Memorandum. Charges for some specified expenses and taxes will also be charged against the Closed Block, as permitted by the Plan and the New Jersey Demutualization Law. Specifically, Prudential Insurance will charge the Closed Block for federal, state, foreign and local taxes as provided in the Plan and in the Closed Block Memorandum. Prudential Insurance will also charge the Closed Block fees in lieu of internal investment expenses and certain commissions and other expenses of administering the Closed Block Policies. The fees will be charged according to fixed fee schedules for these expenses. If the actual level of expenses is less than the fees specified in the fee schedules, the Closed Block will not benefit from



the lower level of actual expenses. If the actual level of expenses is greater than the fees specified in the schedules, the Closed Block will not be charged with the higher level of actual expenses. Consequently, dividends on Closed Block Policies will not vary in response to changes in the actual level of expenses.

Accordingly, the expenses aspect of the dividend calculation will be different after the Closed Block is established. As a result, Closed Block policyholders will not benefit from expense reductions that might occur in the future, but the Closed Block also will not bear the risk of any increases in expenses.

In the past, we have made adjustments to the detailed calculations used to set our dividend scales with an emphasis on maintaining relative stability in the scales over time. Following the demutualization and establishment of the Closed Block, Prudential Insurance expects to continue to make reasonable efforts to stabilize the scales over time, but it is extremely unlikely that in the future Prudential Insurance will make adjustments that involve applying assets, earnings or experience from outside the Closed Block.



Prudential Insurance may enter into an agreement to transfer to a third party the risks under the Closed Block Policies.

Prudential Insurance may, with the Commissioner's prior consent, enter into one or more agreements to transfer (by reinsurance or other means) to a third party all or any part of the risks under the Closed Block Policies and assets supporting risks in the Closed Block.

Prudential Insurance is authorized to reallocate, exchange or transfer assets between the Closed Block and the company's general account or any of its affiliates if such transactions benefit the Closed Block, are consistent with the investment policy and objectives for the Closed Block, are executed at demonstrable fair market value, and do not exceed in any calendar year 10% of the value of the invested assets of the Closed Block at the beginning of that year. Exchanges and transfers between the Closed Block and the general account or between the Closed Block and affiliates of Prudential Insurance may also be made with the Commissioner's approval.

Just as policy dividends are set every year by our board of directors, after demutualization, policy dividends on the Closed Block Policies will be set every year by the board of directors of Prudential Insurance.



The Closed Block could last more than 100 years unless dissolved earlier with the Commissioner's consent.

Prudential Insurance may amend the terms of the Closed Block with the prior approval of the Commissioner. The Closed Block will continue in effect until either (1) the last policy in the Closed Block terminates or (2) the Closed Block is dissolved, which cannot be done without the Commissioner's prior approval. If the Closed Block is dissolved, Prudential Insurance will remain responsible for paying all benefits and dividends on these policies, and the Closed Block assets will become part of Prudential Insurance's general funds.

### **OUR DIVIDEND PHILOSOPHY AND THE YEAR 2000 DIVIDEND SCALES**

As a mutual insurer, our dividend philosophy is to pay dividends as large as conditions warrant while maintaining an appropriate amount of surplus. It has been our practice to pay dividends to owners of policies entitled to receive them based on the experience of the corresponding line of business. For example, dividends for individual life insurance policies have been paid based on the experience of the individual life insurance business. We have not historically (with very few exceptions) used earnings from other businesses to pay individual life insurance policy or annuity contract dividends, and demutualization makes that possibility even more unlikely.

After the demutualization and establishment of the Closed Block, our dividend philosophy will be to pay dividends as appropriate over time so as to reflect the underlying experience of the Closed Block and with the objective of managing aggregate dividends so as to exhaust Closed Block assets when the last Closed Block Policy terminates, while avoiding an outcome where the relatively few last surviving owners of Closed Block Policies receive dividends that are substantially higher or lower than those previously received by other owners of Closed Block Policies.

In setting the dividend scales for the year 2000, we used the same process and methodology that we would have used if we were not about to demutualize. Because this process and methodology has evolved over time, the specific details of any given

year's dividend scale calculations could differ in some respects from the details in prior or subsequent years.

The dividend scales for Closed Block Policies will be adjusted in the future if the experience underlying those scales changes. Actual cash flows from the assets allocated to the Closed Block and other experience relating to the Closed Block Policies, in the aggregate, may turn out to be more favorable than we assumed in setting up the Closed Block. In that case, total policy dividends that are paid to Closed Block policyholders in future years will be greater than those that we would have paid if we had continued the policy dividend scales payable in 2000 without adjustment. Similarly, to the extent that cash flows and other experience from Closed Block assets and Closed Block Policies turn out to be, in the aggregate, less favorable than we assumed in setting up the Closed Block, total policy dividends that we pay to Closed Block policyholders in future years will likely be less than we would have paid if we had continued the policy dividend scales payable in 2000.

The Closed Block is designed to provide for policyholders' reasonable dividend expectations, but does not guarantee any particular dividend or any dividend at all. The establishment of the Closed Block will not prevent reductions (or increases) in dividends that could have occurred even if Prudential had remained a mutual company. Dividends depend on future financial experience, and if that experience changes, then dividends will change in the future. For example, future rates of investment return, including capital gains, may be lower than the average rates used in setting dividend levels during 1997-2000, particularly because it is not likely that the level of capital gains realized in the last several years will continue in the future, especially in light of current weak equity securities market conditions. Similarly, gains from miscellaneous benefits, such as waiver of premium or accidental death benefit riders, are not likely to emerge in the future at the level reflected in the dividend scales for 1997-2000. If this were to happen, dividends may be reduced in the future. Such a reduction could have occurred even if Prudential had remained a mutual company. In addition, if other aspects of future financial results, such as mortality or persistency, are less favorable in the future than was reflected in setting dividend levels during 1997-2000, dividends may be reduced in the future. On the other hand, if the aggregate effect of these and other elements of financial experience is more favorable in the future, future dividends may be increased.

#### **MONITORING THE CLOSED BLOCK AFTER THE DEMUTUALIZATION**

The Plan requires Prudential Insurance to provide the Commissioner each year with certain financial information relating to the Closed Block. In particular, Prudential Insurance must prepare a balance sheet, an income statement, a statement of cash flows and certain schedules with details on investments as if the Closed Block were a separate entity. The balance sheet, income statement and statement of cash flows must be supported by an attestation report prepared by a firm of independent public accountants. Prudential Insurance must also engage a firm of independent public accountants to report the results of procedures designed to test Prudential Insurance's compliance with the Closed Block's cash flow provisions. These reporting obligations are to remain in effect for as long as the Commissioner requires.

In addition, Prudential Insurance will be required once every five years to hire an independent actuary who is a member of the American Academy of Actuaries to prepare and submit to the Commissioner a report regarding the operations of the Closed Block.

#### **POLICY DIVIDENDS ON CLOSED BLOCK POLICIES WILL NOT BE AFFECTED BY THE CLASS B STOCK AND THE IHC DEBT SECURITIES**

As discussed previously, if we complete the private placement of shares of Class B Stock, these securities are expected to reflect the financial performance of the Closed Block Business. In addition, if we issue the IHC debt securities, interest and principal on these debt securities are expected to be paid from the Closed Block Business, but not from assets that are contained within the Closed Block. No assets included within the Closed Block will be used to pay dividends on the Class B Stock or to make any payments on the IHC debt securities. Also, the proceeds of the sale of the Class B Stock and the IHC debt securities will not be allocated to or included in the Closed Block. The sales of these securities will have no effect on the Closed Block Policies or the policy dividends on such policies.



As always, policy dividends may vary from year to year and could increase or decrease.



For more information about the Closed Block, see Article IX of the Plan and the Summary of Exhibit G to the Plan beginning on page 114.



For more information on these private placements and an explanation of the term "Closed Block Business", see "The Plan Permits Issuance of Class B Stock and IHC Debt Securities and Other Capital Raising Transactions" beginning on page 35 and "Demutualization and Related Transactions—Related Transactions—Class B Stock and IHC Debt Issuances" in Part 2.



### ARRANGEMENTS FOR SOME POLICIES THAT ARE NOT IN THE CLOSED BLOCKS

For some of the individual policies and annuity contracts that have not been included in the closed blocks, the Plan includes other arrangements to provide for the reasonable expectations of these policyholders with respect to their dividends or other non-guaranteed elements.

The Plan provides that the year 2000 dividend scales for individual disability income and daily income hospital policies will continue unless regulatory approval is obtained to change them.

The Plan also provides for the calculation of a minimum interest rate (based on a specified index) to be paid with respect to supplementary contracts that, consistent with Prudential's normal dividend practices, would receive dividends in the form of excess interest during 2000. Interest paid after the Effective Date with respect to Alliance Accounts will not be less than the rate paid for comparable supplementary contracts (*i.e.*, those that pay only interest on the balance maintained with the company).

Some insurance policies and annuity contracts allow for specified contract charges and credits to be changed while the policy or contract is in force. We refer to these contract features as "non-guaranteed elements". Examples of non-guaranteed elements are current cost of insurance rates, current interest rates, current expense charges and current premiums in the case of indeterminate premium policies. The amounts paid by us as annual dividends with respect to life insurance policies marketed under the name "Life Builder" and termination dividends paid with respect to life insurance policies marketed under the name "Life Builder", "Appreciable Life", and "Variable Appreciable Life" are considered for purposes of the Plan to be "**Flexible Factors**" and are subject to the Flexible Factor Requirements discussed below.



For more information on the Flexible Factor Requirements and Annuity Crediting Rate Requirements, see Exhibits I and J to the Plan beginning on pages 118 and 121, respectively.

The Plan includes Flexible Factor Requirements and Annuity Crediting Rate Requirements that are designed to provide for the reasonable expectations of policyholders with respect to non-guaranteed elements. Under the Flexible Factor Requirements, the Commissioner may disapprove some practices of Prudential Insurance and its Designated Subsidiaries that result in changes in non-guaranteed elements (as described below) if there is an increase in the insurer's profit factor, and the use of the non-guaranteed element involves a change that is based on actuarial assumptions that are unreasonable or otherwise contrary to law. Under the Annuity Crediting Rate Requirements, the Commissioner may disapprove, on the same grounds, crediting rates that are below a pre-set floor.

The Flexible Factor Requirements will apply to changes in the non-guaranteed elements or in the formulas used to set amounts with respect to such elements for "Flexible Factor Policies" that are in force on the Effective Date. "Flexible Factor Policies" are the Prudential and Designated Subsidiary individual life insurance products that are listed in the Requirements. For each of these products, Prudential or a Designated Subsidiary has reserved the right to modify (upward or downward) the Flexible Factors on the basis of future anticipated or emerging experience. The list of products in the Requirements does not include group policies, life insurance policies designed for the corporate market or products introduced by Prudential or a Designated Subsidiary in anticipation of our becoming a stock company owned by shareholders. For the policies that were not included, we determined either that policyholders would have no reasonable expectations, that we would manage non-guaranteed elements consistent with the principle of mutuality or that competitive market pressures would provide adequate incentives for appropriate management of the products.

The Annuity Crediting Rate Requirements will apply to individual annuity contracts listed in the Requirements that are in force on the Effective Date. The Requirements will apply to the interest rates credited on "Covered Account Values". Covered Account Values are the account values that are attributable to deposits or transfers that occurred prior to the Effective Date and are still within the surrender charge period. The Requirements will not apply to account values held in an annuity contract that are subject to a market value adjustment (MVA). The Requirements also will not apply to annuity contracts which require the insurer to set crediting rates at least equal to the rates credited to new annuity considerations or deposits received by the company. Under the Requirements, we (and the Designated Subsidiaries) must set the rates each year. We must compare the new rate with a base crediting rate. The base crediting rate is a minimum rate based on indices designed to reflect existing rates adjusted either

upwards or downwards to take into account new money rates. If the new rate is less than the base crediting rate, we must, before charging the new rate, notify the Commissioner, who may disapprove it.

### **THERE WILL BE A SEPARATE CLOSED BLOCK FOR CANADIAN POLICIES**

We will also establish a separate closed block for the benefit of the owners of participating individual life insurance policies issued through our Canadian branch that remain in force on our records and have not been assumed by London Life. The reasons we are using a separate closed block are to maintain consistency with the way we have managed the U.S. and Canadian blocks of business separately in the past for pricing and dividend purposes and to simplify the implementation details related to the funding calculations and cash flow tracking for the respective groups of policies. We will otherwise operate this Canadian closed block, which will be much smaller in size, because of the substantially smaller number of outstanding Canadian policies, in a similar manner to the U.S. Closed Block. However, the Canadian closed block will not be reflected with the U.S. Closed Block in our financial statements and will not be considered part of the Closed Block Business. To calculate the amount of assets to be set aside to fund the closed blocks, we identified the experience underlying the 2000 dividend scales for the U.S. and Canadian closed blocks. The method for measuring the experience underlying the 2000 dividend scales differs for the U.S. and Canadian closed blocks.

Our independent consulting actuary, Daniel J. McCarthy, M.A.A.A., of Milliman & Robertson, Inc., has certified in his opinion that the assets that have been allocated to the Canadian closed block are expected to be reasonably sufficient to meet the objective of supporting the policies included in it and providing for the continuation of dividend scales in effect on December 15, 2000 (the Board Adoption Date) if the experience underlying those scales continues. This opinion is included in “Financial Information and Outside Advisor Opinions” found at the end of Part 1.

## **Demutualization Cannot Occur Unless Policyholders Qualified to Vote Approve It**

For demutualization to occur, the Plan must be approved by Prudential’s policyholders who are qualified to vote on it. The vote on approval of the Plan will be a vote on the Plan in its entirety and not separately on specific components of the Plan. The New Jersey Demutualization Law requires that a minimum of one million policyholders who are qualified to vote on the Plan actually vote. For the Plan to be approved, at least two-thirds of the votes cast by those policyholders qualified to vote must be voted YES in favor of approval of the Plan.

### **QUALIFICATION TO VOTE**

You are qualified to vote on the Plan if you met both of the following requirements on December 15, 2000 (the Board Adoption Date), which is the record date for the purpose of being qualified to vote on the Plan:

- you were the legal owner of at least one policy issued by Prudential that was in force on and for at least one year prior to that date; and
- you were at least 18 years old.

If, according to our records, you do not meet these criteria, your voting card (Card 1) will tell you that you cannot vote.

### **HOW TO VOTE**

You can vote on approval of the Plan by mail by returning your voting card (Card 1) to us in the postage-prepaid envelope, by telephone at 1-800-243-1701 (for U.S. policyholders) and 1-800-519-1339 (for Canadian policyholders), by the Internet at [www.prudential.com](http://www.prudential.com) or in person at the Policyholders’ Meeting. For more information on how to vote, please see the instructions on your voting card (Card 1) and in the Voting Guide. If you intend to vote in person at the Policyholders’ Meeting, please see the Notice of the Policyholders’ Meeting on page ix for more information.

We strongly urge you to vote. Your completed voting card (Card 1), telephone vote, Internet vote or vote at the Policyholders’ Meeting must be received by us by 4:00 p.m.,



For a more detailed description of the Canadian closed block, see the Summary of Exhibit H to the Plan beginning on page 116.



It is important for you to vote by returning Card 1, or you can vote by telephone, Internet or in person. If we do not get enough YES votes in favor of approving the Plan, we cannot demutualize.

Eastern Time, on July 31, 2001, to be counted. You can change your vote by any of the same methods up to the same deadline.

For the Plan to be approved, at least two-thirds of the votes finally cast by policyholders qualified to vote must be voted YES in favor of approving the Plan. If this does not happen, the demutualization cannot occur. In that case, Prudential policyholders will keep their membership interests in Prudential, but they will not receive the shares of stock of Prudential Financial, Inc., cash or policy credits described in this Part 1. If the demutualization does occur, eligible policyholders will receive compensation regardless of whether they voted YES or NO, or did not vote, on the Plan.

A qualified voter generally is entitled to one vote regardless of the number or value of the policies owned. If more than one person owns a policy, they are considered together to be one owner and to be qualified to cast jointly one vote if they are qualified to vote. However, if you own policies in more than one legal capacity (for example, if you own one policy as an individual and you own another as trustee for one or more insureds), you may vote in each such capacity. If you are qualified to vote in more than one legal capacity, you should have received a separate package of materials (with a separate voting card) for each legal capacity in which you own a policy. If more than one of the voting cards you received indicates that you are qualified to vote, you may cast a separate vote with each such card, and we urge you to do so. Please contact us if you did not receive all the packages you believe you should have received.

### **OTHER IMPORTANT MATTERS REGARDING THE VOTE**

The Policyholders' Meeting and the process of voting on the proposal to approve the Plan will be conducted according to rules that have been promulgated by the Commissioner to govern the procedures for the conduct of voting on the Plan. In addition, we have set up procedures to resolve inquiries or disputes regarding whether you are qualified to vote on the Plan or are eligible to participate in the demutualization. The voting rules prescribed by the Commissioner and the procedures to resolve inquiries are included in the public record for the hearing on the Plan maintained by the Commissioner. You may view these items or obtain copies of them by visiting our offices or by contacting us. For how to reach us, see "Additional Information and Assistance" at the bottom of page i.

After our policyholders vote, we will provide the Commissioner with a certification of their approval or disapproval of the Plan, specifying the numbers of YES and NO votes.

### **SOME POLICYHOLDERS COULD BE ELIGIBLE FOR COMPENSATION, BUT NOT QUALIFIED TO VOTE**

Under the New Jersey Demutualization Law and, therefore, the Plan, policyholders who are qualified to vote on the Plan are not defined in precisely the same way as policyholders who are eligible to receive demutualization compensation. Consequently, it is possible that you could be eligible to receive compensation, but not be qualified to vote on the Plan. Unless you hold another Prudential policy that qualifies you to vote, you will not be qualified to vote on the Plan if:

- your policy was issued by any of our subsidiaries, including a Designated Subsidiary;
- you are the holder of a Transferred Canadian Policy;
- you are the holder of a Rewritten Health Policy;
- you are a participating employer or an individual participating in the group, as the case may be, in a group policy held by a trust established by us and you are deemed under Section 5.4 of the Plan to be the owner of a policy for the purpose of receiving compensation under the Plan;
- you are the holder of a policy issued by another insurance company that is reinsured by us, *i.e.*, ceded to us, on an indemnity reinsurance basis;
- you were under 18 years of age on December 15, 2000 (the Board Adoption Date); or
- you did not have at least one policy that had been in force for at least one year prior to December 15, 2000 (the Board Adoption Date).

In addition, if you are an ADR Claimant who, as part of the demutualization, fulfills the requirements to repurchase a policy within 45 days after the date of the letter informing

you of the requirements to repurchase coverage, you will be deemed an eligible policyholder for receipt of compensation but will not be qualified to vote on the Plan.

Finally, neither Prudential itself nor any of Prudential's affiliate companies will be qualified to vote on the Plan as owners of Prudential policies except in those situations where Prudential or an affiliate is acting in a fiduciary capacity, such as for an employee welfare or benefit plan. Where Prudential or a Prudential affiliate would otherwise be eligible to vote because it serves as custodian of an individual annuity contract (such as a Roth IRA), Prudential or the affiliate, as the case may be, will refrain from voting.

## Steps Remaining to Complete Demutualization

For our demutualization to occur:

- The Commissioner must hold a public hearing.
- A minimum of one million policyholders who are qualified to vote on the Plan must vote. At least two-thirds of the votes cast by policyholders qualified to vote must be YES in favor of approval of the Plan for the Plan to be approved.
- The Commissioner must issue a final order approving the Plan, any other governmental consents or approvals necessary for the completion of the demutualization must have been received, and there must be no order or other legal restraint in effect that would prohibit the demutualization.
- We must obtain IRS rulings or opinions of nationally recognized independent tax counsel regarding certain tax matters.
- We must obtain the U.S. Department of Labor **prohibited transaction** exemption or an opinion of a nationally recognized independent ERISA counsel that we will obtain the prohibited transaction exemption.
- We must obtain one or more no-action letters from the SEC or opinions from legal counsel regarding matters under the federal securities laws.
- The fairness opinion addressed to the board of directors by J.P. Morgan Securities Inc. must be confirmed as of the Effective Date.
- A qualified, nationally recognized investment banker, which we expect will be J.P. Morgan Securities Inc., must deliver the opinion concerning the conduct of the IPO, and we must provide a copy to the Commissioner.
- The actuarial certifications addressed to the board of directors by Daniel J. McCarthy, M.A.A.A., of Milliman & Robertson, Inc., must each be confirmed by him in writing as of the Effective Date. If the methodology and assumptions used to allocate compensation among eligible policyholders have changed since the original date of the certification, the confirming certification must describe the changes and the reasons for the changes. The confirmation regarding the closed blocks will consist of a statement that, to the best of his knowledge and belief as of the Effective Date, the prior certifications regarding the adequacy and sufficiency of the closed blocks assets are still accurate or, if they are not still accurate, a description of the circumstances that have given rise to any inaccuracy and steps taken to correct it.
- We must arrange for the registration of Prudential Financial, Inc. stock and for the public trading of Prudential Financial, Inc. stock under the federal securities laws.
- We must file with the Commissioner a certificate stating that all conditions to effectiveness of the Plan have been satisfied and any conditions imposed by the Commissioner prior to effectiveness of the Plan have been complied with and the board of directors has not abandoned or further amended the Plan.

Once all of the conditions have been met, the Plan will become effective on the Effective Date. At present, we expect the Effective Date to occur during the fourth quarter of 2001.

### THERE MUST BE A PUBLIC HEARING

The New Jersey Demutualization Law requires the Commissioner to hold a public hearing on the Plan. The public hearing will take place at the War Memorial, 200 Barrack and West Lafayette Streets, Trenton, New Jersey, beginning at 10:00 a.m., Eastern Time,



For more information, see the Notice of Public Hearing that appears earlier in Part 1 at page vii.

on July 17, 2001. It is possible that the hearing could continue for an additional day or days either immediately following this initial date or sometime shortly thereafter.

### THE COMMISSIONER MUST RULE ON THE PLAN

The New Jersey Demutualization Law requires that following the Policyholders' Meeting to vote on the Plan and within 45 days after the record of the public hearing is closed, the Commissioner must approve the Plan upon finding that: (1) Prudential's application to the Commissioner for approval of the Plan conforms to the requirements of Section 4 of the New Jersey Demutualization Law; (2) the Plan is fair and equitable to Prudential's policyholders; (3) the Plan promotes the best interest of Prudential and its policyholders; (4) the Plan provides for the enhancement of Prudential Insurance's operations; (5) the Plan is not contrary to law; (6) the Plan is not detrimental to the public; and (7) after giving effect to the reorganization, Prudential Insurance will have an amount of capital and surplus the Commissioner deems to be reasonably necessary for its future solvency.

"Fair and equitable" as used in (2) above is specifically defined in the New Jersey Demutualization Law. It means that any action undertaken with respect to the Plan must be one that provides "for full and proper consideration of the aggregate membership interests and corresponding values of eligible policyholders, in no manner discriminates improperly among eligible policyholders and appropriately protects the interests of eligible policyholders before and subsequent to the reorganization[.]"

### WE CAN MODIFY, AMEND OR WITHDRAW THE PLAN

We can, at any time prior to, on or after the Effective Date of the Plan, make modifications to the Plan to correct errors, clarify existing items or make additions to correct manifest omissions in the Plan. Such modifications made after filing the application for approval of the Plan, which occurred March 14, 2001, are subject to the Commissioner's prior approval. Approval of our policyholders, Prudential Financial, Inc. shareholders and the boards of directors of Prudential or Prudential Financial, Inc., as applicable, will not be required for these modifications except as otherwise required under applicable law. Prudential Financial, Inc. may issue additional shares of stock and take any other action it deems appropriate to remedy errors or miscalculations or to take account of other changes made in connection with the Plan.

We can, by action of not less than three-quarters of the board and upon prior written notice to the Commissioner, abandon or amend the Plan (including without limitation the exhibits and schedules); however, if the Commissioner determines that a proposed amendment to the Plan made after the public hearing is materially disadvantageous to any of our policyholders, the amendment cannot become effective without a further public hearing on the Plan as amended.



For more information on this program, see "Prudential Financial, Inc. Shareholders Owning 99 or Fewer Shares of Prudential Financial, Inc. Stock May Participate in the Commission-Free Sales and Purchases Program" beginning on page 55 and the Summary of Exhibit L beginning on page 123.

The Commission-Free Sales and Purchases Program Memorandum (Exhibit L to the Plan) may be amended by Prudential Financial, Inc. at any time. Any amendment will be subject to the prior approval of the Commissioner for one year following the Effective Date of the Plan. If the Commissioner approves such an amendment, Prudential Financial, Inc. will have its **Transfer Agent** notify eligible policyholders entitled to participate in the program of the amendment as promptly as practicable. Prudential Financial, Inc. may amend the Commission-Free Sales and Purchases Program Memorandum at any time after the first anniversary of the Effective Date without Commissioner approval, although any such amendment will not be effective until eligible policyholders entitled to participate in the program are provided written notice of the amendment.

Also, the certificate of incorporation of Prudential Financial, Inc., which is an exhibit to the Plan, may be changed, without approval by the Commissioner or policyholders, to authorize a greater number of shares of stock in order to implement this Plan or to authorize preferred stock. Furthermore, the amended and restated certificate of incorporation and amended and restated by-laws of Prudential Financial, Inc. and the amended and restated charter and amended and restated by-laws of Prudential Insurance may be amended from time to time after the Effective Date under applicable law.

Even after modifications or amendments to the Plan, the Board Adoption Date is and shall remain December 15, 2000. All modifications and amendments to the Plan relate back to and are considered to take effect as of the Board Adoption Date for purposes of the Plan.



## YOU WILL NOT RECEIVE YOUR COMPENSATION UNTIL AFTER THE EFFECTIVE DATE

If the Plan becomes effective, eligible policyholders will receive their compensation as follows:

- If you are receiving shares of Prudential Financial, Inc. stock, your stock will be issued to you after the Plan becomes effective. We expect to notify you within 45 days after the Effective Date of the Plan that your stock has been issued to you, but you will not receive a stock certificate at that time. Rather than sending you a stock certificate, Prudential Financial, Inc. will reflect your ownership of stock on its records and you will receive a confirmation of the number of shares you own. You will not be able to sell your shares of stock until you receive this confirmation. After you receive this confirmation, you will be able to contact our Transfer Agent as directed in the information that accompanies the confirmation if you want a stock certificate or if you want to move your shares to a brokerage account. If you will own 99 or fewer shares of Prudential Financial, Inc. stock, you may participate in the Commission-Free Sales and Purchases Program. It will be easier to participate in the Commission-Free Sales and Purchases Program or to sell your shares through a broker if you do not receive a stock certificate because you will not have to make arrangements for surrendering your stock certificate.
- If you are receiving cash, we plan to send you a check within 45 days after the expiration of the Top-Up Period, *i.e.*, the first 20 trading days for Prudential Financial, Inc. stock on the primary exchange where it is listed. If you are receiving policy credits, we plan to add your policy credits to your policy within the same 45 days, and we will send you a notice when we have done so. If you are receiving cash or policy credits, the check or credits will be in an amount equal to the number of shares allocated to you (including the additional fixed component and any additional variable component of compensation if you are receiving no stock) multiplied by the higher of the IPO price of Prudential Financial, Inc. stock or the Top-Up. In the case of cash, the amount will be minus withholding taxes required by law, if any.

If you are an ADR Claimant who repurchases coverage with us in connection with the demutualization and within the time frame specified, it is possible you will receive your compensation more than 45 days after the Effective Date (or, if your compensation is in cash or policy credits, more than 45 days after the expiration of the Top-Up Period). The reason for this is that ADR Claimants who decide to repurchase their insurance coverage as their form of relief will not be required to complete their repurchase until after the Plan has been approved by policyholders qualified to vote. We will not know how long it will take to implement all of the repurchases and distribute compensation to repurchasing ADR Claimants until we know the number and other details about the repurchase decisions. However, we will process these decisions and distribute this compensation as quickly as practicable.



For more information regarding ADR Claimants, see "Special Provisions for ADR Claimants" beginning on page 58.

## Federal Income Tax, ERISA/Employee Benefit Plan Considerations and Other Considerations for Third Party Owners (such as Life Insurance Trusts and Custodial Arrangements)

### OVERVIEW

The following chart illustrates what we believe are the general U.S. tax consequences of receiving demutualization compensation in the form of shares of stock of Prudential Financial, Inc., cash or policy credits. You should read the more detailed sections that follow for additional information. Also, foreign taxpayers should consult the laws of the countries in which they reside, and group policyholders should consult the Group Guide, which is described in more detail under "Additional Considerations for ERISA and Other Employee Benefit Plan Policyholders and Other Third Party Owners" below. You should also consult your tax advisor regarding the federal, state, local and/or foreign tax consequences of the Plan that may apply to your particular situation and about any changes in tax laws or regulations that might take effect after the date of this Policyholder Information Booklet.



The tax treatment of the compensation you receive depends on the form of the compensation and the type of taxpayer you are.

Our demutualization will not change the tax treatment of your insurance policy or policy benefits, including your policy dividends.



	TAX CONSEQUENCES TO YOU UPON RECEIPT OF COMPENSATION *	SUBSEQUENT TAX CONSEQUENCES TO YOU *
<b>Prudential Financial, Inc. stock</b>	No immediate tax consequences upon the receipt of Prudential Financial, Inc. stock in the demutualization.	If you later sell the stock, you will be taxed on the full amount of the proceeds of that sale. Such proceeds will generally be taxed as a long- or short-term capital gain, depending on the holding period, which will include both the time you held your eligible policy and the time you held your stock. You will be taxed on any cash dividends you receive as an owner of Prudential Financial, Inc. stock.
<b>Cash</b>	Taxed in the year it is made available to you (usually when you receive it)—generally as a long- or short-term capital gain, depending on whether you owned your eligible policy for more than one year at the time the cash is made available to you.	None.
<b>Policy credits</b>	No immediate tax consequences upon the receipt of policy credits in the demutualization. Generally, the receipt of policy credits will not adversely affect the tax-favored status of any contracts.	Policy credits will generally not be taxed until distributed to you from your policy.

\* Exceptions may apply to you. Please consult your tax advisor.



Return to us the taxpayer identification card (Card 2) to avoid tax withholding and IRS penalties. You can return Card 2 to us by mail, or respond by telephone at 1-800-243-1701 or the Internet at [www.prudential.com](http://www.prudential.com).



If you are a Canadian resident, see the discussion on page 52 for more information.

**IMPORTANT NOTE: IF YOU ARE A U.S. TAXPAYER, PLEASE CERTIFY YOUR TAXPAYER IDENTIFICATION NUMBER** (Social Security Number or Employer Identification Number) that is printed on the taxpayer identification card (Card 2) by sending us your taxpayer identification card (Card 2) or responding by telephone at 1-800-243-1701 or by the Internet at [www.prudential.com](http://www.prudential.com). If the number is missing or incorrect, please inform us of the correct number on Card 2, by telephone or the Internet. Please note that all instructions for certifying your taxpayer identification number appear on Card 2. **PLEASE RETURN CARD 2 OR CONTACT US BY TELEPHONE OR THE INTERNET EVEN IF THE NUMBER IS CORRECT. IT IS IMPORTANT THAT YOU COMPLETE, SIGN AND RETURN THE TAXPAYER IDENTIFICATION CARD (CARD 2) OR CONTACT US BY TELEPHONE OR THE INTERNET. IF YOU FAIL TO DO THIS, YOU MAY BE SUBJECT TO A \$50 IRS PENALTY AND WE MAY BE REQUIRED TO WITHHOLD FOR FEDERAL INCOME TAXES AND REMIT TO THE IRS 31% OF ALL CASH PAYMENTS TO YOU, INCLUDING FUTURE DIVIDENDS ON PRUDENTIAL FINANCIAL, INC. STOCK, IF AND WHEN DECLARED.** This 31% withholding is not an additional tax and any amount withheld may be claimed on your federal income tax return as credit against your federal income tax liability for the year. The \$50 IRS penalty may not, however, be claimed as a credit against federal income tax liability. If you are not eligible to complete the taxpayer identification card (generally, if you are not a U.S. citizen or a U.S. resident alien), you may need to complete and return a Form W-8 in order to avoid any U.S. withholding on cash you receive. If our records indicate that you may fall into this category of foreign taxpayers, we have enclosed for your convenience a Form W-8BEN with your package of materials. A different version of this Form W-8 may be required if you are an eligible policyholder that is, for example, a foreign partnership or trust. Please consult your tax advisor to determine which version of the Form W-8 is applicable to you. You can obtain the appropriate Form W-8 at our website, [www.prudential.com](http://www.prudential.com), or from the IRS.

## FEDERAL INCOME TAX CONSEQUENCES TO POLICYHOLDERS

This section discusses generally what we believe, based on the private letter rulings we have received from the IRS and on opinions of our independent tax counsel, to be the principal U.S. federal income tax consequences under current law for eligible policyholders receiving compensation in the demutualization. We have also received opinions from our tax counsel that the following summary of the applicable federal income tax law as in effect on the date of this Policyholder Information Booklet is accurate in all material respects.

The “Special Rules” discussion found later in this section explains whether you may be subject to taxation under one of the special rules applicable to some categories of policyholders. In addition, our additional informational guide, the Group Guide, which was sent separately to group policyholders, contains an expanded discussion of ERISA and related tax rules applicable to group policies held by, or on behalf of, employee benefit plans and arrangements. It is also available on our website at [www.prudential.com](http://www.prudential.com) for you and your tax or benefits advisor to review. We have not addressed how the federal income tax rules affect all of the possible types of eligible policyholders, some of whom may be subject to special rules not discussed here, nor have we addressed state, local or foreign tax consequences, which can vary widely. This discussion is not intended to be tax advice. Please consult your tax advisor to determine the federal, state, local and any applicable foreign tax consequences of the Plan in your particular circumstances, including the effects of any changes in tax laws or regulations after the date of this Policyholder Information Booklet or, as applicable, the Group Guide.

### General Discussion of Tax Rules

#### ***Eligible Policyholders Receiving Prudential Financial, Inc. Stock***

You will not be taxed when you receive Prudential Financial, Inc. stock in the demutualization. However, if you later sell or otherwise dispose of Prudential Financial, Inc. stock you receive in the demutualization in a taxable transaction, you will be taxed on the full amount of the proceeds of that sale or other disposition. The reason for this is that the IRS treats the stock as having a zero basis for tax purposes. The proceeds will generally be taxed as a long- or short-term capital gain, depending on the holding period, which for this purpose includes both the time you held your eligible policy before the demutualization and the time you hold your Prudential Financial, Inc. stock.

#### ***Eligible Policyholders Receiving Cash***

If you receive cash in the demutualization, in general, the full amount is taxable in the year it is received by, or is made available to, you. The payment generally will be taxed as a long- or short-term capital gain, depending on whether you owned your eligible policy for more than one year at the time the cash is made available to you. Most individuals who are U.S. citizens or residents should report the amount of the cash received as gain from “The Prudential Insurance Company of America membership/demutualization” on Schedule D of IRS Form 1040. We will report cash payments to the IRS and to you and withhold any applicable tax payment to the extent required by law.

#### ***Eligible Policyholders Receiving Policy Credits***

The receipt of compensation in the form of policy credits will not (1) adversely affect the tax-favored status of any policies; (2) result in current income or excise taxes for the holders of any policies; or (3) be treated as a contribution or distribution resulting in any penalties for such holders under the Code. If you receive policy credits in the demutualization, their value will not be taxable to you unless or until the amounts are paid out under your policy. The amounts will be taxed at the time of payout in accordance with the Code rules governing the distribution of benefits for tax-qualified plans.

#### ***Other Tax Matters***

The tax treatment of your policy will not be adversely affected. Demutualization will not cause your eligible policy to be considered a newly issued or reissued policy for tax purposes. Therefore, the federal income tax rules that currently determine whether your eligible policy is treated as a life insurance policy or as an annuity contract or as a modified endowment contract, or whether policy loan interest is deductible, will continue to apply after demutualization. If your eligible policy was issued before the effective date of changes in the federal income tax treatment of newly issued policies of



For more information, see “Tax Rulings and Opinions” on page 53 and “Financial Information and Outside Advisor Opinions” beginning on page 125.



For a discussion of the tax consequences of demutualization to Prudential, see “Demutualization and Related Transactions—Federal Income Tax Consequences to Prudential” in Part 2.



Shares of Prudential Financial, Inc. stock are generally not taxed until you sell them. Cash is usually taxable when you receive it. Policy credits will not be taxable until the amounts are paid out under your policy.



The tax treatment of your policy will not be adversely affected.

the same type as your eligible policy, the treatment of your eligible policy under the prior tax law will not be adversely affected by demutualization.

### **Special Rules**

If you are in one of the categories described below, special rules may apply to you and you should consult your tax or benefits advisor about how our demutualization may affect you. In particular, if you are a group policyholder, you may wish to review our Group Guide, which was sent to group policyholders separately.

### **Foreign Taxpayers**

In general, if you are an alien individual (not a U.S. citizen) or other foreign taxpayer, any cash you receive in the demutualization will generally be free from U.S. federal income tax unless you are (1) a U.S. “resident alien” or (2) a non-resident alien individual who is physically present in the U.S. for at least 183 days during the taxable year in which the cash is received by, or made available to, you or (3) you hold your eligible policy in connection with the conduct of a U.S. trade or business. You are considered a U.S. resident alien if you hold a “green card” or satisfy a substantial presence test set forth in Treasury regulations. Except as described in this paragraph, we should not have to withhold any tax from the payment to you if you provide satisfactory evidence of your foreign status by returning an exemption certificate on the appropriate IRS Form W-8 (e.g., W-8 BEN or W-8 IMY). If our records indicate that you may be a foreign taxpayer, we have enclosed for your convenience a Form W-8BEN with your package of materials. If you need to complete a different version of this Form W-8, you can obtain a copy at our website, [www.prudential.com](http://www.prudential.com), or from the IRS. You should consult your tax advisor for special rules that may apply, including the possibility of a refund or credit from the IRS for any amounts withheld.



If you are a Canadian resident, please read these Special Rules and consult your tax advisor.

Canadian Taxpayers: If you are a Canadian policyholder and a resident of Canada for tax purposes, the cash payment you receive as part of the demutualization will generally be taxed by Canada as a dividend from a taxable Canadian corporation in the year you receive it. Therefore, if you are an individual who is a resident of Canada for tax purposes, you will generally be required to include 125% of your cash payment in taxable income for Canadian federal income tax purposes and generally will be entitled to a tax credit equal to a certain percentage of that amount. You will receive an information return from us setting forth the taxable amount of such payment and the amount of the tax credit. You should consult your Canadian tax advisor to determine your actual tax consequences in view of your particular situation, including applicable provincial income tax consequences.

The receipt of a cash payment will increase your income. This may reduce your entitlement (or that of your dependents) to income-based social benefits. Such benefits may include Guaranteed Income Supplement, Old Age Security, provincial public drug plans, provincial long-term care and home care programs, and other similar programs. If you are concerned that your eligibility or entitlement under a social benefits program may be affected by the receipt of a cash payment, you should contact the federal or provincial government agency which administers the program for more details.

### **Qualified Pension and Profit-Sharing Trusts**

Generally, the receipt of compensation by a qualified pension or profit-sharing trust will be tax-free.

### **Non-Trusteed Pension and Profit-Sharing Plans**

If you are an employer that owns a policy to fund a pension or profit-sharing plan subject to Section 401(a) or 403(a) of the Code and you do not hold the eligible policy through a trust, your direct receipt of Prudential Financial, Inc. stock or cash with respect to that policy could result in severe adverse tax consequences to you unless you take action to protect yourself. To avoid these consequences, you may wish to set up a trust prior to demutualization to hold both the policy and the Prudential Financial, Inc. stock or cash you may receive, or to make other appropriate arrangements to hold the compensation for the benefit of the plan. The Group Guide explains these requirements, as well as some alternatives, in greater detail. You should consult your tax or benefits advisor for details of the options available to you.

### **Welfare Benefit Funds and Welfare Benefit Plans**

If you are an employer that owns a policy on behalf of a welfare benefit fund, which includes “voluntary employee beneficiary associations” (“VEBAs”) subject to the requirements of Code Section 501(c)(9) and other arrangements described under Code

Section 419(e), your direct receipt of Prudential Financial, Inc. stock or cash with respect to that policy could result in severe adverse tax consequences. To avoid such consequences, you may wish to set up a trust prior to demutualization to hold both the policy and the Prudential Financial, Inc. stock or cash you may receive, or to make other appropriate arrangements to hold the compensation for the benefit of the plan. The Group Guide explains these requirements, as well as some alternatives, in greater detail. You should consult your tax or benefits advisor for details of the options available to you.

### **Third Party Ownership Arrangements**

If your policy is owned by a third party, such as by an irrevocable life insurance trust, a revocable or “living” trust or a custodian on behalf of a minor or in connection with split dollar arrangements, the receipt of cash by the third party owner may generate unanticipated income tax and tax return filing requirements or may require fiduciary action in accordance with the governing documents applicable to the third party arrangement. For example, for federal income tax purposes, it is possible that any income could flow through to a taxpayer other than the third party owner. Additionally, for example, the trustee or fiduciary of a trust or custodial arrangement may need to determine whether the governing documents permit the ownership of stock. Please consult your tax advisor to determine the tax and other consequences in your particular circumstances.



Third party ownership arrangements (such as life insurance trusts and custodial and other arrangements) may become subject to unanticipated income tax and fiduciary obligations. Please read these “Special Rules” and consult your tax advisor.

### **Tax Rulings and Opinions**

Under the Plan, IRS rulings or opinions of tax counsel on some matters are required in order for the Plan to become effective. The IRS rulings and tax counsels’ opinions are based on the accuracy of certain representations and undertakings by Prudential; the opinions, representations and undertakings are all made as of the date of this Policyholder Information Booklet. You should bear in mind that opinions of tax counsel are not binding on the IRS or the courts.

We have received private letter rulings dated April 26, 2000 and June 12, 2000 from the IRS substantially to the effect that: (1) you will not recognize gain or loss for federal income tax purposes upon your receipt of Prudential Financial, Inc. stock in the demutualization; (2) you will have a zero basis in any Prudential Financial, Inc. stock you receive in the demutualization; (3) the holding period of the Prudential Financial, Inc. stock received by you will include the period during which you held your eligible policy; (4) you will recognize gain in the amount of cash received if you receive cash in the demutualization; (5) policies issued or purchased before the Effective Date will not be treated as new policies for tax purposes as a result of the demutualization; (6) your receipt of policy credits as compensation will not be taxable to you unless or until the amounts are paid out under your policy and will not adversely affect the tax-favored status of your policy; and (7) the conversion of Prudential from a mutual to a stock life insurance company will be a tax-free reorganization under the Code. We have requested a supplemental private letter ruling from the IRS confirming that certain changes that have been made to the proposed demutualization and structure since we have received the ruling letters, such as issuance of the Class B Stock, do not change these rulings.

We have received opinions from our independent tax counsel substantially to the effect that the summary of the principal U.S. federal income tax consequences to eligible policyholders of their receipt of compensation under the Plan that is contained in “Federal Income Tax, ERISA/Employee Benefit Plan Considerations and Other Considerations for Third Party Owners (such as Life Insurance Trusts and Custodial Arrangements)” is accurate in all material respects under the applicable federal income tax law in effect on the date of this Policyholder Information Booklet. In order for the Plan to become effective, independent tax counsel must confirm that this summary remains accurate in all material respects under the tax laws and regulations as they exist on the Effective Date of the Plan.

### **ADDITIONAL CONSIDERATIONS FOR ERISA AND OTHER EMPLOYEE BENEFIT PLAN POLICYHOLDERS AND OTHER THIRD PARTY OWNERS**

Policyholders that act on behalf of employee benefit plans or other third parties may be subject to the requirements of ERISA, the Code or state law. Key decisions by policyholders include:

- whether to vote for, or against, the Plan;
- whether to elect cash or stock, if given the choice under the Plan;

- if receiving stock, whether to hold or sell the stock; and
- whether, and how, to use the compensation under the terms of the benefit plan or other underlying documents.

Importantly, stock of Prudential Financial, Inc., cash or policy credits received upon demutualization by an employee benefit plan subject to ERISA may be considered to be an asset of the benefit plan. Fiduciaries of benefit plans must apply plan assets in a manner consistent with ERISA's fiduciary requirements and may be subject to significant liability if they fail to do so. In addition, ERISA-covered pension and welfare plans must hold assets in trust or qualify for an exception to the trust requirement. The U.S. Department of Labor has issued guidance to Prudential relating to the application of ERISA's trust requirement to the receipt of cash or stock that is a plan asset. The guidance indicates that the U.S. Department of Labor will not assert a violation of ERISA in an enforcement proceeding where plan assets are not held in trust, provided that the plan fiduciary takes specific steps to safeguard the assets of the plan. These steps include: (1) segregating the demutualization compensation in a separate brokerage or interest-bearing account, in the name of the plan, as soon as reasonably possible following the receipt of the amounts; (2) placing the segregated account under the control of a plan fiduciary; (3) ensuring that the amounts are applied to the payment of participant premiums or plan benefit enhancements or distributed to plan participants as soon as possible, but no later than 12 months after receipt; and (4) maintaining records necessary to document the holding and disposition of cash and stock. In order to ensure compliance with the U.S. Department of Labor's guidance, you should review the Group Guide and the U.S. Department of Labor's letter. Both the Group Guide and a copy of the U.S. Department of Labor's letter on this point are posted on our website at [www.prudential.com](http://www.prudential.com).



The Group Guide describes potential issues under ERISA, the Code and other applicable law that group policyholders should consider.

If you are a group policyholder, you should review the Group Guide, which was mailed separately to group policyholders. The Group Guide describes these and other potential issues under ERISA, the Code and state law that group policyholders, whether or not subject to ERISA, should consider. If you are a group policyholder and did not receive the Group Guide in the mail, please contact us as described in the "Additional Information and Assistance" box on page i to request one, or you can review it on our website at [www.prudential.com](http://www.prudential.com). (Please note that similar legal issues may be raised under ERISA, the Code or state law for employee benefit plans that hold one or more individual insurance policies or annuity contracts. Sponsors or fiduciaries of such plans may wish to review the Group Guide, which is available on our website at [www.prudential.com](http://www.prudential.com).) In addition, you should consult your tax or benefits advisor regarding the application of ERISA fiduciary rules and other applicable laws to the receipt and use of compensation upon demutualization.



We have applied to the U.S. Department of Labor for a prohibited transaction exemption.



Please contact us if you wish to receive a copy of the U.S. Department of Labor's Notice of Proposed Exemption when it is published.

### Prohibited Transaction Exemption

Pursuant to the Plan, eligible policyholders will exchange their membership interests in Prudential for stock of Prudential Financial, Inc., cash or policy credits. The receipt of stock of Prudential Financial, Inc., cash or policy credits by eligible policyholders that are employee benefit plans or individual retirement accounts/annuities for which Prudential is a "party in interest" under ERISA or a "disqualified person" under the Code could be viewed as a prohibited transaction under ERISA and the Code. Accordingly, we have applied for an administrative exemption from the U.S. Department of Labor to cover such transactions. (More details are included in the notice of the pending exemption which may be found on page xi of this Part 1.) If we do not receive such exemption by the time of the IPO, the demutualization can, and likely will, proceed on the opinion of counsel that there is no reason to anticipate that the exemption will not be granted in substantially the form requested.



## Other Matters

### **PRUDENTIAL FINANCIAL, INC. SHAREHOLDERS OWNING 99 OR FEWER SHARES OF PRUDENTIAL FINANCIAL, INC. STOCK MAY PARTICIPATE IN THE COMMISSION-FREE SALES AND PURCHASES PROGRAM**

If you receive 99 or fewer shares of Prudential Financial, Inc. stock in the demutualization, you will have the opportunity under the Commission-Free Sales and Purchases Program to sell all (but not less than all) of those shares without paying brokerage commissions or other similar fees. Alternatively, if you receive 99 or fewer shares, you will also have the opportunity to round up your holdings to 100 shares by purchasing additional shares in this Commission-Free Sales and Purchases Program. You are not obliged to participate in the Commission-Free Sales and Purchases Program. In addition to eligible policyholders receiving 99 or fewer shares of stock, this Program will also be available to all other shareholders owning 99 or fewer shares of Prudential Financial, Inc. stock on the Program's record date. You will not be able to use this Program to sell only part of your shares or to purchase fewer shares than needed to round up to 100 shares.

The Commission-Free Sales and Purchases Program will begin no sooner than 90 days after the Effective Date and no later than the second anniversary of the Effective Date of the Plan. When it begins, it will continue for not less than three months. With the prior approval of the Commissioner, Prudential Financial, Inc. may extend the time period for this Program if Prudential Financial, Inc. determines that an extension would be appropriate and in the best interests of Prudential Financial, Inc. and its shareholders. Please also note that Prudential Financial, Inc. may conduct a second and subsequent commission-free sales and purchases programs on a periodic basis and in accordance with the terms of Section 14.1 of the Plan and the Commission-Free Sales and Purchases Program Memorandum and without the approval of the Commissioner.

Sales and purchases under the Commission-Free Sales and Purchases Program will be made at prevailing market prices and without brokerage commissions or similar fees. Like any other shareholder, you also will be able to sell or purchase shares before the Commission-Free Sales and Purchases Program begins, after it ends, or outside the Program during its operation, but you may have to pay commissions or fees associated with those purchases and sales. You will be responsible for the payment of any taxes due as a result of any sale of stock under this Commission-Free Sales and Purchases Program or otherwise. See the preceding section for information on tax consequences.

If you receive 99 or fewer shares of Prudential Financial, Inc. stock, our Transfer Agent, at the time of commencement of the Commission-Free Sales and Purchases Program, will send you a description of the Program, together with a sale/purchase authorization card. Our Transfer Agent will establish a special toll-free telephone number to answer inquiries about the Commission-Free Sales and Purchases Program. You may participate in the Commission-Free Sales and Purchases Program by returning a validly executed authorization card to our Transfer Agent, together with stock certificates representing the shares of Prudential Financial, Inc. stock to be sold (if such shares are not held by our Transfer Agent in book-entry form) or, in the case of a purchase authorization, payment in an amount equal to the number of shares to be purchased to own 100 shares multiplied by an estimated purchase price per share which will be indicated in the description of the Commission-Free Sales and Purchases Program. The precise terms of the Commission-Free Sales and Purchases Program will be subject to various legal requirements, including federal securities laws. Neither Prudential nor the Transfer Agent encourages, recommends or discourages the use of the Commission-Free Sales and Purchases Program.

In addition to the Commission-Free Sales and Purchases Program, we will arrange procedures for you to obtain share certificates from our Transfer Agent or request transfers of your shares from our Transfer Agent to a brokerage account. The confirmation regarding your shares will give you instructions on how to contact the Transfer Agent to do these transactions.



You will not have to pay for the Prudential Financial, Inc. stock you receive under the Plan; however, you will have to pay for any additional shares you want to acquire in the Commission-Free Sales and Purchases Program or otherwise.



For more information on the Commission-Free Sales and Purchases Program, see the Summary of Exhibit L to the Plan beginning on page 123.

**AN INDEPENDENT SALES FACILITY MAY BE AVAILABLE TO ELIGIBLE POLICYHOLDERS RECEIVING SHARES OF PRUDENTIAL FINANCIAL, INC. STOCK**

Also, before the Commission-Free Sales and Purchases Program begins, our Transfer Agent is expected to offer a sales order facility to eligible policyholders that receive 1,000 shares or less of Prudential Financial, Inc. stock in the demutualization. This sales facility would permit such eligible policyholders to sell some or all of their shares at their own expense. The sales facility is designed to assist eligible policyholders who qualify to use it and who do not have a brokerage account to sell their shares. It is not required to be offered and may be terminated at any time.

The package containing the confirmation advising eligible policyholders of the number of shares they have received will include a description from the Transfer Agent of the sales facility, if offered, including the sale process, the required documentation and the fees and expenses charged by the Transfer Agent. No portion of these fees or expenses will be paid to Prudential Financial, Inc. Eligible policyholders should read the description carefully before deciding to sell through the sales facility. The sales facility would not be available to an eligible policyholder until the later of 30 days after the Plan becomes effective or the date on which the eligible policyholder has received confirmation of the number of shares received. Any shares sold through the sales facility would need to be in book-entry (uncertificated) form with the Transfer Agent.

At any time that the Commission-Free Sales and Purchases Program is in effect, the sales facility will not be available to any eligible policyholder holding fewer than 100 shares that is eligible to participate in that Program. Neither Prudential nor the Transfer Agent encourages, recommends or discourages the use of the sales facility.

**PRUDENTIAL FINANCIAL, INC. STOCK WILL BE USED IN COMPENSATION PLANS AND PROGRAMS FOR EMPLOYEES, OFFICERS AND DIRECTORS**

Commencing at the time of demutualization, we intend to use Prudential Financial, Inc. stock and stock options as components of our total compensation package for employees. We believe that doing this will better motivate our workforce to achieve our goal of competing more effectively with our financial services competitors. We also believe this will enable us to compete more successfully in attracting and retaining employees.

We are subject to restrictions in the manner in which we may grant stock options to members of the board of directors, the chairman and chief executive officer, officers and senior officers of Prudential and Prudential Financial, Inc. First, the New Jersey Demutualization Law prohibits any current member of the board of directors of Prudential, including our chairman and chief executive officer, from being included in any grant of Prudential Financial, Inc. stock options that takes effect at the time of demutualization. However, the Plan provides that current members of the board of directors may participate in our stock option plan beginning one year after the Effective Date of the Plan. Second, the Plan further limits our ability to grant stock options to officers of Prudential, as follows. Senior officers of Prudential or their equivalent within an affiliate company are, along with the chairman and chief executive officer, precluded from receiving any grant of stock options under the Stock Option Plan (described in more detail below) for the same one-year period from the Effective Date. Officers of Prudential below the level of senior officers or their equivalent within an affiliate company are also prevented from receiving any grant of stock options for at least 183 days from the Effective Date.

Subject to these general restrictions on the grant of options, the stock-based compensation programs are described below.

**A Stock Option Plan for Employees Will Take Effect at Demutualization**

We have adopted a stock option plan (the “Stock Option Plan”) through which employees, including officers and senior officers, may be eligible for the grant of options to purchase Prudential Financial, Inc. stock at some point in the future at or above the market price on the date the options are granted.

The Stock Option Plan has two components: a stock option program to be known as the “Associates Grant” and an officers stock option program. Options under the two components of the Stock Option Plan are limited to options on no more than 2% of the total number of shares of Prudential Financial, Inc. stock notionally allocable to eligible



We view the opportunity to provide employee stock ownership and incentives through our compensation plans as important to our future success.

policyholders in the demutualization for the Associates Grant and no more than 5% of the total number of shares of Prudential Financial, Inc. stock notionally allocable to eligible policyholders for the officers stock option program. (For purposes of this calculation, these percentages of allocable shares include both the actual shares of Prudential Financial, Inc. stock issued to eligible policyholders and the notional shares of Prudential Financial, Inc. stock being allocated to eligible policyholders who will receive their demutualization compensation in the form of cash or policy credits.) The issuance of options under these programs will not reduce the amount of stock allocated among, or issued to, eligible policyholders in the demutualization.



For information on stock-based plans, also see "Management—Compensation of Directors and Management—Management Compensation—Stock-Based Plans" in Part 2.

### **Individuals Not Eligible for Grants under the Officers Stock Option Program Will Receive a One-Time Grant of Stock Options**

As of the Effective Date, we intend to make the Associates Grant of Prudential Financial, Inc. stock options, in an amount to be determined by Prudential Financial, Inc.'s board of directors (or a committee of the board), to a substantial and broad number of employees of Prudential Financial, Inc. and its affiliates, but not to individuals who are officers or who, due to their positions with Prudential Financial, Inc. or its affiliates, are eligible for consideration for option grants under the officers stock option component of the Stock Option Plan.

The exercise price of the Associates Grant, as for any other grant of options under the Stock Option Plan, is intended to be at least equal to the "fair market value" of Prudential Financial, Inc. stock on the date of grant (generally, the market price for Prudential Financial, Inc. shares trading on the day of the grant). However, if the Associates Grant is made as of the Effective Date of the Plan, the fair market value, for these purposes, will be the IPO price. Subject to continued employment with Prudential Financial, Inc. or one of its affiliates by the individuals participating in the program, these stock options will become exercisable ratably over no longer than a three-year period and will have 10-year maximum terms. The board of directors currently intends to make the Associates Grant on the Effective Date to the full percentage limitation (2%) permitted under the Stock Option Plan.

### **Stock Options Will Replace Cash in Some Compensation Programs**

Under the officers stock option component of the Stock Option Plan, grants of stock options (which may include incentive stock options ("ISOs") as defined under the Code) or stock appreciation rights ("SARs"), in amounts to be determined by Prudential Financial, Inc.'s board of directors (or a committee of the board or an officer), will be made to officers and senior officers of Prudential Financial, Inc. and its affiliates and to other selected individuals as determined by the board of directors (or committee of the board or an officer). The officers stock option program under the Stock Option Plan has two aspects. First, it is ultimately intended to provide for the award of stock options in lieu of all or a portion of cash-based incentive compensation awards now made under Prudential's Long-Term Performance Unit Plan for selected officers of Prudential and individuals now eligible for such awards. However, as noted above, we will defer the adoption of this practice for at least 183 days from the Effective Date of the Plan for otherwise eligible officers of Prudential and its affiliates (and for at least one year from the Effective Date of the Plan for the chairman and chief executive officer and senior officers of Prudential Insurance/Prudential Financial, Inc.). Second, Prudential Financial, Inc.'s board of directors (or a committee of the board or an officer) may make periodic grants of Prudential Financial, Inc. stock options or SARs to select employees to reward significant individual performance, subject to the same restrictions described above.

Approximately six months after the Effective Date of the Plan, it is anticipated that officers and other selected employees will receive stock options. One year after the Effective Date, senior officers will also receive stock options. The exercise price of the officers stock option grants under the Stock Option Plan will be at least equal to the fair market value of Prudential Financial, Inc. stock on the date of grant (generally, the market price for Prudential Financial, Inc. shares trading on the day of the grant). Subject to continued employment with Prudential Financial, Inc. or one of its affiliates by the officers and other selected employees participating in the program, these stock options will become exercisable ratably over no longer than a three-year period and will have 10-year maximum terms.

In the event of a "change of control" of Prudential Financial, Inc., generally any outstanding option or SAR will become immediately exercisable by the holder.

However, the board of directors (or a committee of the board) may provide for the cash-out of such outstanding options in an amount equal to the excess of the “change of control” price for the Prudential Financial, Inc. stock over the exercise price for the option or base price for the SAR. In the absence of a cash-out and provided the successor company satisfies certain requirements, the Stock Option Plan provides for the issuance of an alternative award in lieu of the options and SARs by the participant’s new employer immediately following the change of control.

#### **Stock Will Also Be Substituted for Some Current Cash Obligations**

In addition to the new Stock Option Plan described above, we intend to use Prudential Financial, Inc. stock or deferred stock grants in lieu of our current cash obligations with respect to some employee compensation and benefit programs and some benefits to our non-employee directors, when and to the extent permitted by applicable law, the Plan and the terms of such arrangements. The shares used for these programs will come from treasury shares or open market purchases. On or after the Effective Date, we may substitute Prudential Financial, Inc. stock on a current or deferred basis, as may be appropriate, for (1) all or a portion of our employer matching contributions in our 401(k) plan, and (2) payment of all or a part of outstanding awards, otherwise payable in cash, that mature after the Effective Date of the Plan under pre-existing long-term incentive plans of Prudential, including its business units and affiliates. Participants in our 401(k) plan will also have the opportunity to invest their individual contributions and account balances in Prudential Financial, Inc. stock. Beginning one year after the Effective Date, we may substitute Prudential Financial, Inc. stock on a current or deferred basis, as we consider appropriate, for other bonus and compensation arrangements subject to the terms of the respective plans and applicable law. We may use it to convert the present value of existing, non-employee directors’ retirement benefits to stock-based awards. We may also use such stock to make lump sum stock-based awards to new non-employee directors. Finally, we may use it to replace all or a portion of the annual cash retainers for our non-employee directors. Our ability to make these changes with respect to our directors is subject to the timing restrictions of the New Jersey Demutualization Law and the Plan generally described above.

#### **EMPLOYEES ARE NOT ALLOWED TO RECEIVE SUCCESS FEES**

None of our directors, officers, agents or employees may or will receive any fee, commission or other valuable consideration whatsoever, other than their usual regular salary and compensation, that is contingent upon the Plan becoming approved or effective or that is based upon aiding, promoting or assisting in the approval or effectuation of the Plan. However, those who are themselves eligible policyholders or who are participants in any of our employee benefit plans that are eligible policyholders may receive shares of Prudential Financial, Inc. stock or other compensation distributed to eligible policyholders.

#### **SPECIAL PROVISIONS FOR ADR CLAIMANTS**

In 1995, some policyholders and former policyholders asserted claims against Prudential and its U.S. life insurance subsidiaries in a class action lawsuit. As part of the settlement of that class action, an ADR claims resolution process was instituted whereby claims were evaluated individually and relief was determined accordingly. Some ADR Claimants were awarded choices of relief that depended on the nature of their particular claims and the scores such claims received in the ADR process. Some ADR Claimants chose relief that included rescinding their policies or surrendering their rights to policies that would have been issued or reinstated in other forms of relief that were available to these ADR Claimants. Other ADR Claimants chose a form of relief that did not include rescinding their policies or surrendering their rights to other policies that were made available to them as a relief choice. They chose other forms of relief such as restoring value to a policy or receiving that value in cash.

In April 1998, we made certain commitments concerning our demutualization to ADR Claimants. First, for ADR Claimants who rescinded their policies, or who gave up their right to acquire a policy, as part of the form of ADR relief they chose, we will provide an option to change their form of ADR relief and repurchase their policies. If these ADR Claimants choose to repurchase their coverage and meet the requirements to implement that decision no later than 45 days following the date of the letter explaining such requirements, the policies issued or repurchased will be eligible policies deemed to have been in force as of December 15, 2000 (the Board Adoption Date). These ADR Claimants will be allowed to participate in the demutualization to the same degree as if



For a more extensive description of how the demutualization may impact ADR Claimants, see the ADR Memorandum, beginning on page 108, which is attached as Exhibit E to the Plan.



their policy ownership had been continuous. In addition, any policy issued or reinstated as a result of an initial ADR relief choice implemented after December 15, 2000 (the Board Adoption Date), but prior to the Effective Date will be deemed to be in force as of the Board Adoption Date and the ADR Claimant will be eligible to receive compensation for such a policy.

A second category of ADR Claimants neither rescinded their policies nor surrendered their rights to other policies that were made available to them as a relief choice. Rather, they chose another form of relief such as restoring value to a policy or receiving that value in cash. As described in the ADR Memorandum, our commitment to ADR Claimants in this situation is that they will receive the same overall financial results regardless of which form of ADR relief they chose.

This Policyholder Information Booklet is being sent to each ADR Claimant who is eligible to change his or her form of ADR relief and repurchase coverage, accompanied by a letter that contains further information on the repurchase offer. If you are an ADR Claimant and you express an interest in changing your form of relief by responding to that letter within 45 days, we will send you another letter telling you exactly what you will need to do as soon as practicable after the policyholder vote on the Plan has occurred. For example, this second letter will explain that you will have to meet all requirements to exercise the change in the form of relief and repurchase your coverage (including the payment of required amounts, if any) not later than a date anticipated to be 45 days from the date of this second letter. If we cannot complete the processing of the repurchases by ADR Claimants by the date of the distribution of compensation to all other eligible policyholders, we will set aside Prudential Financial, Inc. stock and cash in the amount of our reasonable estimate of Prudential Financial, Inc. stock and cash to be distributed to these ADR Claimants. This Prudential Financial, Inc. stock and cash will be distributed to such claimants as soon as practicable following the processing of their repurchases of coverage. If the number of shares of Prudential Financial, Inc. stock set aside by us is insufficient, Prudential Insurance will distribute the necessary amounts out of authorized but unissued shares of stock. In the event that any Prudential Financial, Inc. stock or cash set aside by us remains undistributed after all repurchases of coverage have been processed, the excess will be returned to Prudential Financial, Inc.

If we do not demutualize, we will return with interest the payments ADR Claimants made to repurchase their coverage. Like other policyholders and interested persons, ADR Claimants have a right to appear and be heard at the public hearing on the Plan.

### **WE HAVE NOT YET BEEN ABLE TO LOCATE SOME POLICYHOLDERS**

We have not yet been able to locate some eligible policyholders for a number of reasons. Some might have moved without reporting their new addresses to us. Others might not be in regular communication with us because their policies are paid-up or we have stopped collecting premiums.

In connection with the demutualization, we have made extensive efforts to obtain current addresses for eligible policyholders and policyholders qualified to vote. We have used third-party research firms, cross-referenced federal and state government documents and databases and published advertisements in newspapers with national circulation. We have also established a website called the "Policyholder Locator" to help locate missing policyholders. This website provides policyholders who have lost contact with us with a method to reestablish contact. This Policyholder Locator website is accessible through [www.prudential.com](http://www.prudential.com).

In spite of our efforts, there are still fewer than one million policyholders to whom we will not be able to distribute demutualization compensation and who will not be able to vote because we could not locate them to advise them of their rights. We are still attempting to locate these policyholders, and our efforts will continue even after the Effective Date of the Plan. Those we locate after that time will receive their demutualization compensation in cash, less any required withholding tax. If we do not locate them after a number of years, their compensation will generally be considered abandoned under the law of the relevant jurisdiction and must be turned over in each case to the appropriate governmental authority in the jurisdiction in which our records show the policyholder last resided. Even then, these policyholders generally can reclaim their compensation if they present a valid claim to the appropriate governmental



authority. However, in a few jurisdictions, if the claim is not presented within a certain period of time, the policyholder may not be able to reclaim his or her compensation.

If you know someone who should have received this package of materials from us, but did not, please tell them to contact us as described at “Additional Information and Assistance” on page i.

### **WE HAVE PROVIDED NOTICES TO FORMER POLICYHOLDERS**

In accordance with the New Jersey Demutualization Law, we provided notice of our intent to demutualize to former policyholders who at the time of such notice were eligible to reinstate their policies. The form of the notice and the manner in which it was distributed were approved by the Commissioner.

### **DEMUTUALIZATION COSTS AND EXPENSES**

We incurred expenses related to demutualization totaling \$143 million in 2000, \$75 million in 1999 and \$24 million in 1998. These expenses are reported separately in our consolidated income statements within income from continuing operations before income taxes. Demutualization expenses consist primarily of the costs of engaging independent accounting, actuarial, investment banking, legal and other consultants to advise us and the insurance regulators in the demutualization process and related matters as well as printing and postage for communication with policyholders. We estimate that we will incur approximately \$574 million of additional demutualization costs and expenses, before related tax benefits, including the payment of \$351 million of demutualization compensation to former Canadian branch policyholders who are eligible policyholders.

### **CHALLENGES TO THE PLAN COULD DELAY ITS EFFECTIVE DATE**

The New Jersey Demutualization Law provides that the Commissioner’s order approving or disapproving the Plan 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. Accordingly, if the Commissioner approves the Plan, it is possible that an appeal challenging the Commissioner’s approval could be filed up to 45 days after the date of the Commissioner’s order. We cannot predict whether any lawsuit challenging the Plan or the Commissioner’s approval will be commenced or what aspects of the Plan, if any, such action might challenge.

If successful, such a challenge could result in monetary damages, a modification of the Plan, a new hearing, or the Commissioner’s approval of the Plan being set aside. In addition, a successful challenge would likely result in substantial uncertainty relating to the terms and effectiveness of the Plan, and a significant period of time might be required to reach a final determination.

## **Our Board of Directors Recommends that You Vote YES to Approve the Plan**

Our board of directors has concluded that we should demutualize. The board approved and adopted the Plan unanimously on December 15, 2000 (and subsequently amended and restated the Plan) upon concluding, among other things, that the Plan is fair and equitable to our policyholders and in the best interest of Prudential and our policyholders. The board of directors recommends that you vote YES to approve the Plan.

## Glossary

This Glossary provides explanations of some of the terms used in the explanatory materials in Part 1. The terms included in the Glossary are in bold the first time they appear in the introductory pages of Part 1 and again the first time they appear in the Important Information section which begins on page 1. The explanations of terms in this Glossary and other terms used in Part 1 do not substitute for the actual Plan; therefore, if there are differences between terms used in this Part 1 and the Plan, the Plan provisions will govern. The full text of the Plan is included later in this Part 1 beginning on page 69.

### A

**additional extraordinary dividend** – The extraordinary dividend of up to \$2.5 billion that Prudential Insurance may pay directly or indirectly to Prudential Financial, Inc., on or within 30 days after the Effective Date, in the form of cash, other assets or both. This extraordinary dividend is in addition to the destacking extraordinary dividend.

**additional fixed component** – The element of the fixed component of compensation allocable to eligible policyholders who are receiving all of their compensation in the form of cash, policy credits or both instead of shares of Prudential Financial, Inc. stock. Each of these eligible policyholders will be allocated an additional fixed component equal to two shares of Prudential Financial, Inc. stock.

**additional variable component** – The element of the variable component of compensation allocable to eligible policyholders who are receiving all of their compensation in the form of cash, policy credits or both instead of shares of Prudential Financial, Inc. stock. This element is allocated to such eligible policyholders based on the sum of their basic fixed and basic variable components. If an eligible policyholder is allocated 25 or fewer shares, he or she will not be allocated an additional variable component. If an eligible policyholder is allocated at least 26 but fewer than or equal to 35 shares, he or she will be allocated one share of Prudential Financial, Inc. stock as the additional variable component. If an eligible policyholder is allocated at least 36 but fewer than or equal to 45 shares, he or she will be allocated two shares of Prudential Financial, Inc. stock as the additional variable component. If allocated 46 or more shares, the eligible policyholder will be allocated 10% of the sum of his or her basic components (rounded to the nearest whole number) as the additional variable component, reduced by the two shares that constitute the additional fixed component.



For more information, see the chart on page 18 that describes all the components of compensation, including the additional variable component.

**ADR** – The alternative dispute resolution process provided for in the Stipulation of Settlement dated October 28, 1996 and amended on February 22, 1997 filed in the United States District Court for the District of New Jersey in settlement of In re: The Prudential Insurance Company of America Sales Practice Litigation, MDL Docket No. 1061.

**ADR Claimant** – A person who filed a claim in ADR.

**Aetna Company** – Aetna, Inc., a Connecticut corporation, or any of its subsidiaries, as the context requires, to which we sold substantially all of the assets and liabilities of our group managed and indemnity healthcare business, known as Prudential HealthCare, in August 1999.

**AVR** – See definition of surplus and AVR.

### B

**basic fixed component** – The element of the fixed component of compensation equal to eight shares of Prudential Financial, Inc. stock that will be allocated to each eligible policyholder.

**basic variable component** – The element of the variable component of compensation allocated to all eligible policyholders based on estimates of the relative contributions of the eligible policies to our surplus in both the past and future. If the expected contribution to Prudential's surplus over the lifetime of your eligible policy (reflecting both estimated past contributions and estimated future contributions) is negative or zero, then your basic variable component will equal zero. Negative and positive contributions offset each other.

**Board Adoption Date** – December 15, 2000, the date on which the Plan was unanimously approved and adopted by our board of directors. All amendments, supplements and modifications to the Plan relate back to and are considered to take effect as of December 15, 2000. Referred to in the Plan as the "Adoption Date".

## C

**Class B Stock** – The shares of a separate class of voting stock of Prudential Financial, Inc. that we plan to sell in a private placement.

**Closed Block** – The mechanism established by the Plan for the purpose of providing over time for the reasonable dividend expectations of the owners of some individual participating life insurance policies and annuity contracts, such policies referred to as Closed Block Policies (see definition below). References to the Closed Block in this Part 1 do not include the separate Canadian closed block, which is discussed on page 45.

**Closed Block Business** – If we complete the sale of the Class B Stock, the Closed Block Business will consist generally of (1) the assets of the Closed Block and the Closed Block Policies and related liabilities, plus (2) the Surplus and Related Assets and related assets and liabilities held outside the Closed Block, as set forth in Schedule 3.3(c)(i) to the Plan and described in detail in Part 2.

**Closed Block Policies** – The Closed Block will include traditional individual and joint whole life insurance policies, individual term life insurance policies and individual retirement annuity contracts that are currently paying or are expected to pay experience-based policy dividends (or currently pay no dividends only because they are in extended term insurance status), along with all supplementary benefits and riders attached to these policies. Closed Block Policies include policies that are in force on the Effective Date, as well as policies issued after the Effective Date pursuant to an application or other required form received by us on or before the Effective Date.

**closed blocks** – Refers collectively to the Closed Block and the separate Canadian closed block.

**Code** – The United States Internal Revenue Code of 1986, as amended.

**Commissioner** – The Commissioner of Banking and Insurance of the State of New Jersey.

## D

**demutualization** – The process by which a mutual insurer changes its structure from a mutual insurance company owned by policyholders to a stock insurance company owned by shareholders. We plan to become a stock insurance company through this demutualization process.

**Designated Subsidiary** – The U.S. operations of the following: Pruco Life Insurance Company; Pruco Life Insurance Company of New Jersey; and Prudential Select Life Insurance Company of America.

**destacking** – The realignment of the ownership of some of our subsidiaries and some related assets and non-insurance liabilities. Following demutualization, Prudential Financial, Inc. rather than Prudential Insurance will own these assets.

**destacking extraordinary dividend** – The extraordinary dividend of the stock of various subsidiaries and some related assets and non-insurance liabilities of Prudential Insurance that may be made on or within 30 days after the Effective Date to accomplish the destacking.



For more information about the Closed Block and the separate Canadian closed block we will establish, see "Closed Blocks Provide for Policy Dividends after Demutualization" beginning on page 39, Article IX of the Plan and the related definitions in Article I, and the Summaries of Exhibits G and H to the Plan beginning on pages 114 and 116, respectively.

**dividend scale** – A schedule of amounts declared annually by a company’s board of directors, payable to owners of some participating policies. Such amounts are based on the recent experience of groups of similar policies. Such groupings may vary by product type, issue year, duration, gender, policy size and underwriting class. The amounts are determined in such a way that they can be paid in the current year as well as future years if the experience underlying the dividend scales remains unchanged.

## E

**Effective Date** – The date on which the closing of the IPO occurs, which shall be after (1) the Plan is approved by the Commissioner and policyholders qualified to vote and (2) the satisfaction of the other conditions in Article XIII of the Plan. This is the date when, among other things, Prudential will become a stock life insurance company and an indirect wholly owned subsidiary of Prudential Financial, Inc. The Effective Date shall in no event be more than 12 months after the date of the Commissioner’s approval of the Plan, unless this period is extended by the Commissioner. We currently expect the Effective Date to occur during the fourth quarter of 2001.

**eligible policy** – In general, a policy is considered an “eligible policy” for purposes of the Plan if the policy was (1) issued by Prudential (including by its Canadian branch or assumed by reinsurance by Prudential); (2) issued in the U.S. by a Designated Subsidiary; (3) jointly issued by Prudential and National Life pursuant to a reinsurance agreement; (4) issued by Prudential’s Canadian branch originally, but the policy was transferred to London Life in 1996 (known as “Transferred Canadian Policies”) and meets certain conditions set forth in the Plan; or (5) issued by Prudential originally, but the policy was transferred to Aetna in 1999 where it has been succeeded by an Aetna health insurance policy after notice of cancellation or non-renewal by Prudential (these policies are known as “Rewritten Health Policies”). The policy must also be one of the following types: (a) an individual or group life insurance policy (including a pure endowment contract), annuity contract or health insurance policy; (b) a funding agreement; (c) a guaranteed investment contract; (d) a supplementary contract, provided, however, that any supplementary contract issued to effect the annuitization of an individual deferred annuity contract shall be treated with such deferred annuity contract as one policy; or (e) a certificate or other evidence of an interest in a group insurance policy or annuity contract issued to a trust established by Prudential, the holder of which certificate or other evidence is a person that is deemed for purposes of the Plan to be the owner of a separate policy under Section 5.4 of the Plan. Lastly, the policy must have been or be deemed to have been in force as of December 15, 2000 (the Board Adoption Date) with Prudential (or, as applicable, a Designated Subsidiary, London Life, National Life, Great-West or an Aetna Company). This definition collectively summarizes the terms “policy” and “eligible policy” found in the Plan.



For more information on whether a particular policy is an eligible policy, see “Eligible Policyholders Will Receive Demutualization Compensation” beginning on page 12, Article IV of the Plan and the related definitions in Article I.

**eligible policyholder** – In general, a policyholder who was, or was deemed for purposes of the Plan to be, the owner on or as of December 15, 2000 (the Board Adoption Date), of one or more eligible policies.

**ERISA** – The Employee Retirement Income Security Act of 1974, as amended.

**extraordinary dividend** – A dividend payment that exceeds limits set by Section 17:27A-4 of the New Jersey Revised Statutes for such payments unless the Commissioner has been given prior notice of the dividend payment and has not disapproved it within 30 days after receipt of such notice. The limit under Section 17:27A-4 is as follows: any dividend or distribution of cash or other property whose fair market value together with other dividends or distributions made within the previous 12 months exceeds the greater of (1) 10% of an insurer’s policyholders’ surplus as of December 31st of the previous year, or (2) the net gain from operations of the insurer, excluding realized capital gains, for the 12-month period ending December 31st of the previous year.

## F

**Financial Services Businesses** – If we complete the sale of the Class B Stock, the Financial Services Businesses will consist of all of the assets and liabilities of Prudential Financial, Inc. and its subsidiaries not included in the Closed Block Business.

**fixed component** – This means the component of compensation allocable to each eligible policyholder equal to the sum of the basic fixed component and additional fixed component, if any.

**Flexible Factors** – This means, with regard to policies specified as Flexible Factor Policies in the Plan, current cost of insurance rates, current interest rates, current expense charges and, for indeterminate premium policies, current premiums, that in each case may be redetermined by the issuing insurer from time to time on the basis of projected future experience. Solely for purposes of the Plan, Flexible Factors also means (1) annual dividends paid on life insurance policies marketed under the name “Life Builder” and (2) termination dividends on life insurance policies issued by Prudential and marketed under the names “Life Builder”, “Appreciable Life” and “Variable Appreciable Life”.

## G

**Great-West** – The Great-West Life Assurance Company, an insurance company organized under the laws of Canada. Great-West acquired London Life in 1997.

**Group Guide** – “Prudential’s Plan to Demutualize—A Guide to Issues for Group Contract Holders and Policyholders”, which was mailed separately to group policyholders. This Guide explains duties that group policyholders may have with respect to members of their groups. It is also available at [www.prudential.com](http://www.prudential.com).

## I

**IHC debt securities** – The debt securities intended to be issued by Prudential Holdings, LLC as set forth in Schedule 3.3(c)(i) to the Plan that we plan to sell in a private placement. Referred to in Part 2 as the “IHC debt”.



For more information on in force rules and special rules that apply to particular types of policies and contracts, see “Eligible Policyholders Will Receive Demutualization Compensation” beginning on page 12 and Article VI of the Plan and the related definitions in Article I.

**in force** – Whether or not your policy was “in force” as of December 15, 2000 (the Board Adoption Date), is determined based on our records (or, as applicable, the records of a Designated Subsidiary, London Life, National Life, Great-West or an Aetna Company). Your policy was in force as of December 15, 2000 (the Board Adoption Date) if it had become in force prior to or on this date and had not ceased to be in force by then. In general, it is the case that a policy will be considered to have become in force when all requirements and payment obligations, if any, necessary to issue the policy were received. A policy will generally be considered to have ceased to be in force (1) upon the expiration of any applicable grace period when it has lapsed for non-payment of premiums and has not been continued as reduced paid-up insurance or extended term insurance; (2) when it has been surrendered or terminated; or (3) when it has matured by death. In addition to these general in force rules, Article VI of the Plan contains specific in force rules for individual life insurance policies, structured settlements, Transferred Canadian Policies, certain policies issued to ADR Claimants, Rewritten Health Policies, group annuity contracts, guaranteed investment contracts and funding agreements, group life and health policies and group credit insurance policies.

**IPO** – Refers to an “initial public offering”, which is an offering of a company’s securities for sale to the investing public for the first time. In connection with the demutualization, Prudential Financial, Inc. will offer shares of its common stock to the investing public for the first time.

**IRS** – The United States Internal Revenue Service. Referred to in the Plan as the “Internal Revenue Service”.



## L

**liquidation** – Refers to a company’s ceasing operations and disposing of its assets after satisfaction of liabilities which, in the case of an insurance company, includes settlement of policy claims and other debts.

**London Life** – London Life Insurance Company, an insurance company organized under the laws of Canada, to which we transferred a portion of our Canadian branch pursuant to the Transfer and Assumption Agreement, entered into pursuant to the Master Agreement dated May 22, 1996, between Prudential and London Life.

## M

**membership interests** – All the rights and interests of a policyholder (including an eligible policyholder) arising under: (1) our charter and by-laws or (2) by law or otherwise, including under the Plan, which rights and interests include, but are not limited to, the right, if any, to vote, any right with regard to our surplus not apportioned or declared by our board of directors for policyholder dividends, and the right to receive compensation in a demutualization. We also refer to these interests in this Part 1 as “ownership interests”.

## N

**National Life** – The National Life Assurance Company of Canada, an insurance company organized under the laws of Canada, which jointly issued certain policies with Prudential pursuant to a reinsurance agreement effective as of September 1, 1986, between Prudential and National Life.

**New Jersey Demutualization Law** – The New Jersey law governing the demutualization of New Jersey mutual life insurers. (Sections 17:17C-1 to 17:17C-14 of the New Jersey Revised Statutes.)

**non-participating policies** – Policies and annuity contracts where the policyholder/contract holder does not have a contractual right to participate in the divisible surplus of the issuer to the extent dividends are apportioned thereon.

## P

**Part 1** – Our Policyholder Information Booklet, Part 1.

**Part 2** – Our Policyholder Information Booklet, Part 2.

**participating policies** – Policies and annuity contracts where the policyholder/contract holder has a right to participate in the divisible surplus of the issuer to the extent dividends are apportioned thereon, regardless of whether dividends have ever been apportioned or paid.

**Plan** – The Plan of Reorganization of Prudential dated as of December 15, 2000 (including all its exhibits and schedules), as originally adopted and as it has been and may be from time to time amended, supplemented or modified. The Plan is the legal document that governs our demutualization which will be reviewed under the New Jersey Demutualization Law. The Plan permits the destacking, the destacking extraordinary dividend, the additional extraordinary dividend and the private placements of Class B Stock and IHC debt securities. These will be reviewed under Chapter 27A of Title 17 of the New Jersey Revised Statutes, as applicable. A copy of the Plan, with the schedules and exhibits thereto in summary or full form, as indicated, is included later in this Part 1 beginning on page 69. For copies of any of the full exhibits and schedules to the Plan, please follow the instructions at “Additional Information and Assistance” on page i.

**policy credits** – Dividend accumulations, dividend additions, increases in account value and other policy-related benefits that will be provided to eligible policyholders with respect to certain eligible policies pursuant to the Plan.

**private placement** – An offering of securities not registered under the securities laws and not available to the general public.

**prohibited transaction** – A transaction prohibited under Section 406 of ERISA or Section 4975 of the Code. Prohibited transactions include certain transactions, such as sales or exchanges, between an employee benefit plan or an individual retirement account/annuity and “parties in interest”, as well as transactions involving fiduciary conflicts of interest. Parties in interest are persons with certain types of relationships to an employee benefit plan or an individual retirement account/annuity, including a service provider or fiduciary. An otherwise prohibited transaction may proceed if a statutory exemption or an exemption issued by the U.S. Department of Labor applies.

**Pruco Life** – The U.S. operations of Pruco Life Insurance Company and Pruco Life Insurance Company of New Jersey.

**Prudential** – The Prudential Insurance Company of America, a New Jersey mutual life insurance company, before the demutualization. Referred to in the Plan as the “Company”.

**Prudential Financial, Inc.** – The New Jersey stock business corporation organized to be the publicly traded indirect holding company of Prudential Insurance after the demutualization. Referred to in the Plan as the “Holding Company”.

**Prudential Financial, Inc. stock** – The common stock of Prudential Financial, Inc. This is the stock that is to be (1) distributed to eligible policyholders who do not receive cash or policy credits in exchange for their membership interests and (2) sold to the public in the IPO. Referred to in the Plan and Part 2 as “Common Stock”.

**Prudential Holdings, LLC** – The New Jersey limited liability company organized to be the direct owner of Prudential Insurance and in turn the wholly owned subsidiary of Prudential Financial, Inc. after the demutualization. Referred to in the Plan as the “Intermediate Holding Company”.

**Prudential Insurance** – The Prudential Insurance Company of America, a New Jersey stock life insurance company, after the demutualization. Upon demutualization, Prudential Insurance will be a continuation of the corporate existence of Prudential.

**Public Directors** – The six members of our board of directors who are appointed by the Chief Justice of the Supreme Court of New Jersey.

## R

**Rewritten Health Policy** – Any policy of health insurance (as defined in Title 17B of the New Jersey Revised Statutes) originally issued by Prudential and included in the business transferred to an Aetna Company pursuant to the Asset Transfer and Acquisition Agreement dated as of December 9, 1998, and as amended by Amendment No. 1 dated as of August 6, 1999, which, following notice by an Aetna Company or Prudential that such policy was being cancelled or not being renewed by Prudential, was succeeded by a policy of health insurance (as defined in Title 17B of the New Jersey Revised Statutes) issued by an Aetna Company.

**risk-based capital ratio** – A tool used by insurance regulators to analyze an insurance company’s total adjusted capital, taking into consideration the risks associated with the company’s particular assets, the risk that losses will be worse than expected, the company’s exposure to interest rate risks, and other business risks. The risk-based capital ratio is a well accepted measure of the strength of a company’s capitalization.

## S

**SEC** – The United States Securities and Exchange Commission.

**Share Adjustment** – An adjustment (upward or downward), with the Commissioner’s approval, pursuant to Section 14.7 of the Plan, in the total number of shares of Prudential Financial, Inc. stock to be allocated to eligible policyholders. If a Share Adjustment is made, you will receive compensation having approximately the same total value you would have received if the Share Adjustment were not made; any slight variation would be the result of rounding.

**Stock Election** – The choice to receive shares of Prudential Financial, Inc. stock instead of cash that can be made by eligible policyholders who are allocated shares equal to or less than a specified “cut-off” number (50 or fewer shares) for their eligible policies not otherwise required under the Plan to receive policy credits or cash.

**supplementary contract** – A contract to effect a settlement or payment option under a life insurance policy or annuity contract including any retained asset account established by us operated under the name “Alliance Account” and any settlement option to provide acceleration of death benefits under a life insurance policy or certificate (known as “Living Needs Benefit”) where the policyholder, or group certificate holder, has elected to receive periodic payments in full or partial settlement of its rights under the policy. Supplementary contract does not include any retained asset account operated under the name “Heritage Account” established in connection with the payment of benefits under an individual or group life insurance policy, any Living Needs Benefit if the policyholder or group certificate holder has decided to receive a lump-sum distribution in full or partial settlement of his or her rights under the policy, or any payment of a matured annuity under an annuity contract.

**surplus** – Surplus represents the amount by which an insurer’s assets exceed its liabilities.

**surplus and AVR** – Surplus represents the amount by which an insurer’s assets exceed its liabilities. AVR refers to the “asset valuation reserve” that insurers are required to maintain in addition to surplus. In particular, AVR is a reserve required under statutory accounting principles to offset potential credit-related and equity-related investment losses on all invested asset categories excluding cash, policy loans, premium notes, collateral notes and income receivable. This reserve is not included in financial statements prepared in accordance with generally accepted accounting principles.

**Surplus and Related Assets** – Assets held outside the Closed Block which constitute surplus required (in addition to assets within the Closed Block) to support the Closed Block Policies.

## T

**Top-Up** – An amount equal to the IPO price for shares of Prudential Financial, Inc. stock plus a market-based appreciation factor: if the average of the closing prices of Prudential Financial, Inc. stock on the primary exchange where it is listed during the Top-Up Period exceeds 110% of the IPO price, the amount of that excess, which will be capped at 10% of the IPO price, will be added to the IPO price.

**Top-Up Period** – The first 20 trading days during which the Prudential Financial, Inc. stock is traded on the primary exchange where it is listed.

**Transfer Agent** – EquiServe Trust Company, N.A., the initial transfer agent appointed by Prudential Financial, Inc. for transfers of Prudential Financial, Inc. stock.

**Transferred Canadian Policy** – An insurance policy or annuity contract, including a supplementary contract, that was issued by our Canadian branch and transferred by us to London Life by means of the Transfer and Assumption Agreement, pursuant to the Master Agreement dated May 22, 1996.

## V

**variable component** – This means the component of compensation equal to the sum of the basic variable component and additional variable component.

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# Plan of Reorganization

Under Chapter 17C of Title 17 of the  
New Jersey Revised Statutes

As Adopted as of December 15, 2000 (and  
subsequently amended and restated)





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## THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

### PLAN OF REORGANIZATION

This Plan of Reorganization dated as of December 15, 2000 (the “Adoption Date”) (together with all Exhibits and Schedules, as originally adopted and as it may from time to time hereafter be amended, supplemented or modified as provided herein, this “Plan”) was adopted on the Adoption Date by unanimous written consent of the Board of Directors (the “Board”) of The Prudential Insurance Company of America, a New Jersey mutual life insurance company that will become, upon the consummation of this Plan, a New Jersey stock life insurance company (the “Company”). The Board subsequently adopted this amended and restated Plan. This Plan provides for the conversion of the Company from a mutual life insurance company into a stock life insurance company in accordance with the requirements of Chapter 17C of Title 17 of the New Jersey Revised Statutes (“Chapter 17C”).

## ARTICLE I

### Definitions

The following terms have the following meanings for purposes of this Plan:

“*Actuarial Contribution*” means, with respect to a particular Eligible Policy, the contribution that such Eligible Policy is estimated to have made to the Company’s surplus, plus the estimated contribution that such Eligible Policy is expected to make to the Company’s surplus in the future, in each case as determined in accordance with the principles and methodology set forth in Article VII and the Allocation Principles and Methodology attached hereto as Exhibit F.

“*Actuarial Contribution Date*” means March 31, 2000.

“*Additional Extraordinary Dividend*” means one or more extraordinary dividends (within the meaning of Section 17:27A-4 of the New Jersey Revised Statutes) that the Company may, on or within 30 days after the Effective Date, pay, subject to the prior written approval of the Commissioner, in the form of cash, other assets or both, in accordance with Section 3.3(b), to the Intermediate Holding Company or the Holding Company, or to the Intermediate Holding Company and thereafter in whole or in part to the Holding Company, having a fair market value not to exceed in the aggregate \$2,500,000,000.

“*Additional Fixed Component*” means that element of the Fixed Component of consideration, calculated pursuant to Section 7.1(b)(i)(B), allocable to certain Eligible Policyholders as specified in Section 7.1(b)(i)(B).

“*Additional Variable Component*” means that element of the Variable Component of consideration, calculated pursuant to Section 7.1(b)(ii)(B), allocable to certain Eligible Policyholders as specified in Section 7.1(b)(ii)(B).

“*Adoption Date*” means December 15, 2000, the date as of which this Plan was adopted by unanimous action of the Board. All amendments, supplements and modifications to this Plan shall relate back to and be considered to take effect as of the Adoption Date for purposes of this Plan.

“*ADR*” means the alternative dispute resolution process provided for in the Stipulation of Settlement.

“*ADR Claimant*” means a Person who filed a claim in ADR.

“*ADR Memorandum*” means the memorandum attached hereto as Exhibit E.

“*Aetna Company*” means Aetna, Inc., a Connecticut corporation, or any of its subsidiaries, as the context requires.

“*Aggregate Basic Variable Component*” means the portion of the Initial Allocable Shares that remains after Allocable Shares are first allocated from the Initial Allocable Shares to provide for the aggregate of all Basic Fixed Components allocable in respect of all Eligible Policyholders as provided in Section 7.1(b)(i)(A).

“*Allocable Shares*” means notional shares of Common Stock allocable among Eligible Policyholders in the Reorganization.

“*Allocation Factor*” means the ratio of the Aggregate Basic Variable Component to the sum of all positive Actuarial Contributions of all Eligible Policies.

“*Allocation Principles and Methodology*” means the principles and methodology set forth in the memorandum attached hereto as Exhibit F that govern the allocation of the Aggregate Basic Variable Component among Eligible Policyholders.

*“Annuity Crediting Rate Requirements”* means the rules set forth in Exhibit J applicable to the interest rates credited on certain account values of Covered Fixed Annuities and Covered Variable Annuities.

*“Application”* means the application for approval of, and for permission to reorganize pursuant to, this Plan, that will be filed by the Company with the Commissioner.

*“Basic Fixed Component”* means that component of consideration allocable to each Eligible Policyholder as provided in Section 7.1(b)(i)(A). Such Basic Fixed Component shall be equal to eight Allocable Shares. Each Eligible Policyholder shall be allocated a single Basic Fixed Component (regardless of the number of Eligible Policies owned by such Eligible Policyholder as of the Adoption Date, including any Policies issued, reinstated or repurchased pursuant to the ADR Memorandum).

*“Basic Variable Component”* means that component of consideration equal to the portion, if any, of the Aggregate Basic Variable Component allocated in respect of all Eligible Policies of an Eligible Policyholder.

*“Board”* means the Board of Directors of the Company.

*“Canadian Closed Block”* means the mechanism established pursuant to Article IX for the purpose of providing, over time, for the reasonable dividend expectations of the holders of certain participating intermediate monthly premium life insurance policies, weekly premium life insurance policies and related riders and supplementary benefits issued by the Company’s Canadian branch, as set forth in the Canadian Closed Block Memorandum, attached hereto as Exhibit H.

*“Chapter 17C”* means Chapter 17C of Title 17 of the New Jersey Revised Statutes.

*“Class B Stock”* means the Class B Stock, par value \$0.01 per share, of the Holding Company.

*“Closed Block”* means the mechanism established pursuant to Article IX for the purpose of providing, over time, for the reasonable dividend expectations of the holders of Closed Block Policies. The Closed Block shall consist of the Closed Block Policies, the Closed Block Assets and the operating rules which define certain specified cash flows credited to and charged against the Closed Block, each as set forth in Article IX and the Closed Block Memorandum, attached hereto as Exhibit G. References herein to the Closed Block shall not include the Canadian Closed Block.

*“Closed Block Assets”* shall consist of (i) the Initial Closed Block Assets, (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 such cash flows. Closed Block Assets shall include policy loans, accrued interest on any of the foregoing assets and due premiums on the Closed Block Policies. Closed Block Assets shall be adjusted to reflect Closed Block Policies issued or reinstated on or after the Closed Block Funding Date, as set forth in the Closed Block Memorandum. Closed Block Assets shall not include assets included in the Canadian Closed Block.

*“Closed Block Funding Date”* means July 1, 2000.

*“Closed Block Memorandum”* means the memorandum attached hereto as Exhibit G that sets forth the rules governing the establishment and operation of the Closed Block.

*“Closed Block Policies”* means:

(i) participating individual life insurance policies, along with all supplementary benefits and riders attached to all such policies, for which the Company has an experienced-based dividend scale and for which (a) dividends are due, paid or accrued during 2000 by action of the Board, (b) no dividends are due during 2000 because recent issuance of such policies results in no dividends for an initial period, (c) no dividends are due during 2000 because such policies are in extended term insurance status, but the policies otherwise would satisfy the criteria of this subsection (i); or (d) no dividends are due during 2000 because the policies were issued in 2001, but the policies otherwise would satisfy the criteria of this subsection (i) if they had been in force during all or any part of 2000,

(ii) paid-up individual life insurance policies or riders which arose from the death of the primary insured under a policy that would have been a Closed Block Policy if it had been In Force on the Closed Block Funding Date, and

(iii) Participating Individual Retirement Annuity Contracts for which the Company has an experience-based dividend scale and for which contracts dividends are due, paid or accrued during 2000 by action of the Board.

Each policy, contract, supplementary benefit and rider described in (i) through (iii) above shall be a Closed Block Policy only to the extent that such policy, contract, supplementary benefit or rider (x) is In Force as of the Closed Block Funding Date; (y) becomes In Force after the Closed Block Funding Date pursuant to an application or other required form received by the Company on or prior to the Effective Date, including any policy issued or repurchased by an ADR Claimant pursuant to the ADR Memorandum; or (z) was In Force before the Effective Date and reinstated on or after the Closed Block Funding Date pursuant to the Company’s normal administrative practices. “Closed Block Policies” does not include, among other things, (a) Interest Sensitive Life Insurance Policies or variable life insurance policies, (b) annuity contracts not described in (iii) above,



(c) Supplementary Contracts, (d) group insurance policies or annuity contracts or (e) insurance policies or annuity contracts issued by the Company's Canadian branch.

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

"Commission-Free Sales and Purchases Program Memorandum" means the memorandum attached hereto as Exhibit L that sets forth the rules governing the commission-free sales and purchases program or programs provided for in Section 14.1.

"Commissioner" means the Commissioner of Banking and Insurance of the State of New Jersey, or such governmental officer, body or authority as may succeed such Commissioner.

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

"Company" means The Prudential Insurance Company of America, a New Jersey mutual life insurance company that will become, upon the consummation of this Plan, a New Jersey stock life insurance company.

"Covered Fixed Annuity" means an individual fixed annuity In Force on the Effective Date that is within the classes of annuities listed on Schedule J-1 to the Annuity Crediting Rate Requirements attached hereto as Exhibit J, where the issuing insurer has reserved the right to adjust the crediting rate periodically.

"Covered Variable Annuity" means an individual variable annuity In Force on the Effective Date that is within the classes of annuities listed on Schedule J-2 to the Annuity Crediting Rate Requirements attached hereto as Exhibit J, where the contract owner has the right to direct funds to be invested in the general account of the issuing insurer and the issuing insurer has reserved the right to adjust the crediting rate for such funds periodically.

"Designated Subsidiary" means the United States operations of any of the following: (i) Pruco Life Insurance Company; (ii) Pruco Life Insurance Company of New Jersey; or (iii) Prudential Select Life Insurance Company of America.

"Destacking" means the realignment of the ownership of certain subsidiaries, assets and non-insurance liabilities of the Company described in Section 3.3(a) and Schedule 3.3(a).

"Destacking Extraordinary Dividend" means one or more extraordinary dividends (within the meaning of Section 17:27A-4 of the New Jersey Revised Statutes) that may, on or within 30 days after the Effective Date, be effected by the Company as a part of the Destacking as described in Section 3.3(a) and Schedule 3.3(a).

"Effective Date" means the date on which the closing of the IPO occurs, which shall be a date occurring after (i) the respective approvals of this Plan by the Commissioner in accordance with Article X and the Qualified Voters in accordance with Article XI and (ii) the satisfaction of the other conditions set forth in Article XIII; *provided, however*, that in no event shall the Effective Date be more than twelve months after the date on which the Commissioner has approved this Plan, unless such period is extended by the Commissioner.

"Effective Time" means 12:01 a.m., Eastern Standard Time or Eastern Daylight Time, as the case may be, in Newark, New Jersey, on the Effective Date.

"Eligible Policy" means a Policy that is In Force or deemed, as provided in Article VI, to be In Force as of the Adoption Date; *provided, however*, that "Eligible Policy" shall not include: (i) a Structured Settlement that has a Prudential Affiliate as its Owner; (ii) a Policy with respect to which the Company or a Prudential Affiliate is the owner of record and also the beneficial owner; or (iii) except as provided in the ADR Memorandum, a Policy purchased or reinstated by a Project Participant on or after February 10, 1998. Notwithstanding the foregoing sentence, each of the following shall be considered an Eligible Policy, *provided* that it is In Force or deemed, as provided in Article VI, to be In Force as of the Adoption Date: (i) a Policy held by or on behalf of any employee benefit plan sponsored by the Company or any Prudential Affiliate; (ii) a Policy that is an IRA (as defined herein) with respect to which the Company or a Prudential Affiliate serves as custodian; and (iii) a certificate or other evidence of interest in a group insurance policy or annuity contract deemed for purposes of this Plan to be a separate Policy pursuant to Section 5.4.

"Eligible Policyholder" means a Policyholder who is, or is deemed for purposes of this Plan to be, the Owner on or as of the Adoption Date of one or more Eligible Policies.

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

"ERISA Exemption" means the exemption from Section 406(a) of ERISA and Section 4975 of the Code with respect to the receipt of consideration pursuant to this Plan by Eligible Policyholders that are employee benefit plans or IRAs (as defined herein) subject to the provisions of such sections, for which the Company shall have applied to the United States Department of Labor.

“*ERISA Opinion*” means the opinion of nationally recognized independent ERISA counsel engaged by the Company, dated as of the Effective Date and substantially to the effect that there is no reason to anticipate that the ERISA Exemption will not be granted in substantially the form requested, which opinion the Company will obtain and rely upon if the ERISA Exemption is not received on or before the Effective Date.

“*Exchange*” means the issuance by the Company to the Holding Company of 100 shares of common stock of the Company in exchange for the shares of Common Stock to be distributed to Eligible Policyholders in accordance with this Plan.

“*Fair and Equitable*” has the meaning ascribed to it in Chapter 17C, which is that any action undertaken with respect to this Plan provides for full and proper consideration of the aggregate Membership Interests and corresponding values of Eligible Policyholders, in no manner discriminates improperly among Eligible Policyholders and appropriately protects the interests of Eligible Policyholders before and subsequent to the Reorganization.

“*Fixed Component*” means that component of consideration allocable to each Eligible Policyholder (regardless of the number of Eligible Policies owned by such Eligible Policyholder on the Adoption Date) as provided in Section 7.1(b)(i). Such Fixed Component shall be equal to the sum of (x) the Basic Fixed Component and (y) the Additional Fixed Component, if any.

“*Flexible Factor Policy*” means any individual life insurance policy In Force on the Effective Date that is within the classes of policies listed on Schedule I-1 to the Flexible Factor Requirements attached hereto as Exhibit I, whether participating or nonparticipating, and associated riders, where the issuing insurer has reserved the right to modify (upward or downward) premiums, charges (expenses or cost of insurance) or credits (interest on contract funds or dividends) on the basis of future anticipated or emerging experience.

“*Flexible Factor Requirements*” means the rules set forth in Exhibit I applicable to modifications of Flexible Factors under Flexible Factor Policies.

“*Flexible Factors*” means, with respect to Flexible Factor Policies, current cost of insurance rates, current interest rates, current expense charges and, for indeterminate premium policies, current premiums, that in each case may be redetermined from time to time by the issuing insurer on the basis of projected future experience. Flexible Factors also means, solely for purposes of the Plan, (1) annual dividends paid with respect to life insurance policies marketed under the name “Life Builder,” which are listed by policy form number on Schedule I-1 to the Flexible Factor Requirements attached hereto as Exhibit I and (2) termination dividends paid with respect to life insurance policies issued by Prudential and marketed under the names “Life Builder,” “Appreciable Life” and “Variable Appreciable Life,” which are listed by policy form number on Schedule I-1 to the Flexible Factor Requirements attached hereto as Exhibit I.

“*Formation Shares*” means those shares of Common Stock that the Holding Company shall have issued to the Company in connection with the formation of the Holding Company, in exchange for a nominal capital contribution by the Company to the Holding Company, by which exchange the Holding Company shall have become a wholly owned subsidiary of the Company.

“*401(k) Plan*” means the Prudential Employee Savings Plan, the profit sharing plan sponsored by the Company that is qualified under Section 401(a) of the Code and which also provides for elective deferrals of contributions by plan participants as described under Section 401(k) of the Code.

“*FSP*” means an annuity contract marketed by the Company under the name “Financial Security Program.”

“*Funding Agreement*” means an insurance agreement providing for deposits with and payments by the insurer, pursuant to which the deposit, interest and payment structures may vary.

“*Great-West*” means The Great-West Life Assurance Company, an insurance company organized under the laws of Canada, which acquired London Life effective November 13, 1997, and any successor thereto.

“*Guaranteed Investment Contract*” means any unallocated group annuity contract, guaranteed interest contract or other similar instrument by whatever name in which the Company or a Designated Subsidiary agrees to guarantee a fixed or variable rate of interest for a specified period of time or a future payment that is payable at a predetermined date (subject in some contracts to earlier withdrawals upon the occurrence of contractually-specified events) on monies that are deposited with the insurer and under which payment is not contingent on the continuance of human life.

“*Hearing*” means the public hearing on this Plan that is required to be held pursuant to Chapter 17C.

“*Holding Company*” means a New Jersey stock business corporation to be named Prudential Financial, Inc.

“*IHC Debt Securities*” has the meaning set forth in Section 3.3(c)(i).

*“iMoneyNet Taxable Retail Average”* means The Money Fund Report Average™ Taxable Retail 30-day (compound) Yield, which is a composite index of average returns of certain categories of mutual funds that invest in high quality short-term (maturities of less than 13 months) money market securities that is published by iMoneyNet, Inc., and shall include any substantially similar index published by iMoneyNet, Inc., or published by any corporate successor of iMoneyNet, Inc., or published by any assignee of the right to publish such index, in the event that iMoneyNet, Inc. (or such corporate successor or assignee) changes the name of such index.

*“In Force”* means, with respect to a Policy, that such Policy is in force or deemed to be in force for purposes of this Plan, in each case as determined by the rules set forth in Article VI.

*“Initial Allocable Shares”* means the 600 million shares of Common Stock representing the aggregate number of shares allocable for the sum of all Basic Fixed Components and the Aggregate Basic Variable Component.

*“Initial Closed Block Assets”* means the portion of the assets of the Individual Insurance and Annuity segment of the Company’s general account assets, together with policy loans, accrued interest and premiums due on the Closed Block Policies, that has been allocated to the Closed Block as of the Closed Block Funding Date in accordance with the Closed Block Memorandum, attached hereto as Exhibit G.

*“Initial Stock Price”* means the initial public offering price per share at which Common Stock is sold to the public in the IPO.

*“Interest Sensitive Life Insurance Policy”* means an individual life insurance policy under the provisions of which separately identified interest credits (other than in connection with dividend accumulations, premium deposit funds or other supplementary accounts) and mortality charges are made to the policy.

*“Intermediate Holding Company”* means a corporation or limited liability company to be formed under New Jersey law that will be a wholly owned direct subsidiary of the Holding Company and the direct parent of the Company as a result of the transactions contemplated by this Plan.

*“Internal Revenue Service”* means the United States Internal Revenue Service.

*“IPO”* means the initial public offering by the Holding Company of shares of Common Stock.

*“IRA”* means, for purposes of this Plan, an individual retirement annuity (including certain pre-November 8, 1978 endowment contracts) described in Section 408(b) of the Code, which for purposes of this definition shall include an annuity contract held under an individual retirement account (as described in Code Section 408(a)), a SEP (as described in Code Section 408(k)), a SIMPLE IRA (as described in Code Section 408(p)) or a Roth IRA (as described in Code Section 408A). IRA does not, for purposes of this Plan, include any individual retirement account described in Sections 408 and 408A of the Code under which no insurance policy or annuity contract has been issued.

*“Living Needs Benefit”* means a settlement option to provide acceleration of death benefits under a life insurance policy or certificate.

*“London Life”* means London Life Insurance Company, an insurance company organized under the laws of Canada, to which the Company transferred a portion of its Canadian business pursuant to the Transfer and Assumption Agreement, entered into pursuant to the Master Agreement dated May 22, 1996 between the Company and London Life, and any successor thereto.

*“Membership Interest”* means all the rights and interests of a Policyholder (including without limitation any Eligible Policyholder) as a member of the Company arising (i) under the Company’s charter and by-laws, or (ii) by law or otherwise, including under this Plan, which rights and interests include, but are not limited to, the right, if any, to vote and any right with regard to the surplus of the Company not apportioned or declared by the Board for policyholder dividends.

*“National Life”* means The National Life Assurance Company of Canada, an insurance company organized under the laws of Canada, with which the Company jointly issued certain policies pursuant to a reinsurance agreement effective as of September 1, 1986 between the Company and National Life.

*“New Jersey Insurance Holding Company Systems Act”* means Sections 17:27A-1 through 17:27A-14, inclusive, of the New Jersey Revised Statutes.

*“Notice of Hearing”* means the notice of the Hearing that the Company shall mail to each Person who was a Policyholder as of the Adoption Date.

*“Notice of Special Meeting”* means the notice of the Special Meeting that the Company shall mail to Persons who are Qualified Voters as of the Adoption Date setting forth the reasons for the Special Meeting and the time and place of the Special Meeting, and enclosing a ballot for each such Qualified Voter.

*“Other Qualified Plans”* means any of the following: (i) an individual life insurance policy that has been issued and held by an individual in connection with a plan qualified under section 401(a) or 403(a) of the Code to provide incidental life insurance protection; (ii) an individual annuity contract issued and held by an individual in connection with an ongoing plan qualified under section 401(a) or 403(a) of the Code; or (iii) an individual annuity contract that has been distributed from a plan qualified under section 401(a) or 403(a) of the Code directly to the plan participant prior to the Effective Date.

*“Owner”* means, with respect to any Policy, the Person or Persons specified as owner or deemed to be the owner of the Policy for purposes of this Plan, in each case as determined by the rules set forth in Article V.

*“Participating Individual Retirement Annuity Contract”* means a participating deferred annuity with both a fixed premium and a guaranteed cash value.

*“Person”* means an individual, partnership, firm, association, corporation, joint-stock company, limited liability company, limited liability partnership, trust, government or governmental agency, State or political subdivision of a State, board, estate, trustee, fiduciary or any other legal entity.

*“Plan”* means this Plan of Reorganization, together with all Exhibits and Schedules, as originally adopted and as it may from time to time hereafter be amended, supplemented or modified as provided herein.

*“Policy”* has the meaning set forth in Article IV.

*“Policy Credit”* has the meaning set forth in Section 8.2.

*“Policyholder”* means the Person who is, or Persons who collectively are, the Owner, or who is or are deemed for purposes of this Plan to be the Owner, of a Policy. A Person who is, or is deemed for purposes of the Plan to be, or Persons who collectively are, or are deemed for purposes of this Plan to be, the Owner of more than one Policy in more than one legal capacity (e.g., as trustee under each of two or more separate trusts) shall be deemed for purposes of this Plan to be a separate Policyholder in each such capacity.

*“Project Participant”* means any of the officers or directors of the Company, any of certain employees of the Company or a Prudential Affiliate, or certain related Persons, all as identified pursuant to the Company’s internal policies or administrative practices on or after February 10, 1998, for the purpose of excluding such persons, except as provided in the ADR Memorandum, from eligibility to receive consideration under this Plan with respect to Policies acquired or reinstated by such persons after the later of February 10, 1998 or the date they became an officer, director or designated employee or related person.

*“Prudential Affiliate”* means a Person that as of a given date directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with the Company. Where used herein, the term “control” (including the terms “controlled by” and “under common control with”) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract other than a commercial contract for goods or nonmanagement services, or otherwise, unless the power is the result of an official position with or corporate office held by the Person. Control shall be presumed to exist if any Person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, 10% or more of the voting securities of any other Person.

*“Qualified Voter”* has the meaning set forth in Chapter 17C.

*“Records”* means books, files and other written or electronic records of the Company (including the Company’s Canadian branch), a Designated Subsidiary, London Life, National Life, an Aetna Company or Great-West, as applicable in the context, including but not limited to the administrative systems of such entity.

*“Reorganization”* means the conversion of the Company, pursuant to this Plan, from a mutual life insurance company to a stock life insurance company that is an indirect wholly owned subsidiary of the Holding Company.

*“Resolution Procedures”* means the procedures established by the Company for resolving inquiries and disputes as to (x) the identity of the Owner of a Policy or the right of a Person to receive consideration under this Plan, (y) whether a Policy is In Force and (z) the right of a Person to vote on this Plan. Such procedures shall be included in the publicly available record of the Reorganization maintained by the Commissioner, shall be available for inspection by the public at reasonable times at facilities maintained by the Company and shall be transmitted to any policyholder who requests a copy.

*“Rewritten Health Policy”* means any policy of health insurance (as defined in Title 17B of the New Jersey Revised Statutes) originally issued by the Company included in the business transferred to an Aetna Company pursuant to the Asset Transfer and Acquisition Agreement dated as of December 9, 1998 by and among the Company; Pruco Inc., a New Jersey corporation; Aetna, Inc., a Connecticut corporation; and Aetna Life Insurance Company, a Connecticut insurance corporation,



as amended by Amendment No. 1 dated as of August 6, 1999, which, following notice by an Aetna Company or the Company of non-renewal or cancellation by the Company, has been succeeded by a policy of health insurance (as defined in Title 17B of the New Jersey Revised Statutes) issued by an Aetna Company.

“*Securities Act*” means the Securities Act of 1933, as amended.

“*Share Election Maximum*” shall mean a whole number of shares of Common Stock, to be determined by the Board at any time prior to the Effective Date, not less than the number of shares of Common Stock constituting the Basic Fixed Component of consideration as set forth in Section 7.1(b)(i)(A) and not greater than 50 except in both cases as adjusted pursuant to Section 14.7.

“*Special Meeting*” means the special meeting at which all Persons who are Qualified Voters as of the Adoption Date, as shown on the Records of the Company, shall be entitled to vote on a proposal to approve this Plan (including without limitation the transactions described in Section 3.3, Schedule 3.3(a) and Schedule 3.3(c)(i)).

“*State*” means the District of Columbia, Puerto Rico and any state, territory or insular possession of the United States of America.

“*Stipulation of Settlement*” means the Stipulation of Settlement dated October 28, 1996 and amended on February 22, 1997 filed in the United States District Court for the District of New Jersey in settlement of the actions collectively entitled In re: The Prudential Insurance Company of America Sales Practice Litigation, MDL Docket No. 1061, Master Docket No. 95-4704 (AMW), containing the provisions of the remediation plan that contains ADR.

“*Stock Option Plan*” has the meaning set forth in Section 14.3(a).

“*Structured Settlement*” means a Policy that is an individual annuity contract that is intended at the time of issuance to qualify as a qualified funding asset as defined in Section 130(d) of the Code.

“*Supplementary Contract*” means any contract to effect a settlement or payment option under a life insurance policy or annuity contract, including any retained asset account operated under the name “Alliance Account” established in connection with benefits paid under an individual or group life insurance policy and any Living Needs Benefit in which the policyholder, or, in certain cases, the group certificate holder, has elected to receive periodic payments in full or partial settlement of its rights under the policy. Supplementary Contract shall not include (i) any retained asset account operated under the name “Heritage Account” established in connection with the payment of benefits under an individual or group life insurance policy; (ii) any Living Needs Benefit to the extent that the policyholder or the group certificate holder has elected to receive a lump-sum distribution in full or partial settlement of their rights under the policy; or (iii) any payment of a matured annuity under an annuity contract.

“*Tax Counsel*” means nationally recognized independent tax counsel retained by the Company.

“*TDA*” means a Policy that is a tax deferred annuity contract described in Section 403(b) of the Code, or a Policy that is an individual life insurance policy issued and held as part of such tax deferred annuity to provide incidental life insurance protection.

“*The Class B Stock/IHC Debt Securities Schedule*” means the schedule attached hereto as Schedule 3.3(c)(i) describing the private offerings of shares of Class B Stock and IHC Debt Securities.

“*The Destacking Schedule*” means the schedule attached hereto as Schedule 3.3(a) describing the Destacking.

“*Title 17*” means Title 17 of the New Jersey Revised Statutes.

“*Top-up Period*” means the first twenty trading days during which the Common Stock is traded on the primary exchange where it is listed.

“*Total Allocable Shares*” means the number of Allocable Shares representing the total value of the Company allocable among Eligible Policyholders in the Reorganization. Such number shall consist of the sum of (i) the Initial Allocable Shares plus (ii) the number of shares allocable in respect of the aggregate of all Additional Fixed Components and all Additional Variable Components.

“*Transferred Canadian Policy*” means an insurance policy or annuity contract, including without limitation a Supplementary Contract, issued by the Company’s Canadian branch and transferred to London Life by means of the Transfer and Assumption Agreement, pursuant to the Master Agreement dated May 22, 1996 between the Company and London Life.

“*United States*” means the United States of America and shall include all States, including the District of Columbia, Puerto Rico and any state, territory or insular possession of the United States of America.



“*Variable Component*” means that component of consideration allocable to each Eligible Policy as provided in Section 7.1(b)(ii). Such Variable Component shall be equal to the sum of (i) the Basic Variable Component and (ii) the Additional Variable Component, if any.

### ARTICLE II

#### Purpose of Plan

The principal purpose of this Plan is to set forth the terms and conditions of the conversion of the Company from a mutual life insurance company into a stock life insurance company that is an indirect wholly owned subsidiary of the Holding Company (the “Reorganization”). The Reorganization of the Company pursuant to this Plan will distribute the total value of the Company to all Eligible Policyholders in the form of shares of Common Stock, cash or Policy Credits upon the extinguishment of all Membership Interests in existence on the Effective Date, thereby affording Eligible Policyholders the opportunity to realize economic value from their Membership Interests that is otherwise unavailable to them except in the unlikely event of a liquidation of the Company. The Reorganization will not adversely change existing contractual provisions as to premiums, policy benefits, dividend eligibility, values, guarantees or other current policy obligations of the Company to its Policyholders. The Reorganization will also allow the Company to respond to changes in the financial services industry and to compete more effectively on a global basis, and will offer the Company greater flexibility for future growth. In addition, the Reorganization will afford increased financial flexibility to raise and allocate capital among various Prudential Affiliates and to provide greater access to the equity capital markets.

### ARTICLE III

#### The Reorganization

**Section 3.1** *Membership Interests.* Pursuant to and in accordance with this Plan and Chapter 17C, all Eligible Policyholders have Membership Interests that entitle such Eligible Policyholders to receive shares of Common Stock, cash or Policy Credits upon extinguishment of all Membership Interests in existence on the Effective Date.

**Section 3.2** *Effect of Reorganization on the Company, the Intermediate Holding Company and the Holding Company.* (a) The Company is currently organized as a mutual life insurance company. The Holding Company and the Intermediate Holding Company shall have been formed prior to, or shall be formed on, the Effective Date. The amended and restated certificate of incorporation of the Holding Company in effect on the Effective Date shall be substantially in the form of Exhibit A, except as provided below. The amended and restated by-laws of the Holding Company in effect on the Effective Date shall be substantially in the form of Exhibit B. The Holding Company shall have been formed as a wholly owned subsidiary of the Company through the issuance by the Holding Company of the Formation Shares to the Company in exchange for a nominal capital contribution by the Company to the Holding Company. Notwithstanding any number of authorized shares of Common Stock provided for in Exhibit A, the amended and restated certificate of incorporation of the Holding Company in effect on the Effective Date may, without any amendment to this Plan, authorize the issuance of a greater number of shares of Common Stock than is necessary to meet the requirements of this Plan and any number of shares of preferred stock. If the Company determines to effect one or more of the transactions described in Section 3.3(c), the amended and restated certificate of incorporation and the amended and restated by-laws of the Holding Company in effect on the Effective Date may contain such provisions, including without limitation provisions authorizing the issuance of Class B Stock, as the Board determines to be desirable to meet the requirements of such transactions.

(b) On the Effective Date and after giving effect to the transactions contemplated hereby, the following shall be deemed to have occurred, and this Plan shall be deemed to have become effective, as of the Effective Time:

- (i) the Company shall become a stock life insurance company by operation of Chapter 17C;
- (ii) the Company and the Holding Company shall effect the Exchange, and the Company shall surrender to the Holding Company, for no consideration, and the Holding Company shall cancel, all of the Formation Shares;
- (iii) as a result of the Exchange, the Company shall become a wholly owned subsidiary of the Holding Company;
- (iv) all Membership Interests in existence on the Effective Date shall be extinguished, and shares of Common Stock, cash or Policy Credits shall be provided to or for the accounts of all Eligible Policyholders in accordance with Article VIII upon extinguishment of such Membership Interests;
- (v) the Holding Company shall sell shares of Common Stock in the IPO for cash; and
- (vi) the Holding Company shall contribute all of the issued and outstanding shares of capital stock of the Company to the Intermediate Holding Company in exchange for the issuance by the Intermediate Holding Company of all of its outstanding equity interests to the Holding Company.

(c) On or prior to the Effective Date, the Company shall file with the Secretary of State of the State of New Jersey and the New Jersey Department of Banking and Insurance the Company’s amended and restated charter, substantially in the form of

Exhibit C. The Company's amended and restated charter, and its amended and restated by-laws substantially in the form of Exhibit D, shall take effect as of the Effective Time.

(d) On the Effective Date, following the consummation of the transactions contemplated hereby, (i) the issued and outstanding capital stock of the Holding Company shall consist exclusively of (A) shares of Common Stock distributed to Eligible Policyholders upon the extinguishment of all Membership Interests in accordance with this Plan, (B) shares of Common Stock issued and sold in the IPO, (C) shares of Class B Stock, if any, issued and sold in the private placement referred to in Section 3.3(c)(i), and (D) shares of capital stock, if any, issued in private placements or public offerings pursuant to Section 3.3(c)(ii); (ii) the issued and outstanding capital stock of the Company shall consist exclusively of the 100 shares of its common stock issued to the Holding Company in the Exchange and contributed to the Intermediate Holding Company; and (iii) the issued and outstanding equity interests of the Intermediate Holding Company shall consist exclusively of the equity interests issued to the Holding Company in consideration of the contribution by the Holding Company to the Intermediate Holding Company of the 100 shares of common stock of the Company.

(e) The Company shall act in good faith to convey, or cause to be conveyed, (i) shares of Common Stock to Eligible Policyholders that are to receive Common Stock pursuant to this Plan, within 45 days after the Effective Date, and (ii) cash and Policy Credits to Eligible Policyholders that are to receive cash and Policy Credits pursuant to this Plan, within 45 days after the expiration of the Top-up Period, in each case in accordance with Section 8.5 and subject to the ADR Memorandum attached hereto as Exhibit E.

(f) The Company and the Holding Company shall arrange for the registration and public trading of the Common Stock on a national securities exchange, facilitate coverage by research analysts, conduct management presentations to potential investors and analysts and secure the commitment of a specialist firm to make a market in the Common Stock.

(g) The Company and the Holding Company shall require the managing underwriters for the IPO to conduct the offering process in a manner that is consistent with customary practices for similar offerings. On or prior to the Effective Date, (x) the Company shall have received an opinion from a qualified, nationally recognized investment banker engaged by the Company that, as of the date of such opinion, the requirements of the previous sentence have been complied with in all material respects and (y) the Company shall deliver a copy of such opinion to the Commissioner. The Commissioner and the Commissioner's financial advisors shall be given access to the process and information that leads to the pricing of the Common Stock in the IPO, it being understood that at the conclusion of the process the Board or a committee thereof shall make the final pricing determination in executive session. The Commissioner shall find that the terms of the IPO promote the best interests of Eligible Policyholders.

**Section 3.3 *Destacking and Other Financial Transactions.*** In connection with the Reorganization, the Company may, but shall not be required to, effect any or all of the Destacking and the other financial transactions described in this Section 3.3. The completion of any or all of such transactions shall not be a condition to the effectiveness of this Plan. In addition to the approval by the Commissioner of this Plan under Chapter 17C and Article X, the Destacking and other financial transactions described in this Section 3.3 shall be subject to any separate respective approvals by the Commissioner under all other applicable requirements of New Jersey insurance law, including without limitation the New Jersey Insurance Holding Company Systems Act.

(a) **The Destacking.** As part of the Reorganization, the ownership of certain subsidiaries, assets and non-insurance liabilities of the Company will be realigned pursuant to the Destacking on or within 30 days after the Effective Date, as described more fully in Schedule 3.3(a), and such subsidiaries, assets and non-insurance liabilities will no longer be owned by the Company; *provided, however*, that if regulatory approvals are not obtained for all actions set forth in said Schedule 3.3(a) or if the Board otherwise determines that it would be in the best interest of the Company and no less favorable to the policyholders of the Company not to pursue all of such actions on or within 30 days following the Effective Date, the Company may take any one or more of such actions as would result in a partial realignment of the subsidiaries, assets and non-insurance liabilities of the Company as determined by the Board to be permitted under applicable law, or no such actions. The Destacking shall be effected by means of the Destacking Extraordinary Dividend by the Company to the Holding Company or to the Intermediate Holding Company and thereafter to the Holding Company, such Destacking Extraordinary Dividend to consist of (i) shares of capital stock or other equity interests of certain of the subsidiaries of the Company, and (ii) other assets and non-insurance liabilities of the Company as specified in Schedule 3.3(a). The limitation on the size of the Additional Extraordinary Dividend provided for in the definition of such term in Article I shall not apply to the size of the Destacking Extraordinary Dividend. The Destacking, including without limitation the Destacking Extraordinary Dividend, shall be considered at the Hearing provided for in Article X and shall be subject to the prior written approval of the Commissioner. If the Company determines to proceed with the Destacking or a partial Destacking in accordance with this Section 3.3(a), the Destacking or such partial Destacking shall be subject to all applicable requirements under the New Jersey Insurance Holding Company Systems Act, including any requirement that the Destacking Extraordinary Dividend included in the Destacking or such a partial Destacking shall be subject to the Commissioner's prior written approval.

(b) **Additional Extraordinary Dividend.** The Company may, but shall not be required to, on or within 30 days after the Effective Date, effect an Additional Extraordinary Dividend, subject to the requirements of the New Jersey Insurance Holding Company Systems Act, including without limitation any requirement that such Additional Extraordinary Dividend shall be

subject to the Commissioner's prior written approval. Any such Additional Extraordinary Dividend shall be considered at the Hearing provided for in Article X.

(c) **Other Financial and Reinsurance Transactions.** The Holding Company, the Intermediate Holding Company and the Company may, but shall not be required to, effect the following other transactions pursuant to this Plan:

(i) Prior to, on or within 30 days after the Effective Date, the Holding Company and the Intermediate Holding Company, as applicable, may sell, in one or more private offerings: (A) shares of Class B Stock in accordance with The Class B Stock/IHC Debt Securities Schedule attached hereto as Schedule 3.3(c)(i) and/or (B) debt securities issued by the Intermediate Holding Company ("IHC Debt Securities") in accordance with The Class B Stock/IHC Debt Securities Schedule attached hereto as Schedule 3.3(c)(i). Such IHC Debt Securities may be secured by a pledge of shares of common stock of the Company held by the Intermediate Holding Company, and the maximum aggregate principal amount of any such offering of IHC Debt Securities shall not exceed such amount as would result in the shares of common stock of the Company pledged to secure such IHC Debt Securities exceeding 49% of the number of issued and outstanding shares of common stock of the Company. Any foreclosure on shares of common stock of the Company upon a default on IHC Debt Securities that would constitute an acquisition within the meaning of Section 17:27A-1(j) of the New Jersey Revised Statutes shall be subject to the prior written approval of the Commissioner under the New Jersey Insurance Holding Company Systems Act.

(ii) In addition to the IPO and, if any, the private offerings of Class B Stock and IHC Debt Securities described in Section 3.3(c)(i), the Holding Company and the Intermediate Holding Company may also raise funds for use in connection with the Plan prior to, on or within 30 days after the Effective Date through one or more of the following: (A) a private or public offering of debt, additional Common Stock, preferred stock or other equity securities of the Holding Company or the Intermediate Holding Company; options, warrants, purchase rights, subscription rights or other securities exchangeable for or convertible or exercisable into any of the foregoing; or any combination of any of the foregoing; or (B) bank borrowings. Funds raised pursuant to this Section 3.3(c)(ii) shall be in such amount or amounts as the Board or the board of directors of the Holding Company or duly authorized committee thereof shall determine. If the Company determines to effect any offering or borrowing pursuant to this Section 3.3(c)(ii), the Company shall give prior notice of such transaction to the Commissioner, and any sale of preferred stock or other equity securities, or securities exchangeable for or convertible or exercisable into Common Stock, by the Holding Company or the Intermediate Holding Company pursuant to this Section 3.3(c)(ii), shall be subject to the specific approval of the Commissioner under Section 3.c.(1) or Section 6 of Chapter 17C, or both, as applicable.

(iii) On or after the Effective Date, subject to the receipt of the required approvals, the Company may enter into one or more agreements to reinsure or otherwise transfer all or part of its risks under the Closed Block Policies, pursuant to and subject to the provisions of Section 9.2(h).

**Section 3.4 Exemption from Registration.** In issuing Common Stock for distribution to Eligible Policyholders, the Company and the Holding Company will rely on the exemption from registration under the Securities Act provided by Section 3(a)(10) of the Securities Act based on the Commissioner's determination in accordance with Chapter 17C following the Hearing contemplated by Article X.

## ARTICLE IV

### Policies

**Section 4.1 Policies.** For purposes of this Plan, the following shall be policies issued, or deemed for purposes of this Plan to be issued, by the Company (each, a "Policy"):

(a) each of the following that has been issued by the Company, issued in the United States by a Designated Subsidiary or assumed by the Company through an assumption reinsurance agreement: (i) an individual or group life insurance policy (including, without limitation, a pure endowment contract), annuity contract or health insurance policy as defined in Title 17B of the New Jersey Revised Statutes, including without limitation a Transferred Canadian Policy and a Rewritten Health Policy; (ii) a Funding Agreement; (iii) a Guaranteed Investment Contract; and (iv) a Supplementary Contract, *provided, however*, that any Supplementary Contract issued to effect the annuitization of an individual deferred annuity shall be treated with such deferred annuity as one Policy;

(b) a certificate or other evidence of an interest in a group insurance policy or annuity contract issued by the Company, issued in the United States by a Designated Subsidiary or assumed by the Company through an assumption reinsurance agreement, the holder of which certificate or other evidence is a Person deemed for purposes of this Plan to be an Owner of a separate Policy under Section 5.4; and

(c) each life insurance policy jointly issued by the Company and National Life pursuant to a reinsurance agreement,

in any case regardless of whether it has been ceded by the Company or the Designated Subsidiary in an indemnity reinsurance transaction.

**Section 4.2** *Duration of Membership Interests.* The Membership Interest of a Policyholder, including without limitation an Eligible Policyholder, with respect to a Policy shall be considered for purposes of this Plan to have existed from the time that the Policy to which it relates first became In Force as determined in accordance with Article VI.

**Section 4.3** *Exclusions.* The following policies, contracts and other instruments shall not be Policies for purposes of this Plan:

- (a) any policy, contract or other instrument issued outside the United States by a Designated Subsidiary;
- (b) any policy or contract ceded to the Company or a Designated Subsidiary on an indemnity reinsurance basis, except a policy or contract that would otherwise be a Policy under Section 4.1;
- (c) any policy or contract issued by the Company or a Designated Subsidiary that was ceded to another insurer in an assumption reinsurance transaction, other than a Transferred Canadian Policy;
- (d) any certificate of insurance or other evidence of interest in a group insurance policy or annuity contract, except as provided under Section 4.1(b) above;
- (e) a limited insurance agreement; and
- (f) an “administrative services only” contract.

## ARTICLE V

### Determination of Ownership

Unless otherwise provided in this Article V and subject to the ADR Memorandum, the owner or deemed owner for purposes of this Plan of any Policy as of any date (each, an “Owner”) shall be determined on the basis of the applicable Records as of such date in accordance with the following provisions. Multiple Persons determined pursuant to this Article V to be collectively the owner of a single Policy shall be treated as a single Owner.

**Section 5.1** *Individual Policies.* Except as specified in Section 5.2, the Owner of a Policy shall be the insured under a Policy that is an individual insurance policy or the Person to whom a Policy is payable by its terms in the case of a Policy that is an individual annuity contract unless, in either case, a different Person is designated as the owner in the applicable Records, in which case such different Person shall be the Owner.

**Section 5.2** *Structured Settlements.* With respect to a Structured Settlement, the Owner shall be the entity named as the owner in such Policy, as modified by any subsequent document that may be reflected in the applicable Records.

**Section 5.3** *Group Policies.* Except as otherwise specified in Section 5.4 with respect to certain group policies and contracts issued to groups and trusts established by the Company, the Owner of a Policy that is a group insurance policy, a group annuity contract, a Guaranteed Investment Contract or a Funding Agreement shall be the Person or Persons specified as the policyholder or contract holder in the master policy or contract, as reflected in the applicable Records.

**Section 5.4** *Certain Group Policies and Contracts Issued to Groups and Trusts Established by the Company.* (a) In the case of a Policy issued to a trust established by the Company, as described in Section 5.4(b) (other than a trust established pursuant to any employee benefit plan (as such term is defined under ERISA) sponsored by the Company or a Prudential Affiliate), the trustee of such trust shall not be the Owner with respect to such Policy, but rather each participating employer under such trust as specified in Section 5.4(c)(i) and each certificate holder or holder of a confirmation of enrollment or other evidence of interest as specified in Section 5.4(c)(ii) (in all cases as shown in the applicable Records) shall be deemed for purposes of this Plan to be the Owner of a separate Policy, as permitted by the definition of “policy” set forth in Chapter 17C. Each such separate Policy shall be deemed for purposes of this Plan to be In Force as of any given date if (as shown in the applicable Records) the participation agreement, certificate, confirmation of enrollment or other evidence of interest held by such Person, as specified in Sections 5.4(c)(i) and (ii), is in effect as of such date; *provided, however*, that nothing herein shall preclude the trustee of such trust from being a Qualified Voter under this Plan if the trustee of such trust satisfies the definition of Qualified Voter set forth in this Plan.

(b) A trust shall be considered for purposes of this Section 5.4 to have been established by the Company if the settlor of such trust is the Company.

(c) For purposes of this Section 5.4, the Person or Persons that shall be deemed to be the Owners of separate Policies with respect to a Policy issued to a trust established by the Company to which this Section 5.4 applies shall be the Person or Persons with which the Company has the economic relationship with respect to the Policy. Such economic relationship shall be presumed to exist:



(i) in the case of a Policy issued to a multiple employer trust or other trust established by the Company for the benefit of one or more employers (other than Policies held by or on behalf of employee benefit plans sponsored by the Company or a Prudential Affiliate), with each participating employer in the trust (but not with the certificate holders who are employees of a participating employer); and

(ii) in the case of a Policy issued to a trust established by the Company other than as described in Section 5.4(c)(i) (and other than Policies held by or on behalf of employee benefit plans sponsored by the Company or a Prudential Affiliate), with each certificate holder or holder of a confirmation of enrollment or other evidence of an interest in the Policy.

Because groups established by the Company are organized as trusts, the only groups established by the Company are the trust arrangements described in Section 5.4(c).

**Section 5.5 Assignment.** Notwithstanding Sections 5.1, 5.2, 5.3 and 5.4, the Person to whom a Policy has been assigned by an assignment of ownership thereof absolute on its face and filed in accordance with the provisions of such Policy and the rules with respect to the assignment of such Policy in effect at the time of such assignment, in each case as shown in the applicable Records, shall be the Owner of such Policy; *provided, however,* that if the holder of a Policy absolutely assigns the Policy to an insurer other than the Company or a Prudential Affiliate pursuant to an exchange qualifying as a non-taxable transaction pursuant to Section 1035 of the Code or otherwise, ownership shall not be deemed to have been transferred as of any date until the Company has paid the surrender value of the Policy to such new insurer. Unless an assignment satisfies the requirements specified for such an assignment in this Section 5.5, the determination of the Owner of a Policy shall be made without giving effect to such assignment. In the case of an assignment of a security interest in a Policy in which the assignor retains ownership of the Policy, the Owner of the Policy shall be such assignor.

**Section 5.6 No Other Interest Considered.** Except as otherwise set forth in this Article V, the identity of the Owner of a Policy shall be determined without giving effect to any interest of any other Person in such Policy.

**Section 5.7 Determination by the Company.** In any situation not covered expressly by the foregoing provisions of this Article V, the owner as reflected in the applicable Records and as determined in good faith by the Company, including as determined pursuant to Section 5.9, shall be presumed to be the Owner of such Policy for purposes of this Article V.

**Section 5.8 Mailing Address.** The mailing address of an Owner as of any date for purposes of this Plan shall be presumed to be the Owner's last known address as shown in the applicable Records as of such date or such other address as is determined in good faith by the Company to be appropriate.

**Section 5.9 Inquiries and Disputes.** Any inquiry or dispute as to the identity of the Owner of a Policy or the right of a Person to receive consideration shall be determined by the Company in good faith in accordance with the Resolution Procedures. The outcome of any such inquiry or dispute with the Company shall be reflected in the Records of the Company for the purpose of determining the Owner of the Policy in accordance with this Article V.

## ARTICLE VI

### In Force

**Section 6.1 In Force Rules.** (a) **General Rule.** For purposes of this Plan, and except as provided in Section 5.4(a) and the specific rules set forth in Section 6.1(b) and 6.1(c), a Policy shall be In Force as of any given date if the Policy has become, or is deemed for purposes of this Plan to have become, In Force and has not ceased to be In Force, in each case as determined on the basis of the applicable Records as of such date and in accordance with the provisions of this Article VI.

(b) **In Force; Ceasing to be In Force; Reinstatement.** Based upon the applicable Records, and except as otherwise set forth in Section 6.1(c),

(i) a Policy shall be deemed for purposes of this Plan to have become In Force as of any given date if, as of such date, all requirements and payment obligations, if any, necessary to issue the Policy have been received; *provided, however,* that a Policy not otherwise In Force pursuant to this Article shall not be deemed for purposes of this Plan to have become In Force solely because insurance coverage is or has been provided by means of a limited insurance agreement prior to the date the Policy was issued;

(ii) a Policy shall be considered to have ceased to be In Force (x) upon the expiration of any applicable grace period when it has lapsed for non-payment of premium and has not been continued as reduced paid-up insurance or extended term insurance, (y) when it has been surrendered or terminated, or (z) when it has matured by death.

(A) a Policy shall be considered for purposes of this Plan to have lapsed for non-payment of premiums or to have been surrendered or terminated as of any given date only if so reflected in the applicable Records as of such date.

(B) a Policy shall be considered for purposes of this Plan to be matured by death once notice of death is reflected in the applicable Records as having been received; and



(iii) a Policy that has lapsed for non-payment of premiums shall be considered for purposes of this Plan to be reinstated and In Force as of any given date if, as of such date, (x) all other requirements of reinstatement have been met, and (y) the reinstatement has been reflected in the applicable Records.

(c) Rules for Specific Types of Policies. Based upon the applicable Records:

(i) Individual Life Insurance Policies. In the case of a Policy that is an individual life insurance policy or pure endowment contract, such a Policy shall be deemed to have become In Force for purposes of this Plan as of any given date if, as of such date, all the following conditions have been met:

(A) all underwriting requirements have been met, and the Company or Designated Subsidiary has completed all underwriting,

(B) the contract has been issued and all other required forms, including the application, have been prepared, and any such forms requiring signature have been signed and received by the Company or Designated Subsidiary, and

(C) the full initial premium for the Policy has been received by the Company or Designated Subsidiary.

Such Policy shall be considered for purposes of this Plan to have ceased to be In Force as determined in accordance with Section 6.1(b).

(ii) Structured Settlements. A Policy that is a Structured Settlement shall be deemed for purposes of this Plan to have become In Force as of any given date if, as of such date, the Company has determined that underwriting requirements have been sufficiently satisfied to accept payment of the premium, the premium for such Structured Settlement has been received, and the Company has determined that it has become obligated to commence payments under the Policy, and it shall be considered for purposes of this Plan to have ceased to be In Force as determined in accordance with Section 6.1(b).

(iii) Transferred Canadian Policies. A Policy that is a Transferred Canadian Policy shall be deemed for purposes of this Plan to be In Force with the Company as of any given date if (A) such Policy is in force with London Life as of such date as reflected in the applicable Records of London Life, (B) a policy issued by London Life, other than a Supplementary Contract issued by London Life, in satisfaction of a contractual provision of such Policy is in force with London Life as of such date as reflected in the applicable Records of London Life or (C) a group life and health insurance policy issued by Great-West is in force with Great-West as of such date as reflected in the applicable Records of Great-West, following notification to the Owner of such Transferred Canadian Policy that any future coverage associated with such Transferred Canadian Policy would be provided by means of a policy issued by Great-West. This Section 6.1(c)(iii) alone shall determine whether a Policy that is a Transferred Canadian Policy is In Force with the Company, notwithstanding any other provision of this Section 6.1.

(iv) Certain Policies Issued to ADR Claimants. Each Policy issued to or reinstated or repurchased by an ADR Claimant after the Adoption Date in accordance with the ADR Memorandum shall be deemed for purposes of this Plan to be In Force as of the Adoption Date; *provided, however*, that such a Policy issued to or reinstated or repurchased by an ADR Claimant after the Adoption Date shall not be deemed to be In Force for the purpose of determining whether such ADR Claimant is a Qualified Voter as of the Adoption Date.

(v) Rewritten Health Policies. A Policy that is a Rewritten Health Policy shall be deemed for purposes of this Plan to be In Force with the Company as of any given date if the policy of health insurance issued by an Aetna Company which succeeded such Rewritten Health Policy is in force with an Aetna Company as of such date as reflected in the applicable Records of an Aetna Company. This Section 6.1(c)(v) shall determine whether a Policy that is a Rewritten Health Policy is In Force with the Company, notwithstanding any other provision of this Section 6.1.

(vi) Group Annuity Contracts, Guaranteed Investment Contracts and Funding Agreements.

(A) Except as set forth in Section 6.1(c)(vi)(B) below, a Policy that is a group annuity contract, Guaranteed Investment Contract or Funding Agreement shall be deemed for purposes of this Plan to be or to have become In Force as of the effective date of the contract, as reflected in the applicable Records.

(B) In the case of a separate group annuity contract issued upon exercise of a contractual right in the event of a contract holder's spin-off or divestiture of a company or division, such contract shall not be deemed for purposes of this Plan to be or to have become In Force as of any given date if the request for issuance of such contract is received by the Company or the Designated Subsidiary after such date notwithstanding that the contract has a retroactive effective date that is on or prior to such date.

(C) A Policy that is a group annuity contract, Guaranteed Investment Contract or Funding Agreement shall be deemed for purposes of this Plan to have ceased to be In Force when all of the following apply: (A) no further payments are due and payable by the Company or the Designated Subsidiary thereunder, (B) no further contributions are due and payable thereunder or are permitted without the Company's or the Designated Subsidiary's consent, and (C) no amount remains in any account thereunder, in each case as reflected in the applicable Records.

(vii) Group Life and Health Policies. A Policy that is a group life or health policy shall be deemed for purposes of this Plan to be or to have become In Force as of any given date if, as reflected in the applicable Records, all of the following requirements have been satisfied: (A) the Company or the Designated Subsidiary has assumed the underwriting risk on or before such date, (B) the Policy is in premium paying status on such date, and (C) the Policy effective date is on or before such date. Such a Policy shall be considered for purposes of this Plan to have ceased to be In Force if it is terminated, in each case as reflected in the applicable Records.

(viii) Group Credit Insurance Policies. A Policy that is a group credit insurance policy shall be deemed for purposes of this Plan to be or to have become In Force when such Policy has been issued by the Company and delivered to the Person that signed the application for insurance, and the first certificate is issued under the Policy. Such a Policy shall be considered for purposes of this Plan to have ceased to be In Force as of any given date as determined on the basis of the applicable Records.

**Section 6.2 *Inquiries and Disputes.*** Any inquiry or dispute as to whether a Policy is In Force shall be determined by the Company in good faith in accordance with the Resolution Procedures. The outcome of any such inquiry or dispute with the Company shall be reflected in the Records of the Company for the purpose of determining whether the Policy is or was In Force as of any given date in accordance with this Article VI.

## ARTICLE VII

### Allocation of Policyholder Consideration

**Section 7.1 *Allocation of Total Allocable Shares.*** (a) The allocation of consideration among Eligible Policyholders pursuant to Chapter 17C and this Plan shall be determined in accordance with this Article VII and the Allocation Principles and Methodology attached hereto as Exhibit F. Solely for purposes of calculating the amount of such consideration, each Eligible Policyholder shall be allocated notional Allocable Shares from the Total Allocable Shares in accordance with this Section 7.1 and Section 7.2. The actual form of the consideration to be received by Eligible Policyholders shall be determined in accordance with Article VIII.

(b) Each Eligible Policyholder shall be allocated consideration based on a number of Allocable Shares equal to the sum of the Fixed Component and the Variable Component of consideration, in each case to the extent specified below:

(i) The Fixed Component. The Fixed Component of consideration shall consist of a Basic Fixed Component and, if applicable, an Additional Fixed Component.

(A) Each Eligible Policyholder shall be allocated a single Basic Fixed Component of consideration (regardless of the number of Eligible Policies owned by such Eligible Policyholder as of the Adoption Date, including any Policies issued, reinstated or repurchased pursuant to the ADR Memorandum).

(B) Each Eligible Policyholder that will receive no consideration in the form of shares of Common Stock pursuant to this Plan but that will receive consideration consisting (1) entirely of cash in respect of one or more Eligible Policies under Section 8.1(d), (e), (f), (g) or (h), (2) entirely of Policy Credits in respect of one or more Eligible Policies under Section 8.1(a), (b) or (c), or (3) both cash and Policy Credits, shall receive an Additional Fixed Component equal to two Allocable Shares.

(ii) The Variable Component. The Variable Component of consideration shall consist of a Basic Variable Component and, if applicable, an Additional Variable Component.

(A) The Basic Variable Component of consideration shall be equal to the portion, if any, of the Aggregate Basic Variable Component allocated in respect of all Eligible Policies of an Eligible Policyholder.

(B) Each Eligible Policyholder that will receive no consideration in the form of shares of Common Stock pursuant to this Plan but that will receive consideration consisting (1) entirely of cash in respect of one or more Eligible Policies under Section 8.1(d), (e), (f), (g) or (h), (2) entirely of Policy Credits in respect of one or more Eligible Policies under Section 8.1(a), (b) or (c), or (3) both cash and Policy Credits, shall receive a single Additional Variable Component equal to the amount set forth opposite the applicable sum of the Basic Fixed Component and Basic Variable Component specified in the following table, which also illustrates the allocation of the Additional Fixed Component to each such Eligible Policyholder:

Number of Allocable Shares allocated to such Eligible Policyholder as the sum of the Basic Fixed Component and the Basic Variable Component	Number of Allocable Shares such Eligible Policyholder shall receive as the Additional Fixed Component	Number of Allocable Shares such Eligible Policyholder shall receive as the Additional Variable Component
25 or fewer	2	0
at least 26 but fewer than or equal to 35	2	1
at least 36 but fewer than or equal to 45	2	2
46 or more	2	(x) 10% of the number of Allocable Shares allocated to such Eligible Policyholder as the sum of the Basic Fixed Component and the Basic Variable Component <i>minus</i> (y) the two shares that constitute the Additional Fixed Component. Such number, if containing a fractional remainder, shall be rounded to the next highest whole number if such fractional remainder is 0.5 or greater and shall be rounded to the next lowest whole number if such fractional remainder is less than 0.5.

Notwithstanding anything herein to the contrary, no Eligible Policyholder shall be entitled to more than one Additional Fixed Component or more than one Additional Variable Component.

(c) Notwithstanding any other provision of this Section 7.1, and except as provided in the ADR Memorandum, no consideration shall be allocated or distributed in respect of any Policy acquired or reinstated by any Project Participant on or after February 10, 1998.

**Section 7.2** *Allocation of Aggregate Basic Variable Component.* The Aggregate Basic Variable Component shall be allocated among Eligible Policyholders in respect of their Eligible Policies as follows:

(a) Such allocation shall be made to each Eligible Policyholder by multiplying the sum of the positive Actuarial Contributions of all Eligible Policies of an Eligible Policyholder by the Allocation Factor and rounding such amount to a whole number of Allocable Shares. Such rounding shall be conducted in such a manner as to minimize the difference between the sum of Eligible Policyholders' Basic Variable Components and the Aggregate Basic Variable Component. As a result of such rounding, the sum of Eligible Policyholders' Basic Variable Components will not necessarily be equal precisely to the Aggregate Basic Variable Component.

(b) The Company shall make reasonable determinations of the dollar amount of the Actuarial Contribution, which shall be zero or a positive number, for each Eligible Policy, in accordance with the Allocation Principles and Methodology attached hereto as Exhibit F.

(c) Each such Actuarial Contribution shall be determined as of the Actuarial Contribution Date on the basis of the applicable Records.

**Section 7.3** *Reinstated Policies.* In the case of any reinstated Policy that is an Eligible Policy pursuant to this Plan, or any Policy reinstated or repurchased pursuant to the ADR Memorandum, the determination of such Policy's Actuarial Contribution pursuant to this Article VII shall be made based on the original issue date of such Policy and without regard to any lapse and reinstatement or any repurchase pursuant to the ADR Memorandum. If such Policy is reinstated pursuant to a form of ADR relief or a repurchase option described in the ADR Memorandum, additional calculations may be needed which could result in a larger Actuarial Contribution for such reinstated or repurchased Policy. Those calculations, and the circumstances in which they may be required, are described in the ADR Memorandum.

**Section 7.4** *Policies Issued to ADR Claimants.* The method for determining the Actuarial Contribution of a Policy issued to an ADR Claimant in accordance with the ADR Memorandum is set forth in the ADR Memorandum.

**Section 7.5** *Determination of Amount of Non-Stock Consideration.* If any consideration is to be paid or credited to an Eligible Policyholder in cash or Policy Credits pursuant to Article VIII, the amount of such consideration shall be equal to the number of Allocable Shares allocated to such Eligible Policyholder pursuant to this Article VII with respect to Eligible Policies as to which such non-stock consideration is payable as provided in Article VIII multiplied (a) by the Initial Stock Price or (b), if the average of the closing prices of the Common Stock on the primary exchange where such Common Stock is listed on each trading day during the Top-up Period exceeds 110% of the Initial Stock Price, by the sum of the Initial Stock Price plus the lesser of (i) the difference between such average closing price and 110% of the Initial Stock Price or (ii) 10% of the Initial Stock Price. If payment is made in cash, or by establishing on the books of the Holding Company a liability owed to an Eligible Policyholder, such payment or liability shall be net of any applicable withholding tax, such withheld tax to be remitted by the Company to the Internal Revenue Service in accordance with applicable law.

## ARTICLE VIII

### Forms of Consideration; Distribution

**Section 8.1** *Forms of Consideration.* The allocation of consideration payable to each Eligible Policyholder shall be based on a number of shares of Common Stock equal to the number of notional Allocable Shares that are allocated to such Eligible Policyholder in accordance with Article VII; *provided, however*, that the form of such consideration shall not in the case of every Eligible Policyholder be shares of Common Stock and shall instead be in the form of cash or Policy Credits (as defined in Section 8.2), based on the number of notional Allocable Shares allocated to such Eligible Policyholder as provided in Article VII, as follows:

(a) Policy Credits to the extent Allocable Shares are allocated with respect to an Eligible Policy that is as of the Effective Date a TDA (as defined herein);

(b) Policy Credits to the extent Allocable Shares are allocated with respect to an Eligible Policy that is as of the Effective Date an IRA (as defined herein);

(c) Policy Credits to the extent Allocable Shares are allocated with respect to an Eligible Policy that as of the Effective Date is or is held by one of the Other Qualified Plans (as defined herein);

(d) except as provided in Section 8.1(a) through (c), cash to the extent Allocable Shares are allocated to an Eligible Policyholder whose address for mailing purposes as shown in the applicable Records is located outside the United States as of the Effective Date;

(e) cash payable by the Company's Canadian branch in Canadian dollars to the extent Allocable Shares are allocated to an Eligible Policy denominated in Canadian dollars;

(f) except as provided in Section 8.1(a) through (c), an Eligible Policyholder for whom the Company does not have a valid address as of the Effective Date shall, at such time as the Company obtains a valid address for such Eligible Policyholder, be paid cash in an amount determined in accordance with Section 8.3; *provided, however*, that the Company shall, subject to Section 8.3, escheat such funds if required under applicable law to do so before such time;

(g) except as provided in Section 8.1(a) through (c), cash to the extent Allocable Shares are allocated with respect to an Eligible Policy and such Eligible Policy is known to the Company to be subject as of the Effective Date to a judgment lien, creditor lien (other than a policy loan made by the Company) or bankruptcy proceeding; *provided* that such cash shall be paid to the Eligible Policyholder only when the Company has received written evidence reasonably satisfactory to it that such Eligible Policy is no longer subject to a judgment lien or creditor lien;

(h) cash if and to the extent that (i) the number of shares of Common Stock allocated to such Eligible Policyholder in accordance with Section 7.1(b) in respect of the sum of such Eligible Policyholder's Basic Fixed Component and Basic Variable Component, less the number of such shares to be distributed in the form of cash or Policy Credits as otherwise provided in this Section 8.1, is equal to or less than the Share Election Maximum, which shall be determined by the Board at any time prior to the Effective Date, and (ii) the Eligible Policyholder has not affirmatively indicated a preference to receive shares of Common Stock in lieu of cash. Such preference shall be indicated on a form approved by the Commissioner and provided to such Eligible Policyholder that has been properly completed by such Eligible Policyholder and received by the Company prior to a date set by the Company and approved by the Commissioner. The determination of whether the number of shares described in (i) above is equal to or less than the Share Election Maximum shall be made without giving effect to any shares allocated to such Eligible Policyholder as the Additional Fixed Component or Additional Variable Component;

(i) in the case of an Eligible Policyholder holding multiple Eligible Policies all of which entitle such Eligible Policyholder to receive the same form of consideration, the Eligible Policyholder shall receive all of the consideration to which such Eligible Policyholder is entitled in such form. In the case where such form of consideration is Policy Credits, consideration shall be allocated among the Eligible Policies in respect of which such Eligible Policyholder is eligible to receive consideration in the



same proportion as the relative Actuarial Contributions of such Eligible Policies, and the types of Policy Credits distributed in respect of such Eligible Policies shall reflect the same proportion. If all, but not less than all, such Eligible Policies have an Actuarial Contribution of zero, then the Fixed Component shall be allocated among such Eligible Policies on a pro rata basis based on the number of such Eligible Policies;

(j) in the case of an Eligible Policyholder holding multiple Eligible Policies which entitle such Eligible Policyholder to receive more than one form of consideration, consideration shall be allocated among the forms of consideration that such Eligible Policyholder is eligible to receive in the same proportion as the relative Actuarial Contributions of such Eligible Policyholder's Eligible Policies. If all, but not less than all, of such Eligible Policies have an Actuarial Contribution of zero, then the Fixed Component shall be allocated among such forms of consideration on a pro rata basis based on the number of such Eligible Policies. The allocation of any such consideration to shares of Common Stock as the form of consideration shall be rounded to a whole number of shares on the same basis as described in Section 7.2(a); *provided, however*, that the allocation of consideration to the other form or forms of consideration that the Eligible Policyholder is eligible to receive shall be rounded as necessary so that the total amount of consideration allocated to such Eligible Policyholder shall not be changed from that determined in accordance with Article VII.

**Section 8.2** *"Policy Credits" Defined.* For purposes of this Plan, "Policy Credit" includes:

(a) dividend accumulations for an Eligible Policy that is (i) a life insurance policy other than an Interest Sensitive Life Insurance Policy or a variable life insurance policy, the status of which is (A) premium paying, (B) fully paid-up or (C) in reduced paid-up status for \$1,000 or more of face amount pursuant to a non-forfeiture provision of a life insurance policy, or (ii) a Participating Individual Retirement Annuity Contract in premium paying status;

(b) dividend additions for an Eligible Policy that is (i) a life insurance policy other than an Interest Sensitive Life Insurance Policy or a variable life insurance policy, that is in reduced paid-up status for less than \$1,000 of face amount pursuant to a non-forfeiture provision of a life insurance policy, (ii) an Interest Sensitive Life Insurance Policy or a variable life insurance policy that is in fixed reduced paid-up status pursuant to a non-forfeiture provision of a life insurance policy, or (iii) a Participating Individual Retirement Annuity Contract in reduced paid-up status pursuant to its non-forfeiture provision. Such dividend additions shall be based upon the non-forfeiture interest rate and mortality assumptions specified in the Eligible Policy;

(c) an increase in account value (to which no sales or surrender or similar charges will be applied) for an Eligible Policy that is (i) an Interest Sensitive Life Insurance Policy or a variable life insurance policy whose status is premium paying, fully paid-up or variable reduced paid-up pursuant to a non-forfeiture provision of a life insurance policy, (ii) an individual deferred annuity contract not in pay-out status, or (iii) a group annuity contract;

(d) (i) an extension of the expiration date for an Eligible Policy which is extended term life insurance pursuant to a non-forfeiture provision of a life insurance policy if the extension does not extend to the original maturity date, or (ii) an extension of the expiration date to the maturity date and an endowment on the maturity date for an Eligible Policy which is extended term life insurance pursuant to a non-forfeiture provision of a life insurance policy if the extension in term period due to a policy credit extends to the original maturity date. The extension of the expiration date referred to in each of clauses (i) and (ii) shall be based upon the non-forfeiture interest rate and mortality assumptions specified in the Eligible Policy;

(e) a one-time additional payment distributed under an Eligible Policy that is an individual annuity contract in payout status; and

(f) any other feature which, subject to the requirements of applicable law, is necessary or appropriate to provide under an Eligible Policy in order to avoid a material adverse tax consequence for such Eligible Policy or Eligible Policyholder.

**Section 8.3** *Distribution of Non-Stock Consideration.* If any consideration is to be paid or credited to an Eligible Policyholder in cash or Policy Credits pursuant to this Article VIII, the amount of such consideration shall be determined in accordance with Section 7.5, and such consideration shall be distributed in accordance with Sections 8.4, 8.5 and 8.6.

**Section 8.4** *Currency; Exchange Rate.* Except as provided in Section 8.1(e) above, all payments in cash under this Plan shall be in United States dollars. If a payment in cash under this Plan is payable in Canadian dollars pursuant to Section 8.1(e), the amount shall be computed using the exchange rate between United States dollars and Canadian dollars published in the table entitled "Currency Trading," under the sub-heading "Exchange Rates" (or any successor table or sub-heading), in the final Eastern edition of *The Wall Street Journal* on the business day next preceding the Effective Date.

**Section 8.5** *Delivery of Consideration.* The Company shall, subject to the ADR Memorandum, act in good faith to mail, or to cause the Holding Company's transfer agent to mail, within 45 days after the Effective Date, to each Eligible Policyholder that is to receive shares of Common Stock pursuant to this Plan, notice that such shares of Common Stock have been issued to such Eligible Policyholder in book-entry form as uncertificated shares. In the case of an Eligible Policyholder who following receipt of such notice directs the Company to provide a stock certificate, the Company shall act in good faith to



promptly mail to such Eligible Policyholder a stock certificate representing such Eligible Policyholder's shares of Common Stock, registered in the name of such Eligible Policyholder. The Company shall, subject to the ADR Memorandum, Sections 8.1(f) and (g) and applicable law, act in good faith to provide to each Eligible Policyholder, within 45 days after the expiration of the Top-up Period, (a) a check in the amount of any cash to be received by such Eligible Policyholder and (b) to the extent an Eligible Policyholder is to receive Policy Credits, written notice that such Policy Credits have been awarded, which notice shall include a brief description of such Policy Credits.

**Section 8.6** *Distribution to Eligible Policyholders Comprising Multiple Persons.* In the case of an Eligible Policyholder that comprises multiple Persons, consideration allocated in respect of that Eligible Policyholder in accordance with Article VII shall be distributed jointly to or on behalf of such Persons, within the applicable time period specified in Section 8.5.

## ARTICLE IX

### Closed Block; Provisions for Certain Policies with Non-Guaranteed Elements

**Section 9.1** *Establishment and Purpose of the Closed Block.* (a) The Company shall establish the Closed Block in accordance with the requirements of this Article IX and the Closed Block Memorandum. Initial Closed Block Assets shall be determined in accordance with the Closed Block Memorandum. The Initial Closed Block Assets shall be allocated to the Closed Block in order to produce cash flows which, together with anticipated revenue from the Closed Block Policies, are expected to be reasonably sufficient to support the Closed Block Policies (including but not limited to the payment of claims, certain expenses and taxes) and to provide for the continuation of dividend scales payable in 2000 on the Closed Block Policies if the experience underlying such scales continues and for appropriate adjustments in such scales, as may be made by the Board consistent with the requirements of Section 9.2(c)(i), if such experience changes. In no event shall the Company be required to pay dividends on Closed Block Policies from assets that are not Closed Block Assets. Notwithstanding any other provision of this Article IX or of this Plan, the Company's decision to establish a Closed Block in connection with the Plan shall in no way constitute a guarantee with respect to any policy or contract that it will be apportioned a certain amount of dividends.

**Section 9.2** *Operation of the Closed Block.* The Closed Block shall be operated for the exclusive benefit of the Closed Block Policies in accordance with the requirements of this Article IX and the Closed Block Memorandum.

(a) Credits to and Charges Against the Closed Block. After the Closed Block Funding Date, insurance cash flows and investment cash flows arising from the operation of the Closed Block shall be credited to or charged against the Closed Block as follows, in each case subject to the specific rules and consistent with the assumptions and methodologies set forth in the Closed Block Memorandum:

(i) With respect to insurance cash flows:

(A) The Closed Block shall be credited or charged, as the case may be, for: (i) premiums and annuity considerations paid with respect to Closed Block Policies, including but not limited to any premiums and annuity considerations paid by the Company with respect to a policy that is the subject of an ADR claim and that otherwise satisfies the criteria for a Closed Block Policy; (ii) cash repayments of policy loans made with respect to Closed Block Policies; (iii) policy loan interest paid in cash on Closed Block Policies; (iv) death or maturity benefits, surrender values and new policy loans taken in cash with respect to Closed Block Policies; (v) dividends paid in cash on policies and riders that are Closed Block Policies; and (vi) Policy Credits in respect of Closed Block Policies pursuant to this Plan.

(B) The Closed Block shall be credited or charged, as the case may be, in respect of premium taxes and retaliatory taxes (including franchise taxes levied solely on the basis of premiums) incurred on premiums received in respect of Closed Block Policies, and payments made or received in connection with membership in a state guaranty association or imposed by any mandatory pool, fund or association. The amounts to be credited or charged shall be determined in accordance with the procedure described in the Closed Block Memorandum.

(C) The Closed Block shall be credited or charged, as the case may be, in respect of income taxes and franchise taxes calculated in the manner of income taxes in accordance with the procedure described in the Closed Block Memorandum.

(D) The Closed Block shall be charged in respect of payroll taxes in accordance with the procedure described in the Closed Block Memorandum.

(E) Fees in respect of administrative and overhead expenses and certain commissions and commission-related expenses incurred by the Company in connection with the performance of its obligations under the Closed Block Policies shall be charged against the Closed Block. The fees shall be in the amounts determined in accordance with the schedule specified in the Closed Block Memorandum and shall be charged in lieu of the actual expenses incurred by the Company or any Prudential Affiliate providing such services.

(F) Amounts in respect of certain expenses to adjust funding in connection with Closed Block Policies issued on or after the Closed Block Funding Date shall be charged against the Closed Block. The amounts of such charges shall be determined in accordance with the schedule specified in the Closed Block Memorandum and shall be charged against the Closed Block to adjust funding in connection with Closed Block Policies.

(ii) With respect to investment cash flows:

(A) Investment-related cash flows from the Closed Block Assets, including, but not limited to, interest, coupon payments, dividends, proceeds of asset sales, maturities and redemptions, shall be credited to the Closed Block.

(B) Fees in respect of investment-related expenses related to managing the Closed Block Assets (covering investment management fees, record keeping expenses, bank fees, accounting and reporting fees, fees for asset allocation and fees for investment policy, planning and analysis) shall be charged against the Closed Block. The fees shall be in the amounts determined in accordance with the schedule of investment fees specified in the Closed Block Memorandum and shall be charged in lieu of the actual internal investment-related expenses incurred by the Company or any Prudential Affiliate providing such services.

(C) In addition to the fees specified in Section 9.2(a)(ii)(B), the Closed Block shall be charged for direct investment expenses including the brokerage cost of acquiring investments and the brokerage cost and transaction expense of disposing of investments. Payments for real estate expenses and real estate taxes shall also be charged against the Closed Block in proportion to the Closed Block's holding of any interest in real estate giving rise to such expenses and taxes. Real estate taxes shall be charged to the Closed Block when payable to the taxing entity.

(b) Investment Policy of the Closed Block. As of the Closed Block Funding Date, new investments of Closed Block cash flows shall be acquired in conformity with an investment policy statement for the Closed Block that is consistent with investment guidelines approved from time to time by the Investment Committee of the Board or its successor. Such investment policy statement shall address, to the extent applicable, investment objectives, permissible asset class categories, permissible investments, valuation methodology, internal reporting, risk limits and performance factors and measurements. The Closed Block Assets shall be managed in the aggregate to seek a high level of return consistent with the preservation of principal and equity through asset-liability management, strategic and tactical asset allocation and manager selection/performance and shall reflect the Closed Block's duration and its ability to take risk consistent with the nature of the Closed Block and the investment objectives outlined in this Section 9.2(b).

(c) Dividend Policy of the Closed Block. (i) Dividends on Closed Block Policies shall be apportioned annually by the Board in accordance with applicable law and applicable standards of actuarial practice as promulgated by the Actuarial Standards Board or its successor so as to reflect the underlying experience of the Closed Block and with the objective of managing aggregate dividends so as to exhaust the Closed Block Assets when the last Closed Block Policy terminates while avoiding an outcome in which relatively few last surviving holders of Closed Block Policies receive dividends that are substantially disproportionate (either higher or lower) to those previously received by other holders of Closed Block Policies.

(ii) Subject to Section 9.2(c)(i), dividends on Closed Block Policies shall be apportioned, and shall be allocated among Closed Block Policies, so as to reflect the underlying experience of the Closed Block, and the degree to which the various classes of Closed Block Policies have contributed to such experience.

(d) Reports on the Closed Block. (i) The Company shall provide the Commissioner as supplemental schedules to its statutory Annual Statements for each year commencing with the year in which the Effective Date occurs (A) financial schedules, consisting of the information required by Annual Statement pages 2, 3, 4 and 5 and (B) investment schedules, consisting of the information required by Annual Statement Schedules A, B, BA, D and E (or comparable information under financial reporting requirements as they may be established from time to time for the Company as a whole by the Commissioner after the Adoption Date), in each case for the Closed Block. By June 1 of the year subsequent to the year being reported, the Company shall submit to the Commissioner an attestation report or the equivalent of a firm of independent public accountants as to the financial schedules of the Closed Block referred to in clause (A) of this Section 9.2(d)(i). Additionally, the Company shall submit to the Commissioner by June 1 of each such year a report, prepared at the Company's request by a firm of independent public accountants, on the results of certain procedures, to test the Company's compliance with the Closed Block cash flow provisions of this Article IX and the Closed Block Memorandum. The reporting obligations provided for in this Section 9.2(d) shall continue for so long as the Commissioner may require. The annual report required by this Section 9.2(d) shall be submitted in a form acceptable to the Commissioner and in accordance with procedures acceptable to the Commissioner.

(ii) The Company shall submit to the Commissioner by June 1 of the fifth calendar year following the calendar year of the Effective Date and every five years thereafter a report, prepared in accordance with applicable actuarial standards, of an independent actuary, who shall be a member of the American Academy of Actuaries, concerning the operations of the Closed Block.

(e) Inter-account Transfers. No assets shall be reallocated, exchanged or transferred between the Closed Block and any other portion of the Company's general account or any Prudential Affiliate except (i) in accordance with this Section 9.2(e), (ii) as provided in the Closed Block Memorandum or (iii) as approved by the Commissioner. To facilitate the management of Closed Block cash flows, the Closed Block may participate in pooled short term accounts maintained by the Company on a basis no less favorable than any other portion of the Company's general account. Any other transfers, exchanges, investments, purchases or sales of assets between the Closed Block and any other portion of the Company's general account or any Prudential Affiliate may be effected if such transactions (i) benefit the Closed Block, (ii) are consistent with the investment policy statement and objectives described in Section 9.2(b) and the Closed Block Memorandum, (iii) are executed at demonstrable fair market values and (iv) do not exceed, in any calendar year, more than 10% of the statutory statement value of the invested assets of the Closed Block as of the beginning of that year.

(f) **Amendment or Cessation of Closed Block.** The Company may amend the terms of or cease to maintain the Closed Block with the prior approval of the Commissioner, subject to such terms and conditions as the Commissioner may approve, if the Commissioner determines that: (i) assurances provided by the Company or other conditions provide adequate safeguards to provide for the reasonable dividend expectations of the holders of Closed Block Policies and (ii) either (A) the Closed Block is no longer necessary to effectuate the purposes of this Article or (B) the Closed Block has been so reduced in size as to make continued operation of the Closed Block impracticable. Terms and conditions imposed by the Commissioner may include, without limitation, requiring actuarial opinions from independent actuaries hired by the Company, and by the Commissioner at the Company's expense, that appropriate provision has been made for the dividend expectations of holders of Closed Block Policies. If the Closed Block is discontinued, the Closed Block Policies then remaining shall continue to be obligations of the Company and dividends on such Policies shall be apportioned by the Board in accordance with applicable law.

(g) **Non-reversion to Shareholders.** Except as provided in Section 9.2(f), none of the assets, including the revenue therefrom, allocated to the Closed Block or acquired by the Closed Block shall revert to the benefit of the shareholders of the Company.

(h) **Reinsurance or other Transfer of Risks.** The Company may, with the Commissioner's prior consent, and subject to Article 7 of Chapter 18 of Title 17B of the New Jersey Revised Statutes, enter into one or more agreements to reinsure or otherwise transfer all or any part of its risks under the Closed Block Policies. Notwithstanding any other provision of this Article IX, (i) the agreement may provide for the transfer of all or part of the risks associated with Closed Block Policies and/or the transfer of ownership of, or other interest in, Closed Block Assets or funds not allocated to the Closed Block supporting such risks; (ii) amounts paid and received by the Company in connection with any such agreement may be allocated to the Closed Block in accordance with any methodology approved by the Commissioner; (iii) cash flows from any transferred Closed Block Assets may be considered to be investment cash flows of the Closed Block for purposes of establishing dividends and meeting policy obligations on Closed Block Policies; and (iv) the Company may use Closed Block Assets or funds not allocated to the Closed Block as reinsurance premiums or other consideration for such agreement *provided*, in each case, and without limiting the grounds on which the Commissioner may withhold approval, the Commissioner shall not approve such action if the Commissioner finds that such action shall have the effect of lessening the extent to which the reasonable dividend expectations of the holders of Closed Block Policies are provided for by this Article.

**Section 9.3 *Guaranteed Benefits.*** The Company shall pay all guaranteed benefits for Closed Block Policies in accordance with the terms of such policies. The Closed Block Assets are the Company's assets and the establishment of the Closed Block shall not in the event of the rehabilitation or liquidation of the Company affect the priority of the claims of the holders of Closed Block Policies to such assets in relation to the claims of all other policyholders and creditors of the Company.

**Section 9.4 *Canadian Closed Block.*** The Company shall, in addition to the Closed Block, establish a Canadian Closed Block. The Canadian Closed Block shall be established and operated as set forth in the Canadian Closed Block Memorandum, attached hereto as Exhibit H.

**Section 9.5 *Dividends on Certain Policies Not Included in Closed Block.*** (a) The Company shall maintain and continue the dividend scale in effect in 2000 for those individual disability income and daily income hospital policies In Force on the Effective Date for which the Company has a dividend scale and for which contract dividends are due, paid or accrued by action of the Board during 2000, unless or until the Company shall have obtained the prior approval of the Commissioner to change or discontinue such dividend scale.

(b) Beginning with the first adjustment to the rate of interest paid with respect to a Supplementary Contract to which this Section 9.5(b) applies, the Company shall set interest rates with respect to such Supplementary Contracts at a rate that is not less than 100% of the iMoneyNet Taxable Retail Average, less 75 basis points. In the event that such index ceases to be published, the Company shall use another similar index, subject to the approval of the Commissioner of such index and of the spread between such index and the proposed crediting rate. This Section 9.5(b) applies to any Supplementary Contract that is In Force with the Company or any Designated Subsidiary as of the Effective Date (i) for which dividends in the form of excess interest are due, paid or accrued during 2000, (ii) for which such interest would have been due, paid or accrued if the Supplementary Contract had been in force during all or any part of 2000 or (iii) for which such interest would have been due, paid or accrued if the Supplementary Contract had had a contractually guaranteed rate lower than the effective rate of interest set by the Company for 2000 for all other Supplementary Contracts eligible for excess interest payments.

(c) Interest paid after the Effective Date with respect to retained asset accounts operated under the name "Alliance Account" that are In Force as of the Effective Date shall be at a rate not less than the rate paid with respect to Supplementary Contracts referred to in Section 9.5(b).

(d) The Company shall maintain and continue the dividend scale in effect in 2000 for those payout annuities resulting from the "Annuity Types and Rates Provisions" of the annuity contract marketed under the name "Financial Security Program" ("FSP"). This Section 9.5(d) shall apply to any FSP annuity contract that is In Force as of the Effective Date and shall continue to apply to any such contract until the Company shall have obtained the prior approval of the Commissioner to change or discontinue the 2000 dividend scale with respect to such contract.

(e) Changes in future dividends paid on riders attached to policies that are not Closed Block Policies shall be identical to changes in future dividends on such riders issued on the same form that are attached to Closed Block Policies. This Section 9.5(e) applies to any such riders issued prior to the Effective Date that are attached to insurance policies issued by the Company that are In Force on the Effective Date.

**Section 9.6** *Modifications to Non-Guaranteed Elements in Certain Life Insurance Policies, Annuities and Riders.* The Company and each Designated Subsidiary shall (a) comply with the Flexible Factor Requirements set forth in Exhibit I with respect to the Flexible Factor Policies issued by each of them and (b) comply with the Annuity Crediting Rate Requirements set forth in Exhibit J with respect to the Covered Fixed Annuities and Covered Variable Annuities issued by each of them.

## ARTICLE X

### Approval by Commissioner

#### **Section 10.1** *Application; Hearing.*

(a) This Plan is subject to the approval of the Commissioner, as provided in Chapter 17C, after the Hearing.

(b) The Company shall file the Application with the Commissioner in accordance with Section 4.a. of Chapter 17C. The Application and the documents supporting the Application shall be public documents in accordance with Section 4.c. of Chapter 17C except as otherwise provided therein or by other applicable law.

**Section 10.2** *Notice of Hearing.* (a) At least 45 days prior to the Hearing, the Company shall mail, by first-class or priority mail, a Notice of Hearing to each Person who was a Policyholder as of the Adoption Date and each ADR Claimant eligible to repurchase a life insurance policy or annuity contract pursuant to the ADR Memorandum at the address for such Person that appears in the applicable Records. The Notice of Hearing shall be in a form satisfactory to the Commissioner. If the Hearing is adjourned to another time or place, the Company shall not be required to give individual notice of the adjourned hearing if the time and place to which the Hearing is adjourned are announced at the Hearing at which the adjournment is taken.

(b) The Company shall also give notice of such Hearing by publication at least two times at intervals of not less than one week, the first publication to be not more than 45 days and the last publication not less than 15 days prior to the Hearing, in two newspapers of general circulation throughout the United States. Such notice shall be in a form satisfactory to the Commissioner.

## ARTICLE XI

### Approval by Policyholders

**Section 11.1** *Special Meeting.* After the Hearing, the Company shall hold the Special Meeting, at which all Persons who are Qualified Voters as of the Adoption Date, as shown on the Records of the Company, shall be entitled to vote on a proposal to approve the Plan. The proposal to approve the Plan shall include all of the constituent elements thereof, including without limitation (x) the Destacking, including the Destacking Extraordinary Dividend, (y) the Additional Extraordinary Dividend and (z) the other financial and reinsurance transactions described in Section 3.3(c), and none of the transactions listed in (x), (y) and (z) above or any other constituent element of the Plan shall be subject to separate approval by the policyholders of the Company. Notwithstanding that the following Persons might be eligible to receive consideration under this Plan, no such Person shall be entitled to vote on the proposal to approve this Plan unless such Person otherwise satisfies the requirements for being a Qualified Voter:

(a) a holder of a policy, contract or Supplementary Contract issued by any subsidiary of the Company, including a Designated Subsidiary;

(b) a holder of a Transferred Canadian Policy;

(c) a holder of a Rewritten Health Policy;

(d) a Person deemed for purposes of this Plan to be an Owner of a Policy pursuant to Section 5.4;

(e) an ADR Claimant not otherwise satisfying the definition of Qualified Voter;

(f) a holder of a policy or contract issued by another insurance company that is reinsured by the Company on an indemnity reinsurance basis; or



(g) the Company or a Prudential Affiliate, except where the Company or Prudential Affiliate (i) is the Owner of a Policy held on behalf of an employee benefit plan that is sponsored by the Company or any Prudential Affiliate or (ii) is the Owner of a Policy held on behalf of an employee benefit plan that is sponsored by another employer where the Company or any Prudential Affiliate serves as trustee, except as provided in Section 5.4. Where the Company or a Prudential Affiliate would otherwise be eligible to vote because it serves as custodian of an individual annuity contract, the Company or the Prudential Affiliate, as the case may be, shall refrain from voting on the proposal to approve this Plan.

Based on the Company's Records, each Person who is a Qualified Voter as of the Adoption Date shall be entitled to cast one vote, irrespective of the number of Policies owned by such Qualified Voter; *provided, however*, that a person who is a Qualified Voter in more than one capacity (*e.g.*, individual and trustee) shall be entitled to cast one vote in each such capacity and shall be deemed for purposes of this Plan to be such number of Qualified Voters as the number of capacities in which such person is qualified to vote. In order for the Plan to be approved at the Special Meeting: (x) the number of Qualified Voters who vote on the Plan by ballot cast in person, by mail, by telephone or via the Internet shall be at least one million (or such lesser number as may be approved by the Commissioner as permitted by Chapter 17C) and (y) not less than two-thirds of the votes actually cast shall be in favor of approval of this Plan. The Special Meeting and the process of voting on the proposal to approve this Plan shall be conducted in accordance with rules prescribed by the Commissioner to govern the procedures for the conduct of voting on the Plan. If the Special Meeting is adjourned to another time or place, the Company shall not be required to give individual notice of the adjourned meeting if the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken.

**Section 11.2 Notice of Special Meeting.** (a) The Company shall mail the Notice of Special Meeting to all Persons who are Qualified Voters as of the Adoption Date. The Notice of Special Meeting shall set forth the reasons for the Special Meeting and the time and place of the Special Meeting, and shall enclose a ballot for each such Qualified Voter. The Notice of Special Meeting and ballot shall be mailed at least 45 days prior to the Special Meeting by first class or priority mail to the address of each such Qualified Voter as it appears on the Records of the Company. The Notice of Special Meeting may be combined with the Notice of Hearing provided for in Section 10.2.

(b) The Notice of Special Meeting shall be in a form approved by the Commissioner and accompanied by a copy of this Plan and policyholder information materials regarding the Plan and the Reorganization, which shall be in a form approved by the Commissioner together with any other explanatory information that the Commissioner approves or requires. With the approval of the Commissioner, the Company may also mail supplemental information to Qualified Voters before or after the Special Meeting.

**Section 11.3 Efforts to Encourage Voting.** The Company shall use good faith efforts to encourage Qualified Voters to vote on this Plan, including without limitation establishing a toll-free call center, creating an Internet site, including messages in routine policy statements and advertising in national publications.

**Section 11.4 Certification of Vote.** If the Plan is approved by the requisite number of Qualified Voters, the secretary of the Company shall so certify to the Commissioner. Such certification shall specify the numbers of votes cast in favor of and against the proposal to approve the Plan.

**Section 11.5 Inquiries and Disputes.** Any inquiry or dispute as to the right of a Person to vote on this Plan pursuant to this Article XI shall be determined by the Company in good faith in accordance with the Resolution Procedures. The outcome of any such inquiry of or dispute with the Company shall be reflected in the Records of the Company for the purpose of determining the right of the Person to vote in accordance with this Article XI.

## ARTICLE XII

### Tax and ERISA Considerations

**Section 12.1 Tax Rulings or Opinions.** (a) On or before the date that the Notice of Special Meeting and accompanying policyholder information materials are mailed, the Company shall have obtained one or more opinions of Tax Counsel substantially to the effect that the principal Federal income tax consequences to Eligible Policyholders of their receipt of consideration pursuant to Article VIII described in the Notice of Special Meeting and accompanying policyholder information materials are accurately described in all material respects under the applicable Federal income tax law in effect on the date of such Notice of Special Meeting and accompanying policyholder information materials.

(b) On or before the Effective Date, the Company shall have obtained:

(i) either rulings satisfactory to the Company from the Internal Revenue Service or one or more opinions satisfactory to the Company from one or more Tax Counsel substantially to the effect that:

(A) the crediting of consideration in the form of Policy Credits to Eligible Policyholders pursuant to Article VIII in respect of TDAs (as defined herein), IRAs (as defined herein) and Other Qualified Plans will not adversely affect the tax-favored status accorded to such contracts under the Code, and will not be treated as a distribution under, or a contribution to, such contracts under the Code; and



(B) the Policies issued or purchased before the Effective Date will not be deemed newly issued, issued in exchange for existing policies or newly purchased for any material Federal income tax purpose as a result of the reorganization of the Company pursuant to this Plan or, in the case of the Policies described in Section 12.1(b)(i)(A) above, the crediting of consideration in the form of Policy Credits pursuant to Section 8.1; and

(ii) one or more opinions of Tax Counsel substantially to the effect that the principal Federal income tax consequences to Eligible Policyholders of their receipt of consideration pursuant to Article VIII described in the Notice of Special Meeting and accompanying policyholder information materials, with the exception of developments between such mailing date and the Effective Date that are set forth in the opinion as determined by the Company to be not materially adverse to the interests of the Eligible Policyholders, remain accurate in all material respects under the applicable Federal income tax law in effect as of the Effective Date.

**Section 12.2 ERISA Considerations.** The Company shall apply to the United States Department of Labor for an ERISA Exemption with respect to the receipt of consideration pursuant to this Plan by Eligible Policyholders that are employee benefit plans or IRAs (as defined herein) subject to the provisions of Section 406(a) of ERISA and Section 4975 of the Code. Notwithstanding any other provision of this Plan, if the ERISA Exemption is not received before the Effective Date, the Company will obtain and rely on an ERISA Opinion, but the Company will not thereafter withdraw the request for the ERISA Exemption from the United States Department of Labor without the Commissioner's prior approval.

## ARTICLE XIII

### Conditions to Effectiveness of Plan

**Section 13.1 Conditions to Effectiveness of Plan.** The effectiveness of this Plan is subject to the satisfaction on or prior to the Effective Date (or, in the case of Section 13.1(c)(i) below, on or prior to the date of the Notice of Special Meeting and accompanying policyholder information materials) of all of the following conditions:

(a) all authorizations, consents, orders or approvals of, or declarations or filings with, or expiration of waiting periods imposed by, any court or governmental or regulatory authority or agency necessary for the consummation of the conversion of the Company to a stock life insurance company as contemplated by this Plan, including the approval of the Commissioner pursuant to Article X, shall have occurred or been obtained;

(b) this Plan shall have been approved and adopted by the affirmative vote of Qualified Voters pursuant to Article XI;

(c) the Company shall have obtained (i) the opinion or opinions of Tax Counsel pursuant to Section 12.1(a) in form and substance satisfactory to the Company; (ii) either rulings from the Internal Revenue Service or one or more opinions of Tax Counsel as provided in Section 12.1(b)(i), in either case, in form and substance satisfactory to the Company; and (iii) the opinion or opinions of Tax Counsel pursuant to Section 12.1(b)(ii) in form and substance satisfactory to the Company;

(d) the Company shall have obtained the ERISA Exemption or the ERISA Opinion described in Section 12.2 in form and substance satisfactory to the Company;

(e) the Company shall have obtained one or more no-action letters from the Securities and Exchange Commission or, in the sole discretion of the Company, an opinion or opinions of independent legal counsel, in form and substance satisfactory to the Company, relating to matters under the Federal securities laws;

(f) the fairness opinion addressed to the Board pursuant to Section 4.a.(2) of Chapter 17C from a qualified, nationally recognized investment banker shall have been confirmed by such investment banker as of the Effective Date;

(g) the investment banker referred to in Section 3.2(g) shall have delivered to the Company the opinion concerning the conduct of the IPO provided for in Section 3.2(g) and the Company shall have delivered to the Commissioner a copy of such opinion as required by Section 3.2(g);

(h) the actuarial certification of the reasonableness and appropriateness of the methodology and underlying assumptions used to allocate consideration among Eligible Policyholders, and the actuarial certification of the reasonableness and sufficiency of the assets allocated to the Closed Block and the Canadian Closed Block, addressed to the Board by a qualified and independent actuary, all pursuant to Section 4.a.(1)(b) and (c) of Chapter 17C and attached hereto as Exhibit K, each shall have been confirmed by such actuary in writing dated as of the Effective Date. If the methodology and underlying assumptions used to allocate consideration among Eligible Policyholders have changed since the original date of such certification, the confirming certification shall have described the nature of the changes and the justification therefor. Such confirmation shall consist of a statement by such actuary that to the best of his or her knowledge and belief as of the Effective Date, the prior certification of the adequacy and sufficiency of assets allocated to the Closed Block and the Canadian Closed Block as of the Closed Block Funding Date is still accurate as of the Effective Date or, if it is not, such confirmation shall contain a description of the circumstances that have given rise to the inaccuracy and the steps that have been taken to correct it;

(i) the Company and the Holding Company shall have arranged for the registration and the public trading of the Common Stock as provided in Section 3.2(f);

(j) no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the transactions contemplated by this Plan shall be in effect; and

(k) the Company shall have filed with the Commissioner a certificate pursuant to Section 9 of Chapter 17C stating that: (i) all of the conditions set forth above in this Section 13.1 have been satisfied and any conditions precedent to effectiveness imposed by the Commissioner shall have been complied with and (ii) the Board has not abandoned or amended this Plan pursuant to Section 11 of Chapter 17C.

## ARTICLE XIV

### Additional Provisions

**Section 14.1** *Commission-Free Sales and Purchases Programs.* The Holding Company shall establish, in accordance with the Commission-Free Sales and Purchases Program Memorandum attached hereto as Exhibit L, a commission-free sales and purchases program that shall begin no sooner than 90 days after the Effective Date and no later than the second anniversary of the Effective Date and shall continue for not less than three months. Subject to the prior approval of the Commissioner, the Holding Company may extend the period of such program if the Holding Company determines such extension to be appropriate and in the best interests of the Holding Company and its shareholders. The Holding Company may reinstitute a second and subsequent commission-free sales and purchases programs on a periodic basis on the terms described in this Section 14.1 and the Commission-Free Sales and Purchases Program Memorandum. Pursuant to each such program, each Eligible Policyholder that receives 99 or fewer shares of Common Stock under this Plan shall be entitled (a) to sell at prevailing market prices all, but not less than all, of such shares without paying brokerage commissions, mailing charges, registration fees or other administrative or similar expenses, or (b) to purchase, at the prevailing market price, additional shares of Common Stock to increase such Eligible Policyholder's holdings to a 100-share round lot without paying brokerage commissions, mailing charges, registration fees or other administrative or similar expenses. All Eligible Policyholders entitled to participate in such program shall receive notice of the procedures to be followed to effect sales or purchases pursuant to such program, which procedures shall include the mailing of a form by the Holding Company to each such Eligible Policyholder at a specified address and may include the ability to respond by the use of a dedicated Internet site. Such program shall provide for the purchase or sale of shares of Common Stock in the market or, at the sole discretion of the Holding Company, the purchase of shares of Common Stock by the Holding Company at market prices. Such program shall be operated in accordance with the Commission-Free Sales and Purchases Program Memorandum.

**Section 14.2** *Continuation of Corporate Existence; Board of Directors.* (a) Upon the Reorganization of the Company under the terms of this Plan, the Company shall continue its corporate existence in the form of a stock life insurance company, and the Reorganization in no way shall annul, modify or change any of the Company's existing suits, rights, contracts or liabilities, except as provided in this Plan. After the Reorganization, the Company shall exercise all the rights and powers and perform all the duties conferred or imposed by law upon insurers writing the classes of insurance written by it, and shall be vested in all the rights, franchises and interests of the Company prior to the Reorganization in and to every species of property without any deed or transfer and the Company shall succeed to all the obligations and liabilities of the Company prior to the Reorganization, and retain all rights and contracts existing prior to the Reorganization, except as provided in this Plan.

(b) The members of the board of directors of the Holding Company on and after the Effective Date shall be those individuals who were the members of the Board immediately prior to the Effective Date, and each such member shall continue to serve as a director of the Holding Company until the end of his or her term or until resignation or removal prior to the end of such term in accordance with the certificate of incorporation and by-laws of the Holding Company then in effect.

**Section 14.3** *Acquisition of Securities by Certain Officers, Directors and Employees.* (a) On the Effective Date, and consistent with the requirements of Section 7 of Chapter 17C, a stock option plan (the "Stock Option Plan") consisting of two components, the Associates Grant and the Executive Stock Option Program, each as described below, will take effect. Under the Associates Grant, a one-time grant of stock options in an amount to be determined by the Board or a duly authorized committee thereof in its discretion will be made on the Effective Date to employees of the Company and Prudential Affiliates not eligible for regular annual option grants under the Executive Stock Option Program. Under the Executive Stock Option Program, annual grants of stock options in amounts to be determined from time to time by the board of directors of the Holding Company or a duly authorized committee thereof will be made to executives and certain other selected employees of the Company and Prudential Affiliates to be determined by such board or such committee, as the case may be; *provided, however*, that no such grant under the Stock Option Plan may be made to any senior officer of the Company earlier than the first anniversary of the Effective Date; and *provided, further*, that grants under the Stock Option Plan may not be made to other officers of the Company earlier than the 183rd day after the Effective Date. Subject to continued employment with the Holding Company or an affiliate of the Holding Company, the stock options under both programs shall become exercisable ratably over three years and shall have a maximum term of 10 years. The Stock Option Plan will provide that, without the approval of the

shareholders of the Holding Company, the aggregate number of shares of Common Stock available to be issued at any time pursuant to the Stock Option Plan shall not exceed (i) with respect to the Associates Grant, 2% of Total Allocable Shares and (ii) with respect to the Executive Stock Option Program, 5% of Total Allocable Shares.

(b) On or after the Effective Date, the board of directors of the Holding Company or a duly authorized committee thereof may substitute Common Stock on a current or a deferred basis, as appropriate in its discretion, (i) for all or a portion of the Company's non-elective contributions to the Prudential Employee Savings Plan, the profit sharing plan sponsored by the Company that is qualified under Section 401(a) of the Code and which also provides for elective deferrals of contributions by plan participants as described under Code Section 401(k) (the "401(k) Plan") and (ii) for payment of all or a portion of outstanding awards, otherwise payable in cash, that mature on or after the Effective Date under the Long-Term Performance Unit Plan of the Company, including the Company's business units, and Prudential Affiliates, and other long-term incentive plans maintained for the Company, including the Company's business units, and Prudential Affiliates. Participants in the 401(k) Plan will also have the opportunity to invest their individual contributions and existing account balances in Common Stock.

(c) Beginning one year after the Effective Date, the board of directors of the Holding Company or a duly authorized committee thereof may substitute Common Stock, on a current or a deferred basis, as appropriate in its discretion, (i) to convert existing and future non-employee Holding Company directors' retirement benefits from fixed cash payments to stock-based awards and (ii) to replace all or a portion of the annual cash retainers for non-employee Holding Company directors.

(d) The shares of Common Stock used for the programs described in Section 14.3(a) may be shares purchased in market transactions, other treasury shares to fund such programs as appropriate and in the Holding Company's discretion or authorized but previously unissued shares. The shares of Common Stock used for the programs described in Section 14.3(b) and (c) may be shares purchased in market transactions or other treasury shares to fund such programs as appropriate and in the Holding Company's discretion but in no event from authorized but previously unissued shares.

(e) Officers, directors and employees of the Company and Prudential Affiliates who are themselves Eligible Policyholders or who are participants in any of the Company's employee benefit plans that are Eligible Policyholders may receive shares of Common Stock distributed to such officers, directors, employees or plans in their capacities as Eligible Policyholders pursuant to this Plan. No person who was a member of the Board prior to the Effective Time shall be eligible to receive any grants of stock options on the Effective Date or for one year thereafter under the Stock Option Plan.

**Section 14.4** *Compensation of Officers, Directors and Employees.* No director, officer, agent or employee of the Company shall receive any fee, commission or other valuable consideration whatsoever, other than his or her usual salary and compensation, that is contingent upon this Plan becoming approved or effective or is based upon a director, officer, agent or employee aiding, promoting or assisting in the approval or effectuation of this Plan.

**Section 14.5** *Restriction on Acquisition of Securities.* Prior to and for a period of three years following the Effective Date, no Person or Persons acting in concert other than the Company, the Holding Company, the Intermediate Holding Company or any other intermediate holding company interposed between the Company and the Holding Company or between the Company and the Intermediate Holding Company (or any employee benefit plans or trusts sponsored by the Company or the Holding Company) shall, without the prior approval by the Commissioner of an application for acquisition filed by such Person or Persons with the Commissioner, directly or indirectly offer to acquire or acquire in any manner the beneficial ownership of (a) five percent or more of any class of a voting security (other than Class B Stock) of the Company or the Holding Company or any other Person that owns or controls a majority or all of the voting securities of the Company or the Holding Company or (b) five percent or more of the voting power of the Company or the Holding Company or any other Person that owns or controls a majority or all of the voting securities of the Company or the Holding Company. Such application must contain the information required by Section 17:27A-2(b) of the New Jersey Revised Statutes and any other information required by the Commissioner. In accordance with Chapter 17C, the Commissioner shall not approve such an application for acquisition unless he or she finds that the requirements of Section 17:27A-2(d) of the New Jersey Revised Statutes will be satisfied and, additionally, that (i) the acquisition would not frustrate this Plan as approved by the Qualified Voters and the Commissioner; (ii) the Board or the board of directors of the Holding Company has approved such acquisition or extraordinary circumstances not contemplated in this Plan have arisen that would warrant their approval of such acquisition; and (iii) such acquisition would be in the interest of policyholders. No security that is the subject of any agreement or arrangement regarding acquisition or that is acquired or to be acquired in contravention of this Section 14.5, Chapter 17C or an order of the Commissioner may 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 such securities were not issued and outstanding; *provided, however*, that no action taken at any such meeting shall be invalidated by the voting of such securities unless the action would materially affect control of the Company or a person that owns or controls a majority or all of the voting securities of the Company or unless the courts of the State of New Jersey have so ordered.

**Section 14.6** *Notice to Former Policyholders.* Pursuant to Section 14 of Chapter 17C, the Company has provided notice in a form, and distributed such notice in a manner, approved by the Commissioner, of the Company's intent to demutualize to former policyholders who at the time of such notice were eligible to reinstate their policies.

**Section 14.7** *Adjustment of Share Numbers.* Notwithstanding anything herein to the contrary, in order to achieve a desired filing range (in the registration statement under the Securities Act relating to the IPO) for the Initial Stock Price that the Company and the managing underwriters of the IPO deem appropriate, or in order to comply with the ADR Memorandum, the Company may adjust, by vote of the Board or a duly authorized committee thereof at any time before the Effective Date and with the prior approval of the Commissioner, the number of Total Allocable Shares. Upon such an adjustment, the following numbers of shares of Common Stock in this Plan shall be automatically adjusted proportionately, except where the failure of such adjustments to be proportionate is the result of rounding as provided below: (a) the number of Allocable Shares set forth in the definition of “Basic Fixed Component”, (b) the number of Allocable Shares comprising the sum of all Basic Fixed Components, (c) the number of Allocable Shares comprising the Additional Fixed Component pursuant to Section 7.1(b)(i)(B), (d) the number of Allocable Shares comprising the Aggregate Basic Variable Component, (e) the number of Allocable Shares set forth in the definition of Initial Allocable Shares in Article I, (f) the number of Allocable Shares allocated in respect of all Additional Variable Components, (g) all numbers set forth in the provisions of Section 7.1(b)(ii)(B) governing the Additional Variable Component, including the ranges of Allocable Shares allocated prior to the application of such provisions, and (h) the number of Allocable Shares set forth in the definition of Share Election Maximum as the greatest number that the Board can determine the Share Election Maximum to be; *provided, however*, that any such adjustment shall result in the number of Allocable Shares to be allocated to each Eligible Policyholder as the Basic Fixed Component of consideration pursuant to Section 7.1(b)(i)(A) and all numbers of Allocable Shares set forth in the provisions of Section 7.1(b)(ii)(B) governing the Additional Variable Component being in whole numbers, and *provided, further*, that nothing in this Section 14.7 shall limit the ability of the Board to determine the Share Election Maximum in accordance with Section 8.1(h).

**Section 14.8** *No Preemptive Rights.* No policyholder or other Person shall have any preemptive right to acquire shares of Common Stock or Class B Stock or shares of the common stock of the Company in connection with this Plan.

**Section 14.9** *Notices.* In accordance with Section 8 of Chapter 17C, if the Company complies substantially and in good faith with the requirements of Chapter 17C or the terms of this Plan with respect to the giving of any required notice, its failure in any case to give such notice to any Person entitled thereto shall not impair the validity of the actions and proceedings taken under Chapter 17C or this Plan or entitle such Person to any injunctive or other relief with respect thereto.

**Section 14.10** *Corrections to Plan; Amendment or Withdrawal of Plan; Amendment to Certificates of Incorporation and By-laws.*

(a) Corrections to Plan. At any time prior to, on or after the Effective Date, the Company shall make such modifications to this Plan as are appropriate to correct errors, clarify existing items or make additions to correct manifest omissions in this Plan; *provided, however*, that only such modifications made after the filing of the Application shall be subject to the prior approval of the Commissioner. No such modification shall be subject to the approval of the policyholders of the Company, the shareholders of Holding Company, the Board or the board of directors of Holding Company, except as otherwise required under applicable law. Subject to the terms of this Plan, the Holding Company may issue additional shares of Common Stock and take any other action it deems appropriate to remedy errors or miscalculations or to take account of other changes made in connection with this Plan.

(b) Amendment or Withdrawal of Plan.

(i) The Company may, by action of not less than three-fourths of the members of the Board, and upon prior written notice to the Commissioner, abandon or amend this Plan (including without limitation the Exhibits and Schedules); *provided, however*, that if the Commissioner determines that a proposed amendment to this Plan made after the end of the Hearing is materially disadvantageous to any of the policyholders of the Company, the amendment shall not become effective unless a further public hearing is held on this Plan as amended.

(ii) Notwithstanding Section 14.10(b)(i), the Commission-Free Sales and Purchases Program Memorandum attached hereto as Exhibit L may be amended by the Holding Company at any time. Until the first anniversary of the Effective Date, any such amendment to the Commission-Free Sales and Purchases Program Memorandum shall be subject to the prior approval of the Commissioner. If the Commissioner approves such amendment, the Holding Company’s transfer agent shall notify the Eligible Policyholders entitled to participate in the commission-free sales and purchases program as promptly as practicable following such proposal. Following the first anniversary of the Effective Date, the Holding Company may amend the Commission-Free Sales and Purchases Program Memorandum at any time; *provided, however*, that no such amendment shall become effective until the Holding Company’s transfer agent shall have first provided written notice of such amendment to the Eligible Policyholders entitled to participate in the commission-free sales and purchases program.

(iii) Notwithstanding Section 14.10(b)(i), the amended and restated certificate of incorporation of the Holding Company may be modified pursuant to Section 3.2(a) to authorize a greater number of shares than is necessary to meet the requirements of the Plan or any number of shares of preferred stock.

(c) Amendment to Certificates of Incorporation and By-Laws. The amended and restated certificate of incorporation and amended and restated by-laws of the Holding Company and the amended and restated charter and amended and restated by-laws of the Company may be amended from time to time after the Effective Date pursuant to applicable law.



(d) No Effect on Adoption Date. Notwithstanding any modification of or amendment to this Plan, including without limitation any Schedule or Exhibit, the Adoption Date shall be and remain December 15, 2000. All such modifications and amendments shall relate back to and be considered to take effect as of such Adoption Date for purposes of this Plan.

**Section 14.11** *Costs and Expenses.* All reasonable costs related to the development and examination of, and deliberations concerning, this Plan and other related matters, including those reasonable costs attributable to the use by the Commissioner of advisors and consultants, shall be paid by the Company or the Holding Company.

**Section 14.12** *Governing Law.* The terms of this Plan shall be governed by and construed in accordance with the laws of the State of New Jersey, other than the choice of law or conflicts of law provisions or principles thereof. Any construction of the terms of a policy or contract for purposes of this Plan shall not affect the underlying contractual rights of the holder for any other purpose as would be determined in accordance with applicable law.

**Section 14.13** *Interpretation.* When a reference is made in this Plan to Articles, Sections, subsections, clauses, Schedules or Exhibits, such reference shall be to an Article, Section, subsection or clause of, or a Schedule or an Exhibit to, this Plan unless otherwise indicated. The table of contents and headings contained in this Plan are for reference purposes only and shall not affect in any way the meaning or interpretation of this Plan. Each Schedule and Exhibit hereto constitutes a part of this Plan. Whenever the words “include,” “includes” or “including” are used in this Plan, they shall be deemed to be followed by the words “without limitation.” The words “hereof,” “herein” and “hereunder” and words of similar import when used in this Plan, unless otherwise specifically indicated, shall refer to this Plan as a whole and not to any particular provision of this Plan. The definitions contained in this Plan are applicable to the singular as well as the plural forms of such terms. Any statute defined or referred to herein means such statute as from time to time amended, modified or supplemented including by succession of comparable successor statutes.



### SCHEDULES AND EXHIBITS TO THE PLAN OF REORGANIZATION

The Destacking Schedule, which is Schedule 3.3(a), the Class B Stock/IHC Debt Securities Schedule, which is Schedule 3.3(c)(i), the ADR Memorandum, which is Exhibit E, the Flexible Factor Requirements, which is Exhibit I, the Annuity Crediting Rate Requirements, which is Exhibit J, and the Actuarial Certifications, which are Exhibit K, are all reprinted in full. The other Exhibits are briefly summarized on the following pages and are qualified in their entirety by references to the complete text of such Exhibits. Capitalized terms used in the Summaries that are not otherwise defined have the meanings ascribed to them in the Plan.

To obtain a complete copy of any or all of the Schedules and Exhibits to the Plan, see “Additional Information and Assistance” on page i of Part 1.

### Schedule 3.3(a): The Destacking Schedule

As part of the Reorganization, the Company will create a holding company, Prudential Financial, Inc. (the “Public Company”), that will serve as the publicly traded stock holding company for the Prudential group of companies (the “Prudential Group”). Upon completion of the Reorganization and the transactions described herein, the Public Company will directly hold (i) all of the issued and outstanding equity securities of the Intermediate Holding Company, a New Jersey corporation or limited liability company (“Holdco”), that will serve as the holding company for the Company (including its other U.S. life insurance subsidiaries) and certain other assets and liabilities of the Prudential Group and (ii) all of the issued and outstanding equity securities of other new or existing companies that will serve primarily as operating companies for the following businesses of the Prudential Group or will themselves be holding companies for such operating companies: (a) international insurance, (b) asset management, (c) automobile and homeowners insurance, (d) banking, (e) real estate franchise, (f) relocation, (g) international brokerage and investment and (h) retail securities.

The Destacking will remove from ownership by the Company, by way of an extraordinary dividend subject to regulatory approval, certain groups of companies which are presently direct and indirect subsidiaries of the Company or which may become direct or indirect subsidiaries between the Adoption Date and the Effective Date. The primary actions comprising the Destacking are set forth in Appendix A, attached hereto and made a part hereof.

#### Appendix A: Details of Destacking

##### 1. *International insurance reorganization:*

- a. The Company will have formed a direct international insurance holding company subsidiary (“PIIH”).
- b. The Company will contribute to PIIH all of its interest in the capital stock of the following subsidiaries:<sup>1</sup>
  - (1) PrumericaLife, S.p.A.;
  - (2) PruServicos Participacoes, S.A.;
  - (3) Prudential Seguros S.A.;
  - (4) Prumerica Towarzystwo Ubezpieczen na Zycie Spolka Akcyjna;
  - (5) Prudential International Investments Corp.;
  - (6) The Prudential Life Insurance Company, Ltd.; and
  - (7) The Prumerica Life Insurance Company, Inc.
- c. Except as set forth in paragraph 4., the Company will also contribute to PIIH other assets and liabilities associated with the international insurance business.
- d. Immediately after the Reorganization, the Company will distribute, directly or indirectly, the stock of PIIH to the Public Company.<sup>2</sup>
- e. The Company will also distribute to the Public Company all of the outstanding equity interests in a company formed to hold its Taiwan insurance operations, which will contribute such interests to PIIH.

##### 2. *Asset Management operations reorganization:*

- a. The Company will have formed a new asset management holding company subsidiary (“PAMHCO”).
- b. Except as set forth in paragraph 4., after certain preliminary steps the Company will have contributed to PAMHCO certain assets and related liabilities associated with the asset management activities conducted directly by the Company (the “Prudential IM Assets”), as well as all of its interest in the capital stock of the following companies:<sup>3</sup>
  - (1) PIC Holdings, Limited;
  - (2) Jennison Associates, LLC;
  - (3) Prudential Private Placement Investors, Inc.;
  - (4) PGR Advisors I, Inc.;

<sup>1</sup> Certain of these subsidiaries own other subsidiary entities that are necessarily a part of the Destacking, except as otherwise stated in this Appendix.

<sup>2</sup> For tax or other reasons, the Company may interpose one or more intermediate holding companies prior to effecting this distribution.

<sup>3</sup> Certain of these companies own other subsidiary entities that are necessarily a part of the Destacking, except as otherwise stated in this Appendix.

- (5) U.S. High Yield Management Company;
- (6) Prudential Trust Company;
- (7) Prudential Mortgage Capital Corp. LLC (“PMCC”);
- (8) Prudential Investment Management Services, LLC (“PIMS”);
- (9) a holding company (“PIFM Holdco”), which owns Prudential Investments Fund Management LLC and Prudential Mutual Fund Services LLC;
- (10) Prudential Latin American Investments, Ltd.;
- (11) Prudential Investment Corporation (“PIC”); and
- (12) PGAM Finance Corp.

c. Except as set forth in paragraph 4., PAMHCO will have contributed the Prudential IM Assets and all of its interests in the foregoing companies to either PIC, PIFM Holdco or new downstream holding companies.

d. The Company will, immediately after the Reorganization, distribute, directly or indirectly, the capital stock of PAMHCO to the Public Company.<sup>4</sup>

### 3. *Property and Casualty Insurance and Retail Securities Group companies:*

a. After certain other subsidiary distributions to the Company, PRUCO, Inc., a wholly owned subsidiary of the Company, will be left with the following direct subsidiaries: Prudential P&C Holdings, Inc. and Prudential Capital and Investment Services, Inc. (“PC&IS”). Prudential P&C Holdings, Inc. and PC&IS will own the groups of companies engaged in the property and casualty business and the retail securities brokerage businesses, respectively.

b. Immediately after the Reorganization, the Company will distribute, directly or indirectly, the capital stock of PRUCO, Inc. to the Public Company.<sup>5</sup>

### 4. *Other Companies to be included in the Destacking:*

a. After the Reorganization, the Company shall also distribute to the Public Company (subject to paragraph 4.b. below) by way of dividend, directly or indirectly, all of its ownership interests in the following entities:<sup>6</sup>

- (1) Prudential Mexico, LLC
- (2) Prudential Investments Japan Co.
- (3) Prudential Financial Advisors Securities Company, Ltd.
- (4) Prumerica Financial
- (5) Prudential International Investments Corp.
- (6) The Prudential Bank & Trust Company
- (7) The Prudential Savings Bank, F.S.B.
- (8) PBT Home Equity Holdings, Inc.
- (9) The Prudential Real Estate Affiliates, Inc.
- (10) Prudential Residential Services, LP and
- (11) Other entities that become subsidiaries of the Company between the Adoption Date and the Effective Date.

b. For tax planning and other valid business reasons, the Company may choose not to distribute all of these entities directly to the Public Company. Instead, the Company may choose first to reorganize certain entities (and/or any of their subsidiaries) with other entities that are part of the Destacking and/or contribute certain entities to other new or existing entities that are part of the Destacking. In addition, the Company may make contributions, distributions or exchanges not specified herein that are consistent with the alignment of the businesses of the Prudential Group as set forth in the first paragraph of Schedule 3.3(a).

<sup>4</sup> For tax or other reasons, the Company may interpose one or more intermediate holding companies prior to effecting this distribution.

<sup>5</sup> For tax or other reasons, the Company may interpose one or more intermediate holding companies prior to effecting this distribution.

<sup>6</sup> Certain of these entities own other subsidiary entities that are necessarily a part of the Destacking, except as otherwise stated in this Appendix.

### Schedule 3.3(c)(i): The Class B Stock/IHC Debt Securities Schedule

As part of the Reorganization, the Holding Company may issue shares of Class B Stock and the Intermediate Holding Company may issue IHC Debt Securities, in each case in accordance with the terms summarized in this schedule.

#### A. *Class B Stock*

Prior to, on or within 30 days after the Effective Date, the Holding Company may (but is not required to) issue to institutional investors in a private placement shares of a separate class or series of common stock (the “Class B Stock”) that will be designed to reflect the performance of the Closed Block Business (as defined below). If the Class B Stock is issued, then the Common Stock issued in the Reorganization and the IPO is expected to reflect the performance of the Financial Services Businesses (as defined below).

If the Company determines that the issuance of the Class B Stock is in the best interest of Eligible Policyholders, the Holding Company may offer for sale such number of shares of Class B Stock at such price and on such terms as the Holding Company shall determine are reasonably necessary to effectuate their sale.

The net proceeds from the offering of Class B Stock will be used by the Holding Company for general corporate purposes and are not intended to be used in the Closed Block Business.

There will be no legal separation of the Closed Block Business and Financial Services Businesses. Holders of Common Stock and holders of Class B Stock will both be common stockholders of the Holding Company. They will vote together on all matters unless otherwise required by law or as specified in the Holding Company’s certificate of incorporation and will have specified dividend and liquidation rights. Holders of Common Stock will have no interest in a legal entity representing the Financial Services Businesses, holders of Class B Stock will have no interest in a legal entity representing the Closed Block Business and holders of each will be subject to all of the risks associated with an investment in the Holding Company and all of its businesses, assets and liabilities. The Class B Stock may be exchangeable or convertible by the Holding Company or the holders of the Class B Stock into shares of Common Stock on such terms as are specified in the Holding Company’s certificate of incorporation.

#### B. *IHC Debt Securities*

If the Company determines that issuance of the IHC Debt Securities is in the best interest of Eligible Policyholders, then prior to, on or within 30 days after the Effective Date, the Intermediate Holding Company may offer senior, secured debt securities (the “IHC Debt Securities”) in such amount, on such terms and with such covenants and conditions as the Intermediate Holding Company shall determine are reasonably necessary to effectuate their sale, subject to the following sentence. The IHC Debt Securities may be secured by a pledge of the shares of the common stock of the Company, provided that the maximum aggregate principal amount sold in the offering of IHC Debt Securities does not exceed such amount as would result in the number of pledged shares exceeding 49% of the number of issued and outstanding shares of the common stock of the Company.

#### C. *The Closed Block Business and the Financial Services Businesses*

The Closed Block Business consists of:

- within the Company, (i) the Closed Block Assets and the associated liabilities of the Closed Block (“Closed Block Liabilities”), (ii) additional assets outside the Closed Block that the Company holds to meet capital requirements related to Closed Block Policies, (iii) invested assets held outside the Closed Block that represent the difference between the Closed Block Assets and Closed Block Liabilities, (iv) corresponding GAAP adjustments such as deferred acquisition costs and deferred taxes, and (v) such other assets and liabilities that the Company reasonably determines should be allocated to the Closed Block Business;
- within the Intermediate Holding Company, the IHC Debt Securities and other assets and liabilities of the Intermediate Holding Company attributable to the Closed Block Business;
- within the Holding Company, dividends received from the Intermediate Holding Company, and reinvestment thereof, and liabilities of the Holding Company, in each case as attributable to the Closed Block Business; and
- within each of the Company, the Intermediate Holding Company and Holding Company, such other assets and liabilities as they may reasonably determine should be allocated to the Closed Block Business consistent with the objective of the economic separation of the Closed Block Business and the Financial Services Businesses.

The Financial Services Businesses will consist of all assets and liabilities of the Holding Company and its subsidiaries not included in the Closed Block Business.

The Holding Company will provide for the separate reporting of the financial performance of the Financial Services Businesses and the Closed Block Business and will allocate assets and liabilities and earnings between the Financial Services Businesses and the Closed Block Business.

### Summary of Exhibit A: Form of Amended and Restated Certificate of Incorporation of the Holding Company

The Holding Company is organized under the New Jersey Business Corporation Act (the “Act”). The purpose of the Holding Company is to engage in any lawful act or activity for which corporations may be organized under the Act.

The total number of shares which the Holding Company has authority to issue is 1,520,000,000, of which 1,510,000,000 are common stock, par value \$.01 per share, and 10,000,000 are Preferred Stock, par value \$.01 per share. The Holding Company has authority to issue two classes of common stock, one class designated Common Stock consisting initially of 1,500,000,000 authorized shares and one class designated Class B Stock consisting initially of 10,000,000 authorized shares. The board of directors may issue Preferred Stock in one or more classes or series without receiving additional authorization from the shareholders, and may fix any voting powers, designations, preferences, rights, qualifications, limitations and restrictions thereof by resolution, except that the ability to issue shares of Preferred Stock that are convertible into, or exchangeable for, shares of Class B Stock or that have dividend, liquidation or other preferences with respect to the Class B Stock but not the Common Stock or disproportionately with respect to the Class B Stock as compared to the Common Stock is subject to the approval of holders of a majority of the Class B Stock.

Subject to the rights of Preferred Stock, holders of Common Stock are entitled to receive dividends if, as and when declared by the board of directors as if the Financial Services Businesses were a separate corporation. Subject to the rights of Preferred Stock, holders of Class B Stock are entitled to receive dividends if, as and when declared by the board of directors out of funds that are at least equal to certain specified amounts related to the Closed Block Business. Cash dividends cannot be paid on the Common Stock for any period in the event that dividends could be paid on the Class B Stock for such period but the Holding Company chooses not to pay such dividends in amounts at least equal to certain threshold amounts.

The Class B Stock is exchangeable for shares of Common Stock at the option of the Holding Company or mandatorily in the event of a change of control of the Holding Company or a sale of substantially all of the Closed Block Business. Holders of Class B Stock may convert their shares into shares of Common Stock commencing in 2016 or upon the occurrence of certain regulatory events relating to the Closed Block.

Upon the liquidation of the Holding Company, holders of Common Stock and holders of Class B Stock are entitled to receive their proportionate interests in the net assets of the Holding Company, if any, remaining after payment of all liabilities and payment of all liquidation preferences of any Preferred Stock.

The number of directors comprising the board of directors is as from time to time fixed by or in the manner provided in the Holding Company’s By-Laws. The board of directors is a classified board, divided into three classes, as nearly equal in number as possible, serving staggered three-year terms. Any increase or decrease in the number of directors will be apportioned among the classes to maintain as equal a number of directors as possible in each class. Newly created directorships resulting from any increase in the number of directors and any vacancies are filled solely by the affirmative vote of a majority of the remaining directors. If holders of Preferred Stock are ever entitled to elect any directors, then such directors will be in addition to the number fixed pursuant to the By-Laws. The directors will not be personally liable to the Holding Company or any of its shareholders for damages for breach of duty as a director, except for liability for any breach of the duty of loyalty, for acts or omissions not in good faith or which involved a knowing violation of law, or for any transaction from which the directors derived or received an improper personal benefit.

Holders of Common Stock and Class B Stock vote together as a single class, except as required by law and except that holders of Class B Stock vote separately as a class with respect to proposed issuances of additional shares of Class B Stock and of certain other types of securities and other matters related to the Class B Stock. Any action required or permitted to be taken by the shareholders of the Holding Company must be effected at a duly called annual or special meeting of shareholders and may not be effected by any consent in writing by the shareholders other than consent in writing adopted by all shareholders entitled to vote thereon in accordance with the Act. A quorum is established at any shareholders’ meeting if holders of 25% of the shares entitled to vote are present in person or by proxy. The Certificate of Incorporation provides for an increase in the quorum requirement for succeeding shareholders’ meetings based on the number of shares present or represented at a given shareholders’ meeting. Specifically, if at least 35% of the issued and outstanding shares of Common Stock are present or represented at a given meeting, the quorum for subsequent meetings will be 30%; if at least 45% are present or represented, the quorum will be 40%; if at least 55% are present or represented, the quorum will be 50%. When the holders of the Class B Stock vote separately as a class, however, holders of a majority of such shares constitute a quorum.

The Holding Company reserves the right to amend any provision in the Certificate of Incorporation in the manner provided for in the Act. However, in order to amend certain provisions in the Certificate of Incorporation relating to the structure of the board of directors, shareholders’ meetings and quorums, personal liability of directors and the power to amend the Certificate of Incorporation and the By-Laws, an affirmative vote of holders of at least 80% of the votes cast at a shareholders’ meeting (provided that the number of votes cast at such meeting is at least 50% of the total number of shares outstanding at that time) is required. Similar provisions in the By-Laws may not be amended by shareholder action without either an affirmative vote of at least 80% of the votes cast at a shareholders’ meeting (provided that the number of votes cast at such meeting is at least 50% of the total number of shares outstanding at that time) or the approval of the board of directors. The board of directors may amend provisions in the Certificate of Incorporation relating to the Class B Stock without the approval of holders of Common Stock or, except to the extent they would be adversely affected thereby, the approval of holders of the Class B Stock.



## Summary of Exhibit B: Form of Amended and Restated By-Laws of the Holding Company

Article I provides that the registered office of the Holding Company shall be in the City of Newark, State of New Jersey, although the Holding Company may maintain additional offices.

Article II governs the conduct of annual shareholders' meetings and special shareholders' meetings. A special meeting of shareholders may be called by the Chairman of the Board, the Chief Executive Officer, the President, the board of directors or holders of at least 25% of the shares entitled to vote at a meeting. Written notice of a special meeting stating the place, date, hour and purpose of the meeting must be delivered to each shareholder entitled to vote not less than 10 days and not more than 60 days before the date of the meeting. A shareholder may vote at a meeting in person or by proxy delivered to the Secretary of the meeting.

Shareholders wishing to propose business at an annual shareholders' meeting must deliver timely notice thereof in proper written form to the Secretary of the Holding Company. To be timely, a shareholder's notice to the Secretary must be delivered to or mailed and received at the principal executive offices of the Holding Company not less than 120 days nor more than 150 days prior to the anniversary date of the immediately preceding annual shareholders' meeting. However, if the annual meeting is called for a date that is not within 30 days before or after such anniversary date, in order to be timely, notice by the shareholder must be received not later than the close of business on the 10th day following the day on which such notice of the date of the annual meeting was mailed or public disclosure of the date of the annual meeting was made, whichever occurs first. To be in proper written form, a shareholder's notice must set forth, among other things, a brief description of the business to be brought before the annual meeting, the reasons for conducting such business at the annual meeting, a description of all arrangements or understandings between such shareholder and any other person or persons (including their names) in connection with the proposal of such business and any material interest of such shareholder in such business.

Article III governs the composition and actions of the board of directors. The By-Laws provide that there will be at least 10, but not more than 24, directors and that the board of directors will be divided into three classes serving three-year staggered terms. This article dictates provisions regarding the nomination of directors and the conduct of meetings of the board of directors. The By-Laws provide that a majority of the board of directors may fill a vacancy on the board due to an increase in the number of directors or otherwise; discuss procedures for the resignation and removal of directors; authorize the board to establish director compensation; and provide for the establishment by the board of certain committees, as well as setting procedures for such committees. Article III also provides that nominations of directors may be made at any annual meeting of shareholders, or any special meeting of shareholders called for the purpose of electing directors, by the board of directors or by a shareholder who complies with the prescribed notice procedures.

Article IV sets forth the officers of the Holding Company, and a description of the powers and duties of such officers. Officers of the Holding Company will be chosen and removed by the board of directors.

Article V governs the stock of the Holding Company, and includes provisions for certificates of stock and uncertificated shares; transfers of stock; record ownership of shares; and the appointment of a transfer agent and a registrar.

Article VI contains provisions governing notice to and waivers of notice by directors, committee members and shareholders.

Article VII includes general provisions, including the regulation of dividends and disbursements, fixing the fiscal year and providing for a corporate seal.

Article VIII provides for the indemnification of any director or officer if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Holding Company and, with respect to any criminal action, such person had no reasonable cause to believe his or her conduct was unlawful. The Holding Company may also choose to indemnify employees and agents in these situations. Article VIII also authorizes the Holding Company to purchase insurance on behalf of any director or officer of the Holding Company, or any director, officer, employee or agent of another enterprise when serving at the request of the Holding Company, against any liability asserted against such person and incurred by such person in such capacity, whether or not such person is otherwise entitled to indemnification under Article VIII.

Article IX provides that the board of directors may amend the By-Laws (except insofar as the By-Laws adopted by the shareholders shall otherwise provide). Certain provisions of the By-Laws relating to shareholders' meetings, the structure of the board of directors, indemnification of officers, directors and employees, and amendments to the By-Laws may not be amended by shareholder action without either approval by the board of directors or an affirmative vote of at least 80% of the votes cast at a shareholders' meeting, provided that the number of votes cast at such meeting of shareholders must be at least 50% of the total number of shares outstanding at that time.

### **Summary of Exhibit C: Form of Amended and Restated Charter of the Company**

The Prudential Insurance Company of America (the “Company”) was originally created as a stock life insurance corporation in 1873, became a mutual life insurance corporation in 1943, and will adopt this amended and restated charter in connection with its reorganization from a mutual life insurance corporation to a stock life insurance corporation pursuant to Chapter 17C of Title 17 of the New Jersey Statutes. The business of the Company will be that of a stock life insurance corporation with all of the rights, privileges and powers conferred upon such corporation by the general laws of New Jersey. The name of the corporation will continue to be The Prudential Insurance Company of America.

The charter provides that the stated capital of the Company is 1,000 shares of Common Stock, having a par value of \$5.00 per share.

The charter further provides that the number of directors comprising the board of directors is as fixed by or in the manner provided in the By-Laws. Directors will be elected at each annual meeting of shareholders to a term expiring at the succeeding annual meeting of shareholders. Newly created directorships resulting from any increase in the number of directors and any vacancies may be filled by the affirmative vote of a majority of the remaining directors. One or more or all of the directors may be removed with or without cause by the affirmative vote of the holders of a majority of shares entitled to vote for the election of directors. The charter provides that directors are not liable to the Company or its shareholders for monetary damages for breach of fiduciary duty as a director except for liability for breach of the duty of loyalty, for acts or omissions not in good faith or which involve a knowing violation of law, or for any transaction from which the directors derived or received an improper personal benefit.

The charter provides that any action required or permitted to be taken at a meeting of the shareholders of the Company may be effected by a consent in writing adopted by all such shareholders.

Finally, the charter provides that the board of directors may amend the By-Laws, except so far as the By-Laws adopted by the shareholders shall otherwise provide. Any By-Laws made by the directors may be altered, amended or repealed by the directors or by the shareholders.

### Summary of Exhibit D: Form of Amended and Restated By-Laws of the Company

Article I of the By-Laws of The Prudential Insurance Company of America (the “Company”) governs the conduct of shareholders’ meetings. This article provides that an annual meeting of shareholders will be held, and that a special meeting may be called by the Chairman of the board of directors, the Chief Executive Officer, the President, the board of directors, or the holders of not less than 10% of all shares entitled to vote at such meeting. Written notice of a meeting of shareholders stating the place, date, hour and purpose of the meeting, and stating by whom or at whose direction the notice is being issued, must be delivered to each shareholder entitled to vote at the meeting not less than 10 days and not more than 60 days before the date of the meeting. Except as otherwise required by law or in the Amended and Restated Charter, the holders of at least a majority of the shares entitled to cast votes at a meeting constitute a quorum at shareholders’ meetings for the transaction of business. A shareholder may vote in person or by proxy.

Article II provides that the number of directors who shall serve on the board will not be less than 10 or more than 24, as determined, from time to time, by the holders of a majority of the issued and outstanding capital stock or the board of directors. Article II also includes provisions regarding the conduct of director meetings and notice and quorum requirements for such meetings; allows the shareholders or a majority of the board of directors to fill a vacancy in the board; and discusses procedures for resignations of directors.

Article III provides for the establishment by the board of certain committees, including committees comprised entirely of outside directors as required under New Jersey law, and contains provisions regarding the conduct of committee meetings, including notice, quorum requirements and voting.

Article IV establishes the officers of the Company, and provides that officers will be chosen and removed by the board of directors.

Article V provides that salaries, compensation and other emoluments paid to any officer or director shall be approved by the board of directors and shall be reviewed further by a committee comprised of outside directors to the extent required by New Jersey law.

Article VI specifies which officers are authorized to execute contracts on behalf of the Company.

Article VII provides for the indemnification of any director or officer if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Company, and with respect to any criminal action, such person had no reasonable cause to believe his or her conduct was unlawful. In the event of a suit by or in the right of the Company against such person, such person is entitled to indemnification so long as no judgment or final adjudication adverse to such person establishes that his or her acts or omissions (a) were in breach of his or her duty of loyalty to the Company or its shareholders, (b) were not in good faith or involved a knowing violation of law, or (c) resulted in receipt by such person of an improper personal benefit. The Company may also choose to indemnify employees and agents in the above situations. Article VII also authorizes the Company to purchase insurance on behalf of any director or officer of the Company or any director, officer, employee or agent of another enterprise when serving at the request of the Company against any liability asserted against such person and incurred by such person in such capacity, whether or not such person is entitled to indemnification under the provisions of this article.

Article VIII provides that both the sole shareholder and the board of directors may amend the By-Laws; provided, that any By-Laws made by the board of directors may be altered or repealed by the shareholder.

Article IX provides that no director, officer, or employee of the Company shall have any position with or substantial interest in any other for-profit business enterprise, the existence of which would, or might reasonably be supposed to, conflict with the proper performance of his or her responsibilities to the Company or which might tend to affect his or her independence of judgment.

Article X provides that shares of the Company will be represented by certificates and indicates that the Company’s fiscal year ends on December 31st.

## Exhibit E: ADR Memorandum

### Overview

In 1995, some policyholders and former policyholders asserted claims against Prudential and its U.S. life insurance subsidiaries in a class action lawsuit. As part of the settlement of that class action, an ADR claims resolution process was instituted whereby claims were evaluated individually and relief was determined accordingly. Some ADR Claimants were awarded choices of relief that depended on the nature of their particular claims and the scores such claims received. Some ADR Claimants chose relief that included rescinding their policies, or surrendering their rights to policies that would have been issued or reinstated in other forms of relief that were available to these ADR Claimants. Other ADR Claimants chose a form of relief that did not include rescinding their policies or surrendering their rights to other policies that were made available to them as a relief choice. They chose other forms of relief such as restoring value to a policy or receiving that value in cash.

A Policy that is In Force on the Adoption Date is eligible for compensation under the terms of the Plan, whether or not that Policy is subject to an ADR claim or arose from an ADR claim. Pursuant to commitments the Company made to ADR Claimants in April 1998, the Plan makes additional provisions for ADR Claimants. These provisions are found in Article V and Sections 3.2(e), 6.1(c)(iv), 7.1(b)(i)(A), 7.1(c), 7.3, 7.4, 8.5, 9.2(a)(i)(A), 10.2, 11.1(e) and 14.7 of the Plan, and are further explained in this ADR Memorandum. Compensation will be provided with respect to Policies issued or reinstated after the Adoption Date and before the Effective Date in satisfaction of ADR relief selected by the ADR Claimant, or as of the Effective Date as a result of a repurchase option described in Section 1(A) below. ADR Claimants may be eligible to receive compensation with respect to such Policies in ADR under this Plan, even though these Policies were not In Force on the Adoption Date. Other ADR Claimants may have their compensation calculated on the basis of a life insurance policy or an annuity contract other than a Policy actually In Force or deemed In Force on the Adoption Date. These calculations are explained in Section 2 below. The principles and methodologies regarding such commitments are set forth in this ADR Memorandum.

#### 1. Eligible Policies

- A. The ADR relief choices for some ADR Claimants included rescission of their policies; and choices for some ADR Claimants included forms of ADR relief in which the Company would have issued or reinstated policies. By choosing to rescind their policies or choosing not to take a form of ADR relief in which the Company would have issued or reinstated policies, these ADR Claimants gave up the opportunity to have a Policy that would have been In Force on the Adoption Date. If they had taken that opportunity, they could have been eligible to receive compensation with respect to that Policy.

However, in accordance with the commitment the Company made to ADR Claimants in April 1998, such ADR Claimants will be given the option of changing their form of ADR relief and repurchasing offered or rescinded policies. If an ADR Claimant does repurchase a policy pursuant to such an offer and pursuant to this Memorandum, that Policy will be deemed to be In Force as of the Adoption Date in accordance with Section 6.1(c)(iv) of the Plan. The ADR Claimant will be eligible to receive compensation for such Policy. Calculations of compensation with respect to such a Policy that is repurchased are described in Section 2(A) below. However, an ADR Claimant who repurchases such a Policy will not be eligible to vote with respect to that Policy, as described in Section 11.1(e) of the Plan and in Section 3 below. If an ADR Claimant does not repurchase a policy, the form of ADR relief will not be changed, the policy will not be put into effect or deemed to be In Force on the Adoption Date, and the ADR Claimant will not receive compensation for that policy under the Plan.

- B. Some ADR Claimants chose forms of relief which did not include the rescission of their policies, or the surrender of their rights to policies which would have been issued or reinstated in other forms of ADR relief that were available to these ADR Claimants. These ADR Claimants may have Eligible Policies related to their ADR claims, and the Company's commitment is that they will receive the same overall financial result regardless of which form of ADR relief they chose. Calculations of compensation with respect to such Policies are described in Section 2(B) below.
- C. Any policy issued or reinstated as a result of an initial ADR relief choice implemented after the Adoption Date but prior to the Effective Date will be deemed to be In Force as of the Adoption Date and the ADR Claimant will be eligible to receive compensation for such a Policy.
- D. In certain cases, the Company is not able to reinstate a life insurance policy that terminated without significant adverse tax ramifications to the ADR Claimant. For these situations, the Stipulation of Settlement allows the Company to issue Designated New Policies (DNPs), rather than reinstating the policy, in order to provide the required ADR relief.

#### 2. Allocation of Policyholder Consideration

- A. Some ADR Claimants initially chose forms of ADR relief which included the rescission of their policies, or could have initially chosen forms of ADR relief in which the Company would have issued or reinstated a policy. These ADR Claimants will be given the option of changing their form of ADR relief and repurchasing their policies, as

described in Section 1 above and according to the timing described in Section 4 below. For ADR Claimants who do implement options to change their form of ADR relief and repurchase their coverage, their compensation with respect to such Policies that are repurchased will be determined as described in this Section 2(A).

- i) If implementation of this option results in reinstatement of a life insurance policy that had previously been in effect, the compensation for that Policy will be calculated as if that Policy were In Force continuously since it was originally issued, using the methods of Article VII of the Plan.
  - ii) As indicated in Section 1(D) above, in certain cases, the Company is not able to reinstate a life insurance policy that terminated without significant adverse tax ramifications to the ADR Claimant. For these situations, the Stipulation of Settlement allows the Company to issue DNPs, rather than reinstating the policy, in order to provide the required ADR relief. If implementation of the form of relief selected by the ADR Claimant results in the issuance of a DNP, the Company will determine the compensation for both the DNP and for the policy that could not be reinstated without the aforementioned tax consequences. Even though that policy could not actually be reinstated without such adverse tax consequences, the compensation for that policy will be calculated as if it had been reinstated and had been In Force continuously since it was originally issued. The compensation for the DNP will be deemed to be the greater of the compensation calculated on the basis of the DNP, and the compensation calculated on the basis of the policy that could not be reinstated without adverse tax consequences.
- B. Some ADR Claimants chose forms of ADR relief which did not include the rescission of their policies, or the surrender of their rights to policies which would have been issued or reinstated in other forms of ADR relief that were available to these ADR Claimants. These ADR Claimants may have Eligible Policies related to their ADR claims, and the Company's commitment is that they will receive the same overall financial result regardless of which form of ADR relief they chose. These ADR Claimants will not be given the option of changing their form of ADR relief. The compensation for these Policies will be determined in a manner that will produce the same overall financial results for these ADR Claimants, regardless of which forms of ADR relief they chose. These ADR Claimants will be eligible for compensation with respect to the policy subject to an ADR claim, or with respect to the policy the ADR Claimant received in connection with ADR, only if that policy is In Force on the Adoption Date as provided in Article VI of the Plan, or if that policy is issued after the Adoption Date and before the Effective Date as a result of the form of ADR relief the ADR Claimant initially chose. The methods by which adjustments would be required in the determination of compensation, and the calculations that will be done in order to make these adjustments, are described in this Section 2(B). If none of the adjustments listed below is applicable, the compensation will be determined using the same rules as for any other Eligible Policy, without reference to any different treatment for ADR Claimants.
- i) The Stipulation of Settlement provides for the continuation or reinstatement of insurance coverage in order to implement certain forms of ADR relief. With the settlement of certain claims, the Company was not able to reinstate a life insurance policy that terminated without significant adverse tax ramifications to the ADR Claimant. As described in Section 1(D) above, the Stipulation of Settlement allows the Company to issue DNPs in order to provide the required ADR relief in these cases. If a DNP was issued in order to provide the required ADR relief, the Company will calculate the compensation for both the DNP and for the policy that could not be reinstated without the aforementioned tax consequences. Even though that policy could not actually be reinstated without such tax consequences, the compensation for that policy will be calculated as if it had been reinstated and had been In Force continuously since it was originally issued. The compensation for the DNP will be deemed to be the greater of the compensation calculated on the basis of the DNP, and the compensation calculated on the basis of the policy that could not be reinstated without adverse tax consequences.
  - ii) For some ADR claims, ADR Claimants were able to choose a form of ADR relief in which the Company would have issued an annuity contract to them; but the ADR Claimant chose instead a form of ADR relief in which the life insurance policy that was the subject of the ADR claim was continued in force or reinstated, or a DNP was issued. In these cases, the Company will determine the compensation for the life insurance policy in a manner that will produce the same overall financial result, regardless of which form of ADR relief the ADR Claimant chose. In order to meet this commitment, the Company will calculate the compensation both on the basis of the life insurance policy that was continued, reinstated, or issued; and on the basis of the annuity contract the Company would have issued if the ADR Claimant had selected that form of ADR relief. The compensation for the life insurance policy will be deemed to be the greater of the two compensation amounts that are so determined. If both this Section 2(B)ii) and the preceding Section 2(B)i) apply to the same ADR claim (*i.e.*, a DNP was issued to provide the form of ADR relief the ADR Claimant chose, and the ADR Claimant could have chosen instead a form of ADR relief in which the Company would have issued an annuity contract), the compensation for the DNP that was issued will be calculated both on the basis described in Section 2(B)i) and this Section 2(B)ii), and the compensation for the DNP will be deemed to be the greater of the two amounts that are so determined.
  - iii) For some ADR claims, ADR Claimants were able to choose between forms of ADR relief which would result in restoring values to a policy from which such values had been withdrawn, or in receiving that value in cash. If the ADR Claimant in such a situation chose one of these forms of ADR relief, the Company will determine the compensation for the life insurance policy in a manner that will produce the same overall financial result, regardless of which form of ADR relief the ADR Claimant chose. The Company will calculate the compensation both on the basis of the policy that would have resulted from the form of ADR relief to restore value to the



policy, and on the basis of the policy that would have resulted if the ADR Claimant had chosen to receive that value in cash. The compensation for such a Policy will be deemed to be the greater of the two compensation amounts that are so determined.

### 3. Voting

Requirements for a Qualified Voter are set forth in Chapter 17C. Any ADR Claimant who repurchases his or her coverage after the Adoption Date, or who has a policy reinstated after the Adoption Date as part of a form of ADR relief, or who otherwise does not meet the requirements for a Qualified Voter as set forth in Chapter 17C, will not be entitled to vote on the proposal to adopt this Plan, despite later receiving a Policy which will be deemed In Force as of the Adoption Date, unless the ADR Claimant is the owner of another Eligible Policy that was In Force on the Adoption Date, and that otherwise fulfills the requirements for a Qualified Voter as of the Adoption Date.

### 4. Timing of Changes in ADR Relief

No later than 45 days prior to the Hearing, the Company will notify ADR Claimants of options, if any, to repurchase their coverage. In that notice, ADR Claimants will be informed of the amount, if any, that they would have to pay to repurchase coverage, and they will be asked to respond within 45 days if they are interested in repurchasing their coverage by selecting (one of) the option(s) presented. ADR Claimants who receive this notice are told that they are not obligated to change their form of ADR relief and repurchase coverage if they do express interest in making such a change.

As soon as practicable after the approval and adoption of the Plan by the affirmative vote of Qualified Voters pursuant to Section 11.1 of the Plan, the Company will send a notice to ADR Claimants who expressed an interest in repurchasing their coverage, informing them of the requirements to implement that decision. These requirements include the payment of required amounts, if any, and completion of certain administrative requirements, not later than 45 days following the date of the letter in which the ADR Claimants are notified of such requirements. The administrative requirements include documentation required for the form of ADR relief to which the ADR Claimant is changing, and information needed for processing of demutualization compensation, such as confirmation of the repurchase option selected or providing tax information. ADR Claimants for whom the sum of the Basic Fixed Component and the Basic Variable Component is equal to or less than the Share Election Maximum following repurchase of their coverage, and who did not previously have an opportunity to affirmatively indicate a preference to receive shares of Common Stock in lieu of cash as described in Section 8.1(h) of the Plan, will be able to do so in their responses to this notice.

If the Company demutualizes and the insured under the insurance policy to be repurchased dies after the Company receives the necessary requirements to repurchase the policy, including any required payment, but before the Effective Date, the Company will pay the death benefit associated with that policy, and retain any repurchase payment. The Company will also pay demutualization compensation with respect to such a policy, with ownership determined according to Article V of the Plan.

If the Company does not demutualize, but the insured under the life insurance policy to be repurchased dies after the Company receives any required repurchase payment amount, but before the Company returns that amount to the ADR Claimant, the Company will pay the death benefit associated with the policy, and will retain the repurchase payment.

### 5. Form and Conveyance of Compensation

If the Company demutualizes, ADR Claimants who complete all requirements to repurchase their coverage within the timeframe indicated in Section 4 above shall be entitled to receive compensation in the form of Common Stock, cash or Policy Credits in accordance with the requirements of Article VIII of the Plan. The Company may adjust the Total Allocable Shares in order to allocate shares to these ADR Claimants as provided in Section 14.7 of the Plan. The Company will act in good faith to convey compensation to ADR Claimants eligible to receive such compensation under the Plan at the time of distribution of compensation to all other Eligible Policyholders, as described in Section 8.5 of the Plan. However, in the event the Company is not able to convey compensation within this timeframe to all ADR Claimants who complete the requirements to repurchase their coverage, the Total Allocable Shares shall include a reasonable estimate of the compensation to be distributed to ADR Claimants who have chosen to repurchase their coverage as described above.

If the Company shall fail to complete the processing of the repurchases by ADR Claimants by the time of the distribution of compensation to all other Eligible Policyholders, the Company shall set aside Common Stock and cash in the amount of its reasonable estimate of the Common Stock and cash to be distributed to such ADR Claimants. The Company shall cause such Common Stock and cash to be distributed to such ADR Claimants as soon as practicable following the processing of their repurchases of coverage. If the number of shares of the Common Stock set aside by the Company is insufficient to distribute to all such ADR Claimants who are entitled to receive Common Stock, the Company shall distribute the necessary amount of authorized but unissued shares of stock to the remaining ADR Claimants. In the event that any Common Stock or cash set aside by the Company remains undistributed after all repurchases of coverage have been processed, such Common Stock and cash shall be returned to the Company. The Company may utilize an escrow account or trust for the purposes of setting aside Common Stock and cash as described above.

#### 6. Project Participants

Section 7.1(c) of the Plan provides that no consideration shall be allocated or distributed in respect of any Policy acquired or reinstated by any Project Participant on or after February 10, 1998, except as provided in this ADR Memorandum. However, notwithstanding any provision of Section 7.1 of the Plan, compensation shall be allocated and distributed in respect of Policies acquired or reinstated in resolution of ADR claims, or options to repurchase coverage as described earlier in this ADR Memorandum, to any Project Participant who is also an ADR Claimant, as if the ADR Claimant were not a Project Participant.

#### 7. Closed Block

The operation of the Closed Block is described in Article IX of the Plan, and in the Closed Block Memorandum, attached as Exhibit G to the Plan. Any policies reinstated after the Effective Date, pursuant to this Plan and this ADR Memorandum, which otherwise satisfy the conditions set forth in the definition of “Closed Block Policies”, shall be considered such Policies. All DNPs, issued pursuant to initial choices of ADR relief, or pursuant to repurchases of coverage as described earlier in this ADR Memorandum, which otherwise satisfy the conditions set forth in the definition of “Closed Block Policies”, shall be considered Closed Block Policies, even if such DNPs are issued after the Effective Date.

### Summary of Exhibit F: Allocation Principles and Methodology

The Allocation Principles and Methodology Exhibit (Exhibit F) describes the methodology for calculating Actuarial Contributions (“ACs”) pursuant to Article VII of the Plan. The methodology and assumptions used are described separately for each of the following product lines:

- 1) Individual Life Insurance – Policies in the Closed Block
- 2) Individual Life Insurance – Policies Not in the Closed Block
- 3) Individual Annuities
- 4) Individual Health Policies
- 5) Group Annuity Contracts
- 6) Group and Creditor Life and Health Insurance Policies

Actuarial Contributions are used in the calculation of the Basic Variable Component of consideration as described in Section 7.2 of the Plan.

The AC of a particular policy is the accumulated contribution that policy is estimated to have made in the past to the Company’s surplus (“historical contribution”) plus the present value of the contribution that the same policy is expected to make in the future (“prospective contribution”), with values as of March 31, 2000, which is defined as the “AC Date.”

Conceptually, each year’s contribution to surplus equals the excess of premiums, investment income, and capital gains over benefits, dividends, commissions, expenses, and taxes.

The Company used either a “modeling” approach or a case-by-case approach for purposes of determining the ACs.

Under the modeling approach, representative plans, issue years, and, in some situations, issue ages, gender and/or underwriting classes were selected to develop historical and prospective contributions to surplus. Each of the plan/issue year/issue age/gender/underwriting combinations is called a model “cell”. For each model cell, year-by-year estimated historical contributions to surplus were accumulated with interest to the AC Date. Similarly, future expected annual contributions to surplus were discounted with interest to that same date. The sum of the historical and prospective contributions to surplus at the AC Date gives the total contribution to surplus for that model cell. The ACs for the model cells were smoothed using statistical techniques, where appropriate, and were then used to develop ACs for all in force policies.

Under the case-by-case approach, the year-by-year history of each policy in a product line was taken into account, so that a specific contribution-to-surplus calculation was done for each case. As under the modeling approach, historical contributions to surplus were accumulated with interest, and prospective contributions to surplus were discounted with interest to the AC Date.

For the individual life and individual health product lines, the methodology began with the development of actuarial models of the business. For other lines of business, a case-by-case approach was used.

The structures of the actuarial models were based on policy characteristics (*e.g.*, issue age, issue year, benefit, cash value basis, premium paying status, dividends, etc.). With these basic structures, experience factors or assumptions were then used to calculate both the historical contributions and prospective contributions. These experience factors or assumptions were developed for various items affecting contributions to surplus such as mortality, investment income, expenses, and taxes.

This methodology results, for individual life and individual health product lines, in AC factors applicable to each policy class that were then used to determine ACs at the policy level. The product line methodology sections in Exhibit F of the Plan contain descriptions of the methods for deriving the policy ACs.

For individual deferred annuities, historical ACs were determined using a methodology that recognized each contract’s potentially unique timing and pattern of premium payments. Gain factors were developed for each product and for each calendar year since issue by analyzing the sources of gains and losses. These factors were then applied to case-by-case policy data to determine the historical AC. A model approach similar to that for individual life was used to develop prospective ACs.

A case-by-case approach was used to determine the ACs for each group annuity contract and for each group life, group health, and creditor policy. Under this approach, historical financial management practices used in managing the different group lines were reflected through a set of factors, which expressed various gains (such as interest gain, mortality or morbidity gain, and expense gain) as a function of contract values. These factors were multiplied by the appropriate contract values, and then accumulated or discounted to the AC Date.

For purposes of the AC calculations, product lines were established by following the annual statement lines of business, and then creating subdivisions as needed to deal with product groups that differ from each other significantly in terms of product characteristics. In defining product groups for purposes of AC calculations, the Company’s past practices in managing the business were followed to the greatest extent practicable.

The Company's past financial results were analyzed to provide assumptions for use under both the model approach and the case-by-case approach. Assumptions about future experience were based on the analysis of the Company's experience during recent years.

In order to determine the AC for each policy, the Company used the concept of a "financial management unit." A "financial management unit" is the group of all coverages issued to a single policyholder that have been managed together from a financial point of view (*i.e.*, for rate-setting, experience-rating, dividend-setting, etc.). Usually, each policy constitutes one financial management unit, but sometimes a single policy may contain more than one financial management unit and sometimes two or more policies may constitute one or more financial management units. Each determination of an AC for a financial management unit included two elements—historical contribution and prospective contribution. These two elements were always added algebraically (*i.e.*, a negative amount served to offset a positive amount) to determine the AC of the financial management unit.

If the AC of a financial management unit was negative (after combining the historical and prospective contributions), it was set to zero. The ACs for each financial management unit were then attributed to the policy or policies with which the financial management unit was associated.

As a general rule, the contributions to the Company's surplus made by an eligible policyholder's eligible policies will be estimated based only on those policies that are in force on the Adoption Date. However, in some cases, the contributions to surplus for a policy will include all or part of the financial experience of a prior policy that the existing policy replaced. This approach for determining contributions to surplus is consistent with the approach taken in the demutualizations of large U.S. life insurers. Using actuarial standards of practice as a guide, the Company's financial management practices were examined to determine when a current policy should be viewed as a continuation of a prior policy for purposes of determining contributions to surplus. Generally, if important financial elements of the prior policy were carried over to the new policy which replaced it, the contributions to surplus of the prior policy were added to those of the new policy. Some examples include:

(1) modernizations of certain group annuity policies where guaranteed pension benefits to retirees were carried over from the prior policy to a new policy; (2) group life or health or group annuity policies issued to employers where the sponsoring company was merged into another and a new policy was issued which covered the merged entity; and (3) certain individual annuity contracts where a unique replacement-only contract with no surrender charges was issued as a replacement.

The information required for all of these calculations comes from a variety of proprietary files and reports including policy records maintained in electronic media, internal analyses and memoranda and also from public documents such as annual statements.

Policy level data and aggregate data were used where available and credible. To the extent that data were not available or were not credible for certain periods of time, reasonable approximations were made to fill in the missing data.

### Summary of Exhibit G: Closed Block Memorandum

The Closed Block is the mechanism established for the purpose of providing for the reasonable dividend expectations of owners of Closed Block Policies. The Closed Block Memorandum summarizes how that purpose is to be addressed in (A) the funding of the Closed Block and (B) how the Closed Block will actually operate.

More specifically, Part One of the Closed Block Memorandum describes: (1) the procedure that will be used to determine the amount of Initial Closed Block Assets that fund the Closed Block as of July 1, 2000 (the “Closed Block Funding Date”) and (2) the experience assumptions used to determine such amount. Part Two of the Closed Block Memorandum describes: (1) the credits to and the charges against the Closed Block for cash flows on Closed Block Policies; (2) the setting of the investment policy for the Closed Block; (3) the dividend policy of the Closed Block; (4) the basis for charging and crediting the Closed Block for reinsurance or other transfer of risk; (5) the bases upon which the Closed Block will be charged for various kinds of taxes and fees in lieu of actual commissions and expenses; (6) the basis upon which the Closed Block will be charged for Closed Block Policies newly issued after the Closed Block Funding Date; (7) the basis upon which the Closed Block will be credited for the cost of benefits that the Company must provide with respect to Closed Block Policies that will be allocated Policy Credits as demutualization consideration (in lieu of Common Stock or cash) or in connection with the resolution of certain sales practices liabilities; (8) the requirements for reports about the Closed Block; and (9) the provisions for amendment or cessation of the Closed Block. The Closed Block Memorandum’s descriptions of these points are summarized below.

In no event will the Company be required to pay dividends from assets that are not Closed Block Assets. Notwithstanding any other provisions of the Plan, the Company’s decision to establish a Closed Block in connection with the Plan shall in no way constitute a guarantee with respect to any policy or contract that it will be apportioned a certain amount of dividends.

#### Part One

##### 1. *Amount of Initial Closed Block Assets*

The Initial Closed Block Assets will be allocated to produce cash flows which, together with anticipated revenue from the Closed Block Policies, are expected to be reasonably sufficient to support the Closed Block Policies (including but not limited to the payment of claims, certain expenses and taxes) and to provide for the continuation of the dividend scales payable on the Closed Block Policies in 2000 if the experience underlying such scales continues and for appropriate adjustments in such scales if such experience changes.

The amount of assets needed to fund the Closed Block as of the Closed Block Funding Date is determined by: (1) building a model to project Net Insurance Cash Flow from the Closed Block Policies in force on the Closed Block Funding Date, including interest on, and changes in, policy loans; (2) building a model to project the Net Investment Cash flow from the *provisional* Initial Closed Block Assets; (3) combining the Net Insurance Cash Flow and the Net Investment Cash Flow in Steps 1 and 2, all adjusted for income tax, to project Net Total Cash Flow Available for Reinvestment; and (4) accumulating the reinvested assets and solving for the amount of assets to be removed from, or added to, the *provisional* Initial Closed Block Assets to make the final accumulated assets equal to zero after providing for the continuation of the 2000 dividend scales if the experience underlying such scales continues.

The amount of *provisional* Initial Closed Block Assets is in excess of \$48.9 billion. These assets consist of policy loans, accrued interest, and premiums due on Closed Block Policies, as well as a large portion of the bonds, mortgages and other investments currently in the Individual Insurance and Annuity segment of the Company’s general account.

##### 2. *Experience Assumptions Used to Determine the Initial Closed Block Assets Amount*

The Closed Block Memorandum describes the primary experience assumptions used in the cash flow projections with respect to: (A) mortality; (B) lapse and surrender; (C) expenses, including certain fees in lieu of commissions, general insurance expenses and investment expenses; (D) state and local premium taxes, retaliatory taxes and guaranty fund assessments; (E) policy loan utilization; (F) dividend options; (G) insurance cash flows for miscellaneous benefits; (H) tax reserves; (I) federal Deferred Acquisition Cost (“DAC”) proxy taxes; (J) federal and state income taxes; (K) asset default rates, yield enhancements and prepayments; and (L) net reinvestment rates.

Because the 2000 dividend scales are essentially the same as the 1997, 1998 and 1999 dividend scales, the experience assumptions used to determine the cash flow projections are, in general, based on the average experience of four years. Projected mortality rates are based on the Company’s actual experience. Projected lapse and surrender rates are based on persistency experience. Policy loan utilization is projected on the basis of actual policy loan amounts as of the Closed Block Funding Date. Assumptions as to defaults on bonds, yield enhancements from securities lending and return on equities are based on the Company’s analyses. Net cash flows are assumed to be reinvested at either of two rates: 8.57% for Intermediate and Weekly Premium business and 8.06% for Traditional Ordinary business. These are the investment experience rates underlying the dividend scales and reflect a spreading of capital gains and losses consistent with the Interest Maintenance Reserve for fixed income assets and over four years for equities.



## Part Two

### 1. *Credits to and Charges against the Closed Block for Cash Flows on Closed Block Policies*

This section follows the provisions of Article 9.2(a) of the Plan and covers special cases (unreported deaths, policy loan securitizations, annuitization of Retirement Annuities, and effecting Supplemental Contracts).

### 2. *Investment Policy of the Closed Block*

This section follows the provisions of Article 9.2(b) and (e) of the Plan.

### 3. *Dividend Policy of the Closed Block*

This section follows the provisions of Article 9.2(c) of the Plan.

### 4. *Reinsurance or Other Transfer of Risk*

This section follows the provisions of Article 9.2(h) of the Plan.

### 5. *The Bases upon Which to Charge the Closed Block for Fees and Taxes*

As more fully specified in the Closed Block Memorandum, cash will be withdrawn from the Closed Block for operating expenses and taxes, as described below.

Charges for investment expenses for each class of investment in the Closed Block have two components: direct investment expenses, which will be charged as incurred; and internal investment expenses, which will be charged as fixed basis point fees that vary by type of asset. Fees that will be charged in lieu of administrative expenses will be charged based on a formula that includes a fixed per policy component, a component varying according to the death benefit, a component varying by the amount of annuity reserves, and a component varying according to the amount of premiums paid. Taxes other than income taxes (*i.e.*, premium taxes, payroll taxes and guaranty fund assessments) will be charged according to separate formulas.

Subject to certain modifications, federal income taxes will be charged to the Closed Block and determined as if the Closed Block were a separate stock life insurer with the same character as the Company under the Internal Revenue Code (“the Code”) filing separate federal income tax returns for each tax period after the Closed Block Funding Date. The hypothetical Closed Block tax calculation will be based on the Code as applicable from time to time, with certain modifications set forth in the Closed Block Memorandum. The Closed Block will be credited for tax benefits from losses or credits it generates, whether or not such losses or credits are used by the Company in computing the tax liability on the consolidated federal income tax return for the affiliated group of which the Company is a member.

The Closed Block will be charged fees in lieu of state and local income taxes (including franchise taxes calculated in the manner of income taxes). Such fees will be the product of the Closed Block’s federal taxable income (but before deduction of state income taxes) in the current year times the prior year ratio of the Company’s total state and local income taxes to the Company’s total federal taxable income (but before deduction of state income taxes).

### 6. *The Basis upon Which to Charge the Closed Block for Closed Block Policies Newly Issued after the Closed Block Funding Date*

A charge will be deducted from the Closed Block for Closed Block Policies issued after the Closed Block Funding Date and prior to the Effective Date. This charge represents the present value of all commissions and acquisition expenses in excess of fees to be charged to the Closed Block, such as certain field costs and underwriting and issue expenses, plus the anticipated profit after policyholder dividends.

### 7. *The Basis upon Which to Credit Cash to the Closed Block in Respect of Policy Credits and Sales Practices Liabilities*

If the Company is obligated to credit an enhancement to policy values on a Closed Block Policy after the Closed Block Funding Date because a Policy Credit is provided under the Plan in lieu of a distribution of shares or cash, then the Company will credit cash to the Closed Block equal to the value of that credit.

If the Company is obligated to pay a premium or credit an enhancement on a Closed Block Policy after the Closed Block Funding Date in respect of sales practices liabilities, then the Company will credit cash to the Closed Block equal to the value of the premium or credit.

### 8. *Reporting Requirements*

This section follows the provisions of Article 9.2(d) of the Plan.

### 9. *Amendment or Cessation of the Closed Block*

This section follows the provisions of Article 9.2(f) and (g) of the Plan.

### Summary of Exhibit H: Canadian Closed Block Memorandum

The Canadian Closed Block is the mechanism established for the purpose of providing for the reasonable dividend expectations of owners of Canadian Closed Block Policies. The Canadian Closed Block Memorandum summarizes how that purpose is to be addressed in (A) the funding of the Canadian Closed Block and (B) how the Canadian Closed Block will actually operate.

More specifically, Part One of the Canadian Closed Block Memorandum describes: (1) the procedure that will be used to determine the amount of Initial Canadian Closed Block Assets that fund the Canadian Closed Block as of July 1, 2000 (the “Closed Block Funding Date”) and (2) the experience assumptions used to determine such amount. Part Two of the Canadian Closed Block Memorandum describes: (1) the credits to and the charges against the Canadian Closed Block for cash flows on Canadian Closed Block Policies; (2) the setting of the investment policy for the Canadian Closed Block; (3) the dividend policy of the Canadian Closed Block; (4) the basis for charging and crediting the Canadian Closed Block for reinsurance or other transfer of risk; (5) the bases upon which the Canadian Closed Block will be charged for fees in lieu of actual expenses and payroll taxes; (6) the requirements for reports about the Canadian Closed Block; and (7) the provisions for amendment or cessation of the Canadian Closed Block. The Canadian Closed Block Memorandum’s descriptions of these points are summarized below.

In no event will the Company be required to pay dividends from assets that are not Canadian Closed Block Assets. Notwithstanding any other provisions of the Plan, the Company’s decision to establish a Canadian Closed Block in connection with the Plan shall in no way constitute a guarantee with respect to any policy or contract that it will be apportioned a certain amount of dividends.

As explained in the Plan, certain policies of the United States branch are in their own Closed Block as described in Exhibit G, and the Canadian Closed Block, described in Exhibit H, does not include these policies. The Canadian Closed Block consists solely of Canadian branch Intermediate Monthly Premium and Weekly Premium policies.

#### Part One

##### 1. *Amount of Initial Canadian Closed Block Assets*

The Initial Canadian Closed Block Assets will be allocated to produce cash flows which, together with anticipated revenue from the Canadian Closed Block Policies, are expected to be reasonably sufficient to support the Canadian Closed Block Policies (including but not limited to the payment of claims, certain expenses and payroll taxes) and to provide for the continuation of the dividend scales payable on the Canadian Closed Block Policies in 2000 if the experience underlying such scales continues and for appropriate adjustments in such scales if such experience changes.

The amount of *actual* assets needed to fund the Canadian Closed Block as of the Closed Block Funding Date is determined by: (1) building a model to project Net Insurance Cash Flow from the Canadian Closed Block Policies in force on the Closed Block Funding Date, including interest on, and changes in, policy loans; (2) building a model to project the Net Investment Cash flow from the *provisional* Initial Canadian Closed Block Assets; (3) combining the Net Insurance Cash Flow and the Net Investment Cash Flow in Steps 1 and 2 to project Net Total Cash Flow Available for Reinvestment; and (4) accumulating the reinvested assets and solving for the amount of assets to be removed from, or added to, the *provisional* Initial Canadian Closed Block Assets to make the final accumulated assets equal to zero after providing for the continuation of the 2000 dividend scales if the experience underlying such scales continues.

The amount of *provisional* Initial Canadian Closed Block Assets is approximately C\$176.2 million. These assets consist of policy loans and accrued interest on Canadian Closed Block Policies, as well as a portion of the bonds and other investments currently in the Insurance segment of the Company’s Canadian branch general account.

##### 2. *Experience Assumptions Used to Determine the Initial Canadian Closed Block Assets Amount*

The Canadian Closed Block Memorandum describes the primary experience assumptions used in the cash flow projections with respect to: (A) mortality; (B) surrender rates; (C) expenses, including fees in lieu of general insurance expenses (including payroll taxes) and investment expenses; (D) policy loan utilization (policy loans on Canadian Closed Block Policies are negligible — the projections assume that any initial loans are repaid at the outset of the projection and no new loans are made); (E) dividend options; (F) insurance cash flows for miscellaneous benefits; and (G) asset default rates, prepayments and net reinvestment rates.

Projected mortality rates are based on the Company’s actual experience on the US Gibraltar Series. Projected surrender rates are based on recent persistency experience in US (but closely reproduces Canadian experience). The projections assume that initial loans are repaid and no new loans are made. Assumptions as to defaults on bonds are based on expectations published by the Canadian Institute of Actuaries. Net cash flows are assumed to be reinvested at a net annual rate of 7.56%.

#### Part Two

##### 1. *Credits to and Charges against the Canadian Closed Block for Cash Flows on Canadian Closed Block Policies*

This section has provisions similar to the provisions of Article 9.2(a) of the Plan.

2. *Investment Policy of the Canadian Closed Block*

This section has provisions similar to the provisions of Article 9.2(b) and (e) of the Plan.

3. *Dividend Policy of the Canadian Closed Block*

This section has provisions similar to the provisions of Article 9.2(c)(i) of the Plan.

4. *Reinsurance or Other Transfer of Risk*

This section has provisions similar to the provisions of Article 9.2(h) of the Plan.

5. *The Bases upon Which to Charge the Canadian Closed Block for Fees and Taxes*

As more fully summarized in the Canadian Closed Block Memorandum, cash will be withdrawn from the Canadian Closed Block for external investment expenses (such as brokerage costs), which will be charged as incurred; and for fees in lieu of internal investment expenses, which will be charged at an annual rate of 13 basis points on invested assets.

A fee set at an annual rate of C\$10 per C\$1000 of death benefit will be charged in lieu of actual administrative expenses and payroll taxes. The Canadian Closed Block will not be charged for any other taxes.

6. *Reporting Requirements*

This section has provisions similar to the provisions of Article 9.2(d) of the Plan.

7. *Amendment or Cessation of the Canadian Closed Block*

This section has provisions similar to the provisions of Article 9.2(f) and (g) of the Plan.

## Exhibit I: Flexible Factor Requirements

### 1. *Prior Notice Requirement*

An Insurer will not, except as described in Section 4 of these Flexible Factor Requirements modify or adjust any Flexible Factor in effect as of the Effective Date under any Flexible Factor Policy *unless* it has filed with the Commissioner, at least 60 days prior to implementing such modification or adjustment, a statement of its intention that complies with the requirements of these Flexible Factor Requirements and the Commissioner has not disapproved the proposed modification or adjustment during the 60 day period following the filing of said statement. To be effective for purposes of these Flexible Factor Requirements, such disapproval must be based upon a written finding that (x) such modification or adjustment involves an increase in the Insurer's profit factor for the Flexible Factor Policies that are the subject of such statement and (y) such modification or adjustment (i) is based on actuarial assumptions that are unreasonable or (ii) is otherwise contrary to law.

### 2. *Definitions*

Unless otherwise defined in these Flexible Factor Requirements, capitalized terms have the meanings ascribed to them in the Plan.

"Flexible Factors" means, with respect to Flexible Factor Policies, current cost of insurance rates, current interest rates, current expense charges and, for indeterminate premium policies, current premiums, that in each case may be redetermined from time to time by the issuing insurer on the basis of projected future experience. "Flexible Factors" also means, solely for purposes of the Plan, (1) annual dividends paid with respect to life insurance policies marketed under the name "Life Builder," which are listed by policy form number in Schedule I-1 to the Flexible Factor Requirements attached hereto as Exhibit I and (2) termination dividends paid with respect to life insurance policies issued by Prudential and marketed under the names "Life Builder," "Appreciable Life" and "Variable Appreciable Life," which are listed by policy form number in Schedule I-1 to the Flexible Factor Requirements attached hereto as Exhibit I.

"Flexible Factor Policy" means any individual life insurance policy In Force on the Effective Date that is within the classes of policies listed in Schedule I-1 to Exhibit I, whether participating or nonparticipating, and associated riders, where the issuing insurer has reserved the right to modify (upward or downward) premiums, charges (*i.e.* for expenses or cost of insurance) or credits (interest on contract funds or dividends) on the basis of future anticipated or emerging experience.

"Insurer" means Prudential, Pruco Life Insurance Company, Pruco Life Insurance Company of New Jersey or Prudential Select Life Insurance Company of America.

"Prudential" means The Prudential Insurance Company of America.

"Qualified actuary" means an individual who is a member in good standing of the American Academy of Actuaries and who meets the general qualification standards for making Prescribed Statements of Actuarial Opinion in the life insurance practice area as set forth by the American Academy of Actuaries.

### 3. *Proposed Adjustments*

An Insurer shall file any proposed modifications to or adjustments in Flexible Factors for Flexible Factor Policies, including changes in non-guaranteed interest, with the Commissioner at least 60 days prior to implementation. The Insurer may utilize the new premiums or factors provided the Commissioner has not disapproved such changes within 60 days of the date of filing upon any of the grounds for disapproval specified in Section 1 of these Flexible Factor Requirements.

Notification to the Commissioner of any Flexible Factor or premium change shall include the following information:

- a. An identifying form number(s) and original filing date(s) of the form(s) to which the Flexible Factor change applies, together with a list of states in which the form was previously filed;
- b. An indication of the Flexible Factor(s) which is being changed and the implementation date of such change;
- c. A specification of the categories (for example, face amount, date of issue, etc.) of in force business to which the revised Flexible Factor(s) will apply;
- d. A description, for representative plans, ages and durations, of (i) the Flexible Factor(s) in effect at the time of the filing of the notification of a new Flexible Factor, (ii) the new Flexible Factor(s) and (iii) any differences between (i) and (ii), together with a statement as to whether any such differences represent an increase, decrease or no change from those in effect as of the time of the filing, as well as a specification of the relative magnitude of any such change(s);
- e. The rationale for the change, describing changes in experience or expected changes in experience leading to that change;
- f. An actuarial memorandum which shall include: a certification by a qualified actuary that the change does not increase the profit factor or, if the change does increase the profit factor, includes an explanation of the manner by which and the reasons why the profit factor should be increased; and

g. A certificate from a duly authorized officer of the Insurer that the Insurer's board of directors, executive committee, or officer duly authorized by the board has approved the proposed Flexible Factor(s) change, or other evidence acceptable to the Commissioner of such action.

The actuarial memorandum required pursuant to f. above shall contain a certification from the qualified actuary who prepared it that adjustments are such as to (a) retain or reduce the profit factor that was inherent in the rate formulas at issue, or (b) if, in the actuary's judgment, the profit factor for covered policies should be increased, the actuarial memorandum shall provide all justifications for that increase. Adjustments in premiums or factors which increase profits (before consideration of dividends) shall be acceptable if the Commissioner determines that future dividends will also be adjusted so that profit to the Insurer, after dividends, is the same as was inherent in the rate formulas and anticipated dividends at issue.

#### 4. *Exceptions to Prior Notice Requirement*

An Insurer shall not be required by these Flexible Factor Requirements to provide prior notice for any change in a Flexible Factor if the change is made pursuant to a methodology or formula that has been filed with the Commissioner and implemented by the Insurer in compliance with these Flexible Factor Requirements.

An Insurer may implement a modification or adjustment of a Flexible Factor without complying with the requirements of these Flexible Factor Requirements if the Insurer reasonably determines that such compliance would cause it to violate the law of any State or directive of any insurance regulatory authority having jurisdiction over the Insurer.

#### 5. *Amendments and Termination*

The Company may amend or terminate these Flexible Factor Requirements with the prior approval of the Commissioner, upon such terms and conditions as the Commissioner may approve.

### **Schedule I-1: Flexible Factor Policies** **The Prudential Insurance Company of America**

<u>Policy Form Number</u>	<u>Policy Form Marketing Name</u>
BWL-84 BWL-84V	Life Builder
ALA-88 ALB-88	Appreciable Life
VALA-88 VALB-88 VALA-97NJ VALB-97NJ	Variable Appreciable Life
IPT-89 IPT-95	Indeterminate Premium One Year Term
SVUL-95	Survivorship Preferred
VUL-97 NY	Variable Universal Life
GRP-89292	Direct Term
GRP-81838	Florida Term
PSL-PR1.94 AC1.94	PruSelect Life Individual UL
PSL-SU1.94	PruSelect Life Second-to-Die Universal Life
PSL-FT1.94	PruSelect Life First-to-Die Universal Life



**Schedule I-1: Flexible Factor Policies**

**Pruco Life Insurance Company**

<b><u>Policy Form Number</u></b>	<b><u>Policy Form Marketing Name</u></b>
ALA-84 ALA-86 ALB-84 ALB-86	Appreciable Life
VALA-84 VALA-86 VALB-84 VALB-86	Variable Appreciable Life
VUL-97	Variable Universal Life
FL-85	Discovery Life
VFL-85	Discovery Life Plus
CUL-B-106	Charity Plus
VAL-DR-105	PRUvider

**Schedule I-1: Flexible Factor Policies**

**Pruco Life Insurance Company of New Jersey**

<b><u>Policy Form Number</u></b>	<b><u>Policy Form Marketing Name</u></b>
ALA-84 ALA-86 ALB-84 ALB-86	Appreciable Life
VALA-84 VALA-86 VALB-84 VALB-86	Variable Appreciable Life
VAL-DR-105	PRUvider
FL-85	Discovery Life
VFL-85	Discovery Life Plus

## Exhibit J: Annuity Crediting Rate Requirements

### 1. *Covered Annuity Crediting Rates to Be Set Annually*

a. Each Insurer shall at least annually set the Covered Annuity Crediting Rates for each Covered Contract, *except* in the case of (i) interest credited to new deposits or transfers to “Flexible Discovery Plus” annuities issued by Prudential prior to November 6, 1995, and (ii) interest credited to new deposits to “Flexible Discovery” annuities issued by Prudential, Prudential shall not be required by these Annuity Crediting Rate Requirements to reset the interest rate for 3 years from the date that such rate first becomes effective. Prior to setting a Covered Annuity Crediting Rate, the Insurer shall compare the Covered Annuity Crediting Rate that it intends to set (a “Proposed Rate”) to the applicable Base Crediting Rate. If the Proposed Rate is less than the Base Crediting Rate, then the Insurer shall adjust the Proposed Rate to a rate not less than the Base Crediting Rate *unless* the Insurer has complied with the requirements of paragraph b. below.

b. An Insurer may implement a Proposed Rate that is below the applicable Base Crediting Rate if, at least 30 days prior to implementing such Proposed Rate, the Insurer has filed with the Commissioner a statement that complies with the requirements set forth in these Annuity Crediting Rate Requirements and the Commissioner has not disapproved the Proposed Rate during the 30 day period following the delivery of such statement. To be effective for purposes of these Annuity Crediting Rate Requirements, such disapproval must be based upon a written finding that (x) such modification or adjustment involves an increase in the Insurer’s profit factor derived from interest rate spreads on Covered Account Values and (y) such modification or adjustment (i) is based on actuarial assumptions that are unreasonable or (ii) is otherwise contrary to law.

c. An Insurer may set a Covered Annuity Crediting Rate without complying with these Annuity Crediting Rate Requirements if the Insurer reasonably determines that such compliance would cause it to violate the law of any State or directive of any insurance regulatory authority having jurisdiction over the Insurer.

### 2. *Definitions*

Unless otherwise defined in these Annuity Crediting Rate Requirements, capitalized terms have the meanings ascribed to term in the Plan.

“Base Crediting Rate” means, with respect to each product type specified on Schedules J-1 and J-2 of this Exhibit J, the crediting rate produced by application of the base crediting rate formula and factors applicable to each such product type as specified on a schedule filed with the Department prior to the Effective Date. The contents of said schedule shall be considered proprietary information that could result in competitive injury to the Company if disclosed and shall be maintained by the Department as confidential.

“Covered Account Value” means that portion of the account value of a Covered Fixed Annuity, or that portion of the account value held pursuant to the general account option of a Covered Variable Annuity, that is (1) attributable to initial or subsequent deposits or transfers into such annuity that occurred prior to the Effective Date and (2) still within the surrender charge period(s) that applies to such deposits or transfers.

“Covered Annuity Crediting Rate” means the interest rate credited on Covered Account Values.

“Covered Contracts” means Covered Fixed Annuities and Covered Variable Annuities.

“Covered Fixed Annuity” means an individual annuity In Force on the Effective Date that is within the classes of annuities listed on Schedule J-1 to Exhibit J, where the issuing insurer has reserved the right to adjust the crediting rate periodically.

“Covered Variable Annuity” means an individual variable annuity In Force on the Effective Date that is within the classes of annuities listed on Schedule J-2 to Exhibit J, where the contract owner has the right to direct funds to be invested in the general account of the issuing insurer and the issuing insurer has reserved the right to adjust the crediting rate for such funds periodically.

“Department” means the New Jersey Department of Banking and Insurance.

“Insurer” means Prudential, Pruco Life Insurance Company or Pruco Life Insurance Company of New Jersey.

“Proposed Rate” has the meaning set forth in paragraph 1.a of these Annuity Crediting Rate Requirements.

“Prudential” means The Prudential Insurance Company of America.

### 3. *Contents of Filing*

An Insurer shall file any statement of its intent to implement a Proposed Rate that is less than the applicable Base Crediting Rate with the Commissioner at least 30 days prior to implementation. Such filing shall include the following information:

- a. an identifying form number(s) to which the Proposed Rate applies;

- b. the proposed implementation date of the Proposed Rate;
- c. a specification of the categories (for example issue dates or dates of deposit) of the contracts to which the Proposed Rate will apply;
- d. A description, for representative categories, of (i) the Covered Annuity Crediting Rate(s) in effect at the time of the filing of the statement, (ii) the Proposed Rate(s), (iii) the applicable Base Crediting Rate(s), (iv) any differences between (i) and (ii), together with a statement as to whether any such differences represent an increase, decrease or no change from the Covered Annuity Crediting Rate(s) in effect as of the time of the filing, as well as a specification of the relative magnitude of any such change, and setting forth the rationale for any Proposed Rate to be less than the Base Crediting Rate;
- e. An actuarial memorandum which shall include a certification by a qualified actuary that the change does not increase the Insurer's profit factor derived from interest rate spreads used in determining the prospective Actuarial Contribution amounts in connection with the distribution of value calculation for the demutualization (the "Profit Factor"), or, if the change does increase such Profit Factor, an explanation of why the Profit Factor should be increased; and
- f. A certificate from a duly authorized officer of the Insurer that the Insurer's board of directors, or officer duly authorized by the board, has approved the Proposed Rate, or other evidence acceptable to the Commissioner of such action.

The actuarial memorandum required pursuant to e. above shall contain a certification from the qualified actuary who prepared it that adjustments are such as to (a) retain or reduce the Profit Factor, or (b) if, in the actuary's judgment, the profit factor for covered contracts should be increased, the actuarial memorandum shall provide all justifications for that increase.

#### 4. *Amendments and Termination*

The Company may amend or terminate these Annuity Crediting Rate Requirements with the prior approval of the Commissioner, upon such terms and conditions as the Commissioner may approve.

### **Schedule J-1: Covered Fixed Annuities** **The Prudential Insurance Company of America**

<u>Policy Form Number</u>	<u>Policy Form Marketing Name</u>
FIP-86	FIP
RAC-89 RAC-93	Flexible Discovery
FDPA-97	Discovery Classic

### **Schedule J-2: Covered Variable Annuities** **The Prudential Insurance Company of America**

<u>Policy Form Number</u>	<u>Policy Form Marketing Name</u>
QVIP-84 VIP-84 VIP-86 WVA-83 WVQ-83	VIP
VAC-89 VAC-93	Flexible Discovery Plus

### Exhibit K: Actuarial Certifications

A copy of the actuarial certifications are found beginning on page 131 in “Financial Information and Outside Advisor Opinions”.

### Summary of Exhibit L: Commission-Free Sales and Purchases Program Memorandum

Section 14.1 of the Plan requires the Holding Company to establish a commission-free sales and purchases program (the “Program”) in accordance with this Commission-Free Sales and Purchases Program Memorandum.

Participation in the Program will be available to Eligible Policyholders who own 99 or fewer shares of Common Stock and all other owners of 99 or fewer shares of Common Stock (collectively, “Eligible Shareholders”). Each Eligible Shareholder will have the opportunity to instruct the Holding Company’s transfer agent (the “Transfer Agent”), which will also serve as the agent for the Program, to sell all, but not less than all, of the Common Stock owned by the Eligible Shareholder or, alternatively, to purchase enough shares of Common Stock to increase the Eligible Shareholder’s holdings to a 100 share round lot (“Round Up”), in either case at prevailing market prices and without brokerage commissions, mailing charges, registration fees or other administration or similar expenses. Shareholders who Round Up are referred to hereinafter as “Round Up Shareholders”. Purchases and sales orders of Eligible Shareholders that are not offset against each other will be executed on the exchange on which the stock is listed (the “stock exchange”) in market transactions effected by one or more broker-dealers (the “Brokers”). Broker-dealers affiliated with the Transfer Agent may serve as Brokers or the sole Broker.

The Holding Company will begin the Program no sooner than 90 days after the Effective Date and no later than the second anniversary of the Effective Date and continue it for not less than three months. With the approval of the Commissioner, the Holding Company may extend the period of such Program if the Holding Company determines such extension to be appropriate and in the best interests of the Holding Company and its shareholders. The Holding Company may reinstitute a second and subsequent commission-free sale and round up programs in the future on a periodic basis on the terms herein without approval of the Commissioner.

The Program will not be restricted to former Eligible Policyholders, but will be made available also to all persons who are Eligible Shareholders on the Record Date.

At the commencement of the Program, the Transfer Agent will mail a description of the Program (the “Program Description”), together with a sale/purchase authorization card (an “Authorization” and together with the Program Description, the “Program Materials”), to each Eligible Shareholder. The Transfer Agent will establish a special toll-free telephone number hotline, staffed with employees or associates of the Transfer Agent, to answer inquiries about the Program. The expenses of the Transfer Agent in connection with the Program will be treated as an expense of the Program and will not be borne by Eligible Shareholders. No commissions or any other sales incentives will be offered or paid to employees of the Holding Company, the Company or any of their affiliates in connection with the Program.

An Eligible Shareholder may elect to participate in the Program by returning a validly executed Authorization to the Transfer Agent, together with stock certificates representing the shares of Common Stock to be sold (if such shares are not held by the Transfer Agent in book-entry form) or, in the case of a purchase Authorization, payment in an amount equal to the number of shares to be purchased multiplied by an estimated purchase price per share which will be indicated in the Program Description (the “Estimated Purchase Price”). Eligible Shareholders who have their shares recorded in “street name”, and which are not recorded on the books and records of the Transfer Agent, who wish to participate in the Program can provide their instructions directly to their broker or nominee. The Estimated Purchase Price will be set by the Holding Company shortly prior to the mailing of the Program Description and will be based on the market price of the Common Stock at such time plus a margin, which is intended to reduce the need to solicit additional funds from Round Up Shareholders in the event of an increase in the price of the Common Stock during the period between the mailing of the Program Materials and the consummation of an actual purchase for the Eligible Shareholder. Any advance payment received will be held in a non-interest bearing account established by the Transfer Agent solely for that purpose. The Transfer Agent will send a refund check to Round Up Shareholders in cases where the actual price paid for the Round Up shares is lower than the Estimated Purchase Price. Conversely, the Transfer Agent will send an invoice to Round Up Shareholders when the actual price paid exceeds the Estimated Purchase Price.

All Authorizations received on or prior to 12:00 noon on a particular business day (the “Receipt Day”), together with those received after 12:00 noon of the prior business day, will be combined and processed together (each a “Batch”). For each Batch, the Transfer Agent will first satisfy any Round Up Authorizations received from Eligible Shareholders out of shares covered by valid sales Authorizations received from Eligible Shareholders seeking to sell their shares under the Program. On any Receipt Day when the entire Batch is settled by matching valid sales Authorizations against Round Up purchase Authorizations, the price at which sales and purchases shall be deemed to be executed will be the average of the high and low market prices on the stock exchange for the Common Stock on such day.

In the event that, on a particular Receipt Day, the number of shares to be sold pursuant to sale Authorizations in the Batch exceeds the number of shares to be purchased pursuant to Round Up Authorizations in the Batch, the Holding Company will be

offered the opportunity to repurchase all or any portion of the excess on the business day following such Receipt Day, at a price equal to the average of the high and low market prices on the stock exchange for the Common Stock on that day.

In the event that the Holding Company does not purchase all of the excess shares offered to it on a business day from the previous day's Batch, the Transfer Agent will place an order on such business day with one of the Brokers to sell shares in the open market to satisfy the unsatisfied sales Authorizations from that Batch. In the event that the number of shares to be purchased pursuant to Round Up Authorizations in a Batch exceeds the number of shares to be sold pursuant to sale Authorizations in the Batch, the Transfer Agent will place an order on the business day following the Receipt Day with one of the Brokers to purchase shares on the open market to satisfy the unsatisfied Round Up Authorizations from that Batch. Notwithstanding the foregoing, (a) in the event of the failure or unavailability of a transaction or communications system or power supply, the effect of which is to make impracticable, in the judgment of the Transfer Agent, the processing of purchase and sale instructions under the Program, or (b) if trading in an equity security of the Holding Company, or trading on the stock exchange generally, has been suspended or materially limited by the SEC or the stock exchange, or (c) if a banking moratorium has been declared by Federal, New York or New Jersey authorities, then order placements will not be made during such events. Order placements will be made by the close of the stock exchange on the trading day following the expiry of such events.

The Brokers will be instructed to use their best efforts to sell or purchase shares covered by an order as soon as practicable, but not later than the close of business on the third business day after receipt of the order from the Transfer Agent. The Brokers will also be instructed to conduct the sales pursuant to the Program in a manner to avoid any undue impact on the market for the Common Stock. Each Broker will effect all transactions in connection with the Program in the open market on the floor of the stock exchange in the ordinary course of such Broker's business.

If with respect to a Batch the Transfer Agent offers shares from unsatisfied sale Authorizations to the Holding Company for purchase and/or places sell or buy orders with one of the Brokers pursuant to unsatisfied Authorizations in the Batch, all Authorizations in such Batch (including any Round Up and sales Authorizations that have been matched against one another and sales Authorizations that have been satisfied by Holding Company repurchase) will be assigned the same price per share determined as follows: the purchase or sale price per share will be the weighted average price per share of the shares in that Batch purchased or sold, based on the prices at which the purchases by the Holding Company and/or the purchases or sales effected by the Broker are executed.

All expenses in connection with the Program, including the fees and expenses of the Transfer Agent and the Brokers, will be paid by the Holding Company. The Brokers' commissions from sales and purchases of Common Stock pursuant to the Program will not exceed customary brokerage commissions on similar transactions. Employees of the Transfer Agent, the Holding Company and the Company and its affiliates (other than affiliates of the Transfer Agent if they participate as Brokers) will not receive any compensation, directly or indirectly, for brokerage activities.



# **Financial Information and Outside Advisor Opinions**



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## Supplemental Financial Information Regarding the Demutualization, Destacking and Additional Extraordinary Dividend

As explained in “A Destacking Is Expected to Occur as Part of the Demutualization” and in Section 3.3(a) of the Plan, we plan to destack or reorganize the ownership of various of our subsidiaries in connection with the demutualization. (If you are unfamiliar with terms used in this discussion, please refer to the Glossary beginning on page 61 where some of these terms are defined.) The destacking itself will not affect the consolidated results or consolidated financial reporting of Prudential Financial, Inc., which will become the indirect holding company for Prudential Insurance. As a result of the destacking, some subsidiaries of Prudential will no longer be subsidiaries of Prudential Insurance. However, these subsidiaries will be direct or indirect subsidiaries of Prudential Financial, Inc. The destacking will involve the following companies and certain related assets and non-insurance liabilities that are currently directly or indirectly owned by Prudential:

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

If it is approved, the destacking will be accomplished through the payment of the destacking extraordinary dividend by Prudential Insurance to Prudential Financial, Inc. The amount of this destacking extraordinary dividend (based on the statutory book value at December 31, 2000 of the subsidiaries, assets and non-insurance liabilities that are proposed to be destacked) would have been approximately \$3,829 million if the destacking had occurred on December 31, 2000.

Also, at the time of demutualization or within 30 days thereafter, we expect Prudential Insurance to pay an additional extraordinary dividend to Prudential Financial, Inc. as part of the reorganization of our capital structure. Under the Plan, the amount of this additional extraordinary dividend may not exceed \$2.5 billion. This additional extraordinary dividend would be in addition to the destacking extraordinary dividend and would further reduce the assets, surplus and income of Prudential Insurance.

The amount of the additional extraordinary dividend may be as much as \$2.5 billion under the Plan. The amount actually paid will be based on the capital and risk positions of Prudential at or shortly prior to the Effective Date and is intended to be the maximum possible amount that, together with the demutualization and the destacking extraordinary dividend, would maintain capital adequacy of Prudential Insurance at levels consistent with our financial strength ratings objectives. If it had been paid at year end 2000, the amount of the additional extraordinary dividend, determined on the basis of year end 2000 capital and risk positions in such manner, would have been \$360 million, which is reflected in the pro forma information below. However, the additional extraordinary dividend actually paid based on 2001 capital and risk positions could turn out to be substantially larger. We will not pay an additional extraordinary dividend in an amount that would reduce the surplus and AVR of Prudential Insurance below \$6 billion.

The payment of this additional extraordinary dividend would increase Prudential Financial, Inc.’s cash liquidity. With this increased liquidity, Prudential Financial, Inc. would have greater financial flexibility. We believe this would be viewed favorably by the capital markets and considered a more efficient use of capital. If so, the additional extraordinary dividend should help to enhance the value of Prudential Financial, Inc. stock at the time of the IPO and immediately thereafter, and therefore enhance the value of the demutualization compensation received by eligible policyholders.

In order to present the financial impact of the demutualization, the destacking extraordinary dividend and the additional extraordinary dividend on Prudential Insurance, we have provided below certain supplemental financial information on a historical basis, as well as on an “as adjusted” pro forma basis. This supplemental financial information for Prudential Insurance gives effect to these transactions as if they had occurred on December 31, 2000, for purposes of the balance sheet data for Prudential Insurance, and as of January 1, 2000, for purposes of the statement of operations data for Prudential Insurance for the year ended December 31, 2000.

The supplemental financial information presented contains supplemental balance sheet and statement of operations data prepared in accordance with statutory accounting principles prescribed under New Jersey law (“SAP”).

As you can see below, if the demutualization, destacking and additional extraordinary dividend had occurred on the basis described and at December 31, 2000, Prudential Insurance’s “as adjusted” assets, and surplus and AVR, would have been reduced, on a pro forma basis, from \$196.0 billion and \$11.7 billion to \$191.8 billion and \$7.0 billion, respectively, and liabilities would have been increased from \$184.3 billion to \$184.8 billion.

Furthermore, Prudential Insurance would have had an “as adjusted” net loss for 2000 of \$51 million, as compared to the historical 2000 result of net income of \$149 million, if the demutualization, destacking and additional extraordinary dividend

had occurred on January 1, 2000. This reduction includes 2000 after-tax income of the destacked subsidiaries, and estimated income on the amount of the additional extraordinary dividend and payments made by Prudential Insurance to eligible policyholders of demutualization compensation.

The “as adjusted” loss from operations, which excludes net realized capital gains, would have been \$334 million, as compared to the historical 2000 result of loss from operations of \$134 million. For a discussion of the significance of statutory net gain from operations, see “Demutualization and Related Transactions—Related Transactions—Additional Extraordinary Dividend” in Part 2.

After giving effect to these transactions as described above, Prudential Insurance would have a pro forma reduction in assets and surplus as compared with historical results, and a pro forma net loss for 2000, as compared with historical income in that year. We believe, however, that the overall effect of these transactions in the aggregate will actually strengthen Prudential Insurance because it will: (1) reduce the earnings volatility inherent in owning property and casualty insurance and retail securities businesses; and (2) reduce the proportion of Prudential Insurance’s capital invested in subsidiaries to a level more comparable to that of other large life insurers. We believe the destacking will result in a better positioning of both Prudential Insurance and Prudential Financial, Inc. to obtain and thereafter retain higher claims paying ability and credit ratings. In addition, we believe the destacking will permit a more efficient use of our capital and will position us better for making acquisitions after we are a public company. However, no assurances can be given that these results will in fact occur.

We believe that Prudential Insurance’s assets and surplus will remain substantial, and we do not believe that these transactions will negatively affect Prudential Insurance’s financial strength ratings nor do we believe they will negatively affect Prudential Insurance’s ability to pay claims and benefits to its policyholders.

We based the supplemental pro forma financial information that follows on assumptions we believe are reasonable. This supplemental information is not necessarily indicative of what the consolidated financial position or results of operation of Prudential Insurance would have been had the demutualization, the destacking extraordinary dividend and the additional extraordinary dividend actually occurred on the dates assumed and does not project or forecast what the financial position or results of operation will be for any future date or period. The basic assumptions we used in preparing this supplemental pro forma information are as follows:

- A total of 616.5 million notional shares of Prudential Financial, Inc. stock are allocated to eligible policyholders under the Plan and distributed as follows. In this allocation of notional shares, we have assumed a price of \$30.00 per share of Prudential Financial, Inc. stock, which is the midpoint of the assumed IPO price range:
  - 36.9 million of these notionally allocated shares are not issued to eligible policyholders who, under the Plan, are required to receive payments in the form of policy credits, recorded as liabilities of Prudential, rather than in shares of Prudential Financial, Inc. stock;
  - 11.7 million of these notionally allocated shares are not issued to eligible policyholders of certain policies that Prudential transferred to London Life in connection with the sale of most of its Canadian branch operations who, under the Plan, are required to receive payments in the form of cash, which will be paid by Prudential;
  - 6.3 million of these notionally allocated shares are not issued to eligible policyholders with addresses outside of the United States who, under the Plan, are required to receive payments in the form of cash, which will be paid by Prudential;
  - 21.6 million of these notionally allocated shares are not issued to eligible policyholders who, under the Plan, are entitled to receive payments in the form of cash, but whom we cannot locate and for whom a liability is being established by Prudential Financial, Inc.;
  - 85.4 million of these notionally allocated shares are not issued to eligible policyholders who are allocated 30 or fewer shares and who, under the Plan, will receive cash, which will be paid by Prudential Financial, Inc., unless the eligible policyholder affirmatively elects to receive Prudential Financial, Inc. stock. For purposes of the supplemental pro forma financial information, we assume that 20% of policyholders eligible to elect to receive shares actually elect to receive shares; and
  - 454.6 million of these notionally allocated shares of Prudential Financial, Inc. stock are issued to eligible policyholders under the Plan.
- An additional extraordinary dividend of \$360 million is paid by Prudential Insurance to Prudential Financial, Inc., which is the amount that Prudential’s management currently believes would have been appropriate if paid at December 31, 2000 based upon statutory book value at that date.

You should read this supplemental financial information together with the financial statements and other financial information about Prudential Financial, Inc. and Prudential Insurance contained in Part 2.

**AS OF AND FOR THE YEAR-ENDED DECEMBER 31, 2000**

	Adjustments for				
	Historical Prudential	Destacking	Demutualization (Dollars in millions)	Additional Extraordinary Dividend	As Adjusted Prudential Insurance
<b>Supplemental SAP Information:</b>					
<i>Statement of Operations Data:</i>					
Total revenues .....	\$ 24,542	\$(3,990)	\$ (42)	\$ (28)	\$ 20,482
Total benefits and expenses .....	21,698	(3,726)	—	—	17,972
Operating income before dividends and income taxes .....	2,844	(264)	(42)	(28)	2,510
Dividends to policyholders .....	2,853	—	—	—	2,853
Income tax provision .....	125	(4)	(118)	(12)	(9)
Net gain (loss) from operations .....	(134)	(260)	76	(16)	(334)
Net realized capital gains .....	283	—	—	—	283
Net income (loss) .....	\$ 149	\$ (260)	\$ 76	\$ (16)	\$ (51)
<i>Balance Sheet Data:</i>					
Total assets .....	\$196,011	\$(4,420)	\$ 567	\$(360)	\$191,798
Total liabilities excluding asset valuation reserve .....	\$184,303	\$ (591)	\$1,107	\$ —	\$184,819
Total surplus and asset valuation reserve ....	11,708	(3,829)	(540)	(360)	6,979
Total liabilities and surplus .....	\$196,011	\$(4,420)	\$ 567	\$(360)	\$191,798

Shown above are historical Prudential results and adjustments to reflect the pro forma impact on these historical results of the destacking extraordinary dividend, the demutualization and the additional extraordinary dividend. The adjustments include the following:

**Destacking** – The adjustments for the Statement of Operations Data reflect the impact of removing the operating results for the subsidiaries to be destacked, as if they had been destacked on January 1, 2000. The adjustments for the Balance Sheet Data reflect the impact of transferring the assets, liabilities and equity/surplus of the subsidiaries to be destacked, as if they had been destacked on December 31, 2000.

**Demutualization** – The adjustments for the Statement of Operations Data reflect the elimination of the equity tax, to which Prudential Insurance will no longer be subject after demutualization, and the decrease in investment earnings associated with those assets used to make cash payments in respect of demutualization compensation as if the demutualization had occurred on January 1, 2000. The adjustments for the Balance Sheet Data give effect to the demutualization as if it had occurred on December 31, 2000, reflecting the payment of cash to certain eligible policyholders and the establishment of liabilities for policy credits as well as the impact of these items on the surplus of Prudential Insurance. Additionally, Prudential Insurance is to be reimbursed, in the form of a note issued by Prudential Financial, Inc., for the liability established for policy credits. The Balance Sheet Data above reflect the establishment of this note from Prudential Financial, Inc., as well as the resulting increase to surplus from this receivable. The adjustment to Statement of Operations Data for the destacking does not include \$351 million we expect to pay to holders of certain policies that Prudential transferred to London Life Insurance Company in connection with the sale of most of its Canadian branch operations. These payments will be recorded as an expense at the time of the demutualization but have not been reflected in the pro forma Statement of Operations Data as they will not have a continuing impact.

**Additional Extraordinary Dividend** – The adjustment for Statement of Operations Data reflects the decrease in investment earnings associated with those assets to be paid out of Prudential Insurance, as if this extraordinary dividend had occurred on January 1, 2000. The adjustment for Balance Sheet Data reflects the net amount of the dividend as if paid by Prudential on December 31, 2000.

After giving effect to the above transactions, we believe that Prudential Insurance will be adequately capitalized to meet all regulatory requirements and carry out its business plan. We do not expect any negative impact on Prudential Insurance's financial strength ratings nor do we expect Prudential Insurance's ability to pay claims and policy benefits to be negatively affected.



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**MILLIMAN & ROBERTSON, INC.**  
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December 12, 2000

The Board of Directors  
The Prudential Insurance Company of America  
Prudential Plaza  
Newark, NJ 07102

Re: Plan of Reorganization of The Prudential Insurance Company of America

**STATEMENT OF ACTUARIAL OPINION**

**Subject of this Opinion**

This opinion letter relates to the actuarial aspects of the proposed Reorganization of The Prudential Insurance Company of America ("Prudential") pursuant to its Plan of Reorganization (the "Plan") as presented to Prudential's Board of Directors on December 12, 2000 for its consideration and adoption. The specific opinions set forth herein relate to the proposed allocation of consideration among Eligible Policyholders and the creation and funding of a Closed Block, each of which is described in the Plan.

Capitalized terms have the same meaning in this opinion as they have in the Plan.

**Qualifications and Usage**

I, Daniel J. McCarthy, am associated with the firm of Milliman & Robertson, Inc., ("M&R") and am a Member of the American Academy of Actuaries, qualified under the Academy's Qualification Standards to render the opinions set forth herein. The Plan is based on authority in Chapter 17C of Title 17 of the New Jersey Revised Statutes ("Chapter 17C"). The opinions set forth herein are not legal opinions concerning the Plan but rather reflect the application of actuarial concepts and standards of practice to the provisions thereof.

I am aware that this opinion letter will be furnished to the New Jersey Department of Banking and Insurance for its use in determining the fairness of the Plan, and to Prudential's Eligible Policyholders as part of the Policyholder Information Booklet that will be delivered to them, and I consent to the use of this letter for those purposes.

**Reliance**

In forming the opinions set forth in this memorandum, I have received from Prudential extensive information concerning Prudential's past and present practices and financial results. I, and other M&R staff acting under my direction, met with Prudential personnel and defined the information we required; in all cases, we were provided with the information we requested to the extent that it was available or could be developed from Prudential's records. We have made no independent verification of this information, although we have reviewed it where practicable for general reasonableness and internal consistency. I have relied on this information, which was provided under the general direction of Helen Galt, Prudential's Company Actuary. My opinions depend on the substantial accuracy of this information.

**Process**

In all cases, I and other M&R staff acting under my direction either derived the results on which my opinions rest or reviewed derivations carried out by Prudential employees.

**Opinion #1**

Under the Plan, consideration is to be distributed to each Eligible Policyholder in exchange for his or her Membership Interest. In my opinion, the methodology and underlying assumptions for allocation of consideration among Prudential's Eligible Policyholders that are set forth in Article VII of the Plan (including the Allocation Principles and Methodology, an Exhibit thereto) are reasonable and appropriate, and the resulting allocation of consideration is fair and equitable.

**Discussion**

General description of the method of allocation. Section 3(c)(2) of Chapter 17C requires that “the method for allocating consideration among eligible policyholders shall be fair and equitable”, and requires that “the method shall provide for each eligible policyholder to receive (a) a fixed component of consideration or a variable component of consideration, or both; or (b) any other component of consideration acceptable to the commissioner”. Under the Plan, each Eligible Policyholder will be allocated a Basic Fixed Component of consideration; i.e., a value, expressed in terms of shares of stock, that is independent of the Eligible Policyholder's Actuarial Contribution. In addition, each Eligible Policyholder will be allocated a Basic Variable Component of consideration if the Actuarial Contribution of any of the Eligible Policies owned by the Eligible Policyholder is positive. As defined in the Plan, Actuarial Contribution means, with respect to a particular Eligible Policy, the contribution that such Eligible Policy is estimated to have made to the Company's surplus, plus the estimated contribution that such Eligible Policy is expected to make to surplus in the future, in each case as determined in accordance with the principles and methodology set forth in Article VII and the “Allocation Principles and Methodology” Exhibit of the Plan. For each Eligible Policyholder who receives a Basic Variable Component of consideration, that Eligible Policyholder's share of the sum of all consideration distributed via the Basic Variable Component is the ratio of:

- (a) the sum of the positive Actuarial Contributions of all Eligible Policies owned by the Eligible Policyholder, to
- (b) the sum of all positive Actuarial Contributions of all Eligible Policies owned by all Eligible Policyholders.

Appropriateness of the “contribution to surplus” method. Most of the consideration allocated to Eligible Policyholders is allocated via the Basic Variable Component, using the “contribution to surplus” method. The contribution to surplus method is recognized in the actuarial literature as an appropriate allocation method. In particular, Actuarial Standard of Practice 37 (“ASOP 37”), which is the most authoritative guidance available to actuaries on this subject, states in part, “The variable component of consideration should be allocated on the basis of the actuarial contribution.” ASOP 37 (which was adopted by the Actuarial Standards Board in June, 2000 with an effective date of December 15, 2000) defines “actuarial contribution,” in relevant part, to be “The contributions that a particular policy. . . has made to the company's statutory surplus. . . plus the present value of contributions that the same policy. . . is expected to make in the future.” This is consistent with the definition in the Plan. I therefore find that the use of “contribution to surplus” as the principal basis underlying the allocation of consideration is reasonable and appropriate. I further find that, in the Plan, the contribution to surplus method has been implemented in a reasonable manner, consistent with Prudential's past and present business practices and consistent with relevant actuarial literature.

Appropriateness of the Basic Fixed Component. Consideration is also allocated to Eligible Policyholders via the Basic Fixed Component, in which each Eligible Policyholder is allocated a fixed number of shares of common stock without regard to the Actuarial Contribution of that Eligible Policyholder or of the class or classes in which policies held by the Eligible Policyholder happen to reside. This element of the allocation assures that each Eligible Policyholder will receive some distribution, and is consistent with overall concepts of equity. Under the Plan, the percentage of the total consideration that is allocated in this manner is small relative to that allocated in proportion to positive actuarial contributions, which is appropriate. I find that including a minimum allocation to each Eligible Policyholder using the Basic Fixed Component is reasonable and appropriate.

Appropriateness of certain adjustments provided for in the Plan. The Plan provides for certain adjustments to the amount otherwise calculated (i.e., the sum of the Basic Fixed Component and any Basic Variable Component) with respect to certain Eligible Policyholders. These adjustments, and the Eligible Policyholders to which each applies, are discussed below.

a. Additional Components. Section 7.1 of the Plan defines the basis under which an Additional Fixed Component and an Additional Variable Component will be allocated to Eligible Policyholders who do not receive shares of stock as a form of consideration with respect to any of his or her Eligible Policies. (For purposes of this opinion, I will refer to the Additional Fixed Component and the Additional Variable Component together as “Additional Components”.) This adjustment has the effect of increasing the amount of consideration by approximately 10% of the amount otherwise calculated, subject to a minimum of two additional shares. The aggregate amount of the Additional Components reasonably reflects the value of the savings that Prudential expects to achieve by virtue of providing shareholder services to a smaller number of shareholders than there would have been if all Eligible Policyholders had received shares of stock and how that value might be reflected in Prudential's IPO price.

b. Top-up Period. Section 7.5 of the Plan defines the basis under which this adjustment is made with respect to Eligible Policyholders who receive cash or policy credits as a form of consideration with respect to any of his or her Eligible Policies if the average trading price of the stock in the 20 days following the IPO exceeds the Initial Stock Price by more than 10%. In such event, such Eligible Policyholders receive additional consideration equal to the product of (x) and (y), where (x) equals the excess of (i) the ratio of the average trading price to the Initial Stock Price over (ii) 1.1, and

(y) equals the amount of their calculated consideration (i.e., the sum of the Basic Fixed Component, any Basic Variable Component, and any Additional Components) on such Eligible Policies. This adjustment cannot exceed 10% of the calculated consideration (i.e., if the rate of appreciation exceeds 20%, the adjustment is 10%).

I have considered the effect of these two adjustments. I note that:

- a. The Additional Components adjustment has the effect of reflecting, in the allocation of consideration provided to each Eligible Policyholder who does not receive shares of stock in exchange for his or her membership interest, the value associated with anticipated savings in shareholder servicing costs that they make possible by not receiving shares of stock.
- b. The Top-up Period adjustment has the effect of providing assurance to Eligible Policyholders who receive cash or policy credits that if the use of the Initial Stock Price of the stock in determining the value distributed to such Eligible Policyholders in exchange for their membership interests does not fully reflect the value of those interests—as would be demonstrated if the price of the stock rises significantly during a short period after the IPO—the amount distributed to them will be adjusted to reflect appropriately the value of their membership interests.
- c. The Top-up Period adjustment is integrated with the Additional Components adjustment. It takes into account that by virtue of the Additional Components adjustment, Eligible Policyholders who do not receive shares of stock, who constitute the vast majority of those to whom the Top-up Period adjustment applies, will already have been allocated value that is approximately equal to the additional value they would have derived from receiving shares of stock if any short-term increase in the price of the stock is 10% or less. It thus provides additional consideration only if any short-term increase in the price of the stock exceeds 10%.

I find that the application of these adjustments in determining the amount of consideration allocable to Eligible Policyholders who receive cash or policy credits is fair and equitable because:

- i. it reflects, in valuing their Membership Interests, the element of that value that is associated with savings in shareholder servicing costs, and
- ii. it enables an adjustment in valuing their Membership Interests, essentially analogous to the adjustment that takes place on the part of Eligible Policyholders who receive only shares of stock, in the event that there is a significant increase in the price of the stock in the short term.

In making this finding, I have taken into account the history of short-term Post-IPO price movements of the shares of stock of demutualized life insurers.

The effect of different forms of consideration. As noted above, in considering the fairness of the allocation I have taken into account that different classes of Eligible Policyholders will receive one or more different forms of consideration. I find that the above-described allocation of demutualization consideration among Eligible Policyholders results in a distribution to each class of Eligible Policyholders in exchange for their Membership Interests, whether in stock, policy credits or cash, that appropriately reflects their share of the aggregate value that is being distributed in the exchange.

Appropriateness of the definition of “Eligible Policyholder.” In considering the fairness of the allocation, I have taken into account the definition of “Eligible Policyholder” set forth in the Plan. This definition differs in certain respects from definitions used in some prior demutualizations, but I consider it to be consistent with Prudential’s business practices, consistent with approaches prescribed or permitted by the Chapter 17C, and reasonable when taken in conjunction with the overall method for allocation of consideration. I have also considered that, under the Plan, Eligible Policies affect the allocation of the Aggregate Basic Variable Component, if their Actuarial Contributions are positive, whether they are “participating” or “non-participating” policies. In light of Prudential’s business practices, I find this approach to be fair and equitable.

## **Opinion #2**

In my opinion:

- A. The purpose of the Closed Block, as set forth in Article IX of the Plan, is appropriate.
- B. The arrangements for the establishment, operation and funding of the Closed Block as set forth in Article IX of the Plan (including the Closed Block Memorandum, an Exhibit thereto), are reasonable.
- C. The selection of the assets used to fund Prudential’s Closed Block as of July 1, 2000 is consistent with the Plan of Reorganization and with the actuarial assumptions (as described in the Closed Block Memorandum) that were used for funding the Closed Block.
- D. The \$48.7 billion of assets used to fund the Closed Block is an amount that is expected to be reasonably sufficient to meet the objective of supporting the Closed Block Policies (including but not limited to the payment of claims, certain expenses, and taxes) and providing for continuation of the dividend scales in effect on the Adoption Date if the experience underlying such dividend scales continues. Attachment 1 to this letter provides the Closed Block statutory balance sheet as of July 1, 2000, consistent with the funding of the Closed Block.

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E. Article IX of the Plan also provides for the appropriate adjustment of the dividend scales if the underlying experience changes from that underlying the dividend scales in effect for 2000 and is in conformity with the provisions of Chapter 17C dealing with closed blocks.

F. The Funding Adjustment Charges specified for the Closed Block (set forth in Attachment 2 to this letter) are consistent with the Plan of Reorganization and with the actuarial assumptions that were used for the establishment of these charges.

### **Discussion**

Appropriateness of the purpose of the Closed Block. As to (A) above, Section 3(d) of Chapter 17C requires that the Plan provide for the reasonable dividend expectations of policyholders through establishment of a closed block or other method acceptable to the commissioner. Chapter 17C also provides that any such method may be limited to participating individual life insurance policies and participating individual annuity contracts with experience-based dividend scales. Further, Chapter 17C provides that assets are to be allocated to the Closed Block in an amount expected to be reasonably sufficient to meet the objective of supporting the Closed Block Policies and providing for continuation of the dividend scales in effect on the Adoption Date if the experience underlying such dividend scales continues. Article IX of the Plan makes provision for establishing a Closed Block having a purpose consistent with that specified by Chapter 17C. My opinion that the purpose is appropriate is based on this consistency as well as its consistency with Actuarial Standard of Practice 33 (“ASOP 33”), with the report of the Society of Actuaries Task Force on Mutual Life Insurance Company Conversion, and with the purposes of other closed blocks that have been established in recent years.

Appropriateness of the arrangements for the establishment, operation and funding of the Closed Block. As to (B), (C), (D), and (E) above, the Closed Block Memorandum describes the process by which assets will be allocated to the Closed Block as of the Closed Block Funding Date, July 1, 2000. The process has three essential steps:

1. Defining the elements that constitute the experience underlying the dividend scales in effect for 2000.
2. Defining the projection process used, in conjunction with (1), to determine the cash flow requirements of the Closed Block for each year of its projected future existence.
3. Selecting assets whose cash flows, when taken in conjunction with anticipated future revenues from Closed Block Policies and future reinvestment of available Closed Block assets, will provide funds to meet the cash requirements of the Closed Block.

I find that the elements of experience underlying the dividend scales in effect for 2000 have been determined correctly and that the process is consistent with normal actuarial techniques for determining cash flow requirements. In particular, I find that – because the dividend scales adopted by Prudential have been essentially unchanged for the four-year period 1997-2000 – it is appropriate to determine the elements of experience by averaging, for each element, the experience underlying the scales adopted in the four years ending with year 2000.

I find that the funding of the Closed Block is appropriate, because the initial Closed Block assets are reasonably sufficient to enable the Closed Block to provide for the guaranteed benefits, certain expenses and taxes associated with Closed Block policies, and to provide for the continuation of the dividend scales in effect for the year 2000 if the experience underlying those scales (including the portfolio interest rates) continues. In connection with these findings, I have noted that the funding of the Closed Block provides for a fixed cost of servicing the policies included in it, and the Closed Block Memorandum provides specifically that such fixed administrative expenses shall be charged to the Closed Block. I have considered these arrangements in light of the fact that Prudential, rather than the Closed Block policyholders, bears the financial risk for future changes in administrative expense levels.

I have also taken into account the fact that the investment policies and guidelines that the Investment Committee of the Board adopted for the Closed Block represent a general continuation of the investment policies and guidelines that have been applicable in the past for the portfolio of assets associated with Prudential’s obligations for policies that have been placed in the Closed Block.

I also find that the criteria set forth in Article IX of the Plan for modifying the dividend scales if the experience changes are such that, if followed, the Closed Block Policies will be treated in a manner consistent with Prudential’s current dividend practices. In connection with this finding, I have noted that the Plan requires Prudential to submit by June 1 of the fifth calendar year following the calendar year of the Effective Date and every five years thereafter a report, prepared in accordance with applicable actuarial standards, of an independent actuary, who shall be a member of the American Academy of Actuaries, concerning the operations of the Closed Block. The presence of this requirement helps to assure that Closed Block operations in general, and dividend scale changes in particular, are consistent with the purpose of the Closed Block.

Finally, I find that the funding and operation of the Closed Block as set forth in Article IX of the Plan are consistent with current actuarial practice as set forth in ASOP 33. In particular, I find that – under the circumstances described above – the use of the four-year averaging technique in determining the elements of experience is consistent with the guidance of ASOP 33 that experience elements should reflect “. . . recent experience underlying the current dividend scales.”

**MILLIMAN & ROBERTSON, INC.**



Appropriateness of Funding Adjustment Charges. As to (F) above, the Funding Adjustment Charges are appropriate because, with respect to Closed Block Policies issued on or after the Closed Block Funding Date (July 1, 2000) and prior to the Effective Date, they will place the Closed Block in a neutral financial position – i.e., the Closed Block’s assets will be neither more nor less sufficient in relation to its obligations by virtue of the inclusion of these policies in the Closed Block than would have been the case had the policies not been included in the Closed Block. The Funding Adjustment Charges have been calculated so that they remove from the Closed Block, with respect to policies to which they apply, the sum of (a) expenses and commissions provided for in the pricing of the policies for which the Closed Block is not financially responsible, and (b) the present value of any expected future profits that would enure to Prudential after provision for policyholder dividends.

### **Opinion #3**

In my opinion, the definition of the Closed Block Policies included in the Closed Block as set forth in Article I of the Plan is fair and reasonable, and is consistent with the provisions of Chapter 17C. Section 9.5 of the Plan provides other methods for protecting the reasonable dividend expectations for certain dividend-paying policies not in the Closed Block. In my opinion, these other methods are reasonable and appropriate.

### **Discussion**

Article I of the Plan defines the Closed Block Policies referred to in Article IX of the Plan. This definition provides that certain classes of policies in force on the Closed Block Funding Date, or on any date between that date and the Effective Date, will be included in the Closed Block provided that they are in force on the Effective Date. The policies so provided for are, in general, individual life insurance policies and certain retirement annuity contracts in classes for which Prudential’s 2000 dividend scale provides for experience-based dividends. This is consistent with the purpose of the Closed Block, which is to provide assurance of the future dividend treatment of such policies and contracts.

For certain small classes of individual life policies, individual health policies, individual annuity contracts, and supplementary contracts with current dividend scales but which are excluded from the Closed Block, the Plan provides reasonable assurances as to the continuation of the current dividend practices in the future. Such assurances are an appropriate way in which to deal with special classes of policies.

### **Scope of Opinions #2 and #3**

Section 9.4 of the Plan provides for the establishment of a Canadian Closed Block. The Canadian Closed Block was funded with assets in the amount of C\$170 million as of July 1, 2000. Attachment 3 to this letter provides the statutory balance sheet for the Canadian Closed Block as of July 1, 2000 consistent with the funding of the Canadian Closed Block. Such funding was based on experience appropriate for the Canadian Closed Block. Opinions #2 and #3 above apply both to the Canadian Closed Block and to the Closed Block covering all other Closed Block Policies.

Yours sincerely,



Daniel J. McCarthy  
Consulting Actuary

**Attachment 1**  
**US Closed Block**  
**Balance Sheet – July 1, 2000**  
**(amounts in \$millions)**

<b>Assets</b>	
Bonds	34,250
Preferred Stock	17
Common Stock – Unaffiliated	1,581
Mortgage Loans	5,120
Investment Real Estate	38
Policy Loans – Non-securitized	5,670
Policy Loans – Securitized	169
Cash and Other Short-term Investments	4
Other Long-term Investments	1,072
Accrued Investment Income	683
Other Miscellaneous Assets	12
Premiums Receivable	93
<b>Total Assets</b>	<b>48,709</b>
<b>Liabilities</b>	
Future Policy Benefits / Aggregate Reserve	43,131
Policyholder Account Balance (Dividend Accumulations)	5,205
Unpaid Claims	68
Policyholder Dividends	2,415
Other Policyholder Related Liabilities	23
General Expenses Due & Accrued	1
Unearned Investment Income	5
<b>Total Liabilities</b>	<b>50,848</b>
<b>Surplus</b>	<b>(2,139)</b>

**Attachment 2**  
**Funding Adjustment Charges**

Funding Adjustment charges for Closed Block Policies that are issued on or after the Closed Block Funding Date, but on or before the Effective Date of the Plan are as follows:

<b>Series</b>	<b>Percent of First Year Recurring Premium (Annualized, including riders, modal loadings and policy fees)</b>
Gibraltar	125%
Estate	151%
Legacy	182%

**Attachment 3**  
**Canadian Closed Block**  
**Balance Sheet – July 1, 2000**  
**(amounts in C\$millions)**

<b>Assets</b>	
Bonds	143
Preferred Stock	0
Common Stock – Unaffiliated	21
Mortgage Loans	0
Investment Real Estate	0
Policy Loans – Non-securitized	4
Policy Loans – Securitized	0
Cash and Other Short-term Investments	0
Other Long-term Investments	0
Accrued Investment Income	2
Other Miscellaneous Invested Assets	0
Premiums Receivable	0
<b>Total Assets</b>	<b>170</b>
<b>Liabilities</b>	
Future Policy Benefits / Aggregate Reserve	157
Policyholder Account Balance (Dividend Accumulations)	0
Unpaid Claims	0
Policyholder Dividends	4
Other Policyholder Related Liabilities	1
General Expenses Due & Accrued	0
Unearned Investment Income	0
Remittances & Items Not Allocated	0
<b>Total Liabilities</b>	<b>162</b>
<b>Surplus</b>	<b>8</b>

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J.P. Morgan Securities Inc.

April 6, 2001

60 Wall Street  
New York NY  
10260-0060

The Board of Directors  
The Prudential Insurance Company of America  
751 Broad Street  
Newark, NJ 07102-3777

Ladies and Gentlemen:

You have requested our opinion as to the fairness, from a financial point of view, to the policyholders of The Prudential Insurance Company of America and its subsidiaries (the “Company”) who are Eligible Policyholders, taken as a group, of the exchange of their aggregate Membership Interests for shares of common stock (the “Common Stock”) of Prudential Financial, Inc. (the “Holding Company”), cash, or Policy Credits in accordance with the Plan of Reorganization as adopted by the Company’s Board of Directors on December 15, 2000, as subsequently amended and restated (the “Plan”). Capitalized terms not otherwise defined herein shall have the meanings provided in the Plan.

The Plan provides for a reorganization of the Company pursuant to Chapter 17C of Title 17 of the New Jersey Revised Statutes (the “Reorganization”) and further provides, among other things, that, upon effectiveness of the Plan: (1) the Company will convert from a mutual life insurance company to a stock life insurance company that will become a wholly-owned subsidiary of Prudential Holdings, LLC (the “Intermediate Holding Company”), which in turn will be a wholly-owned subsidiary of Holding Company; (2) the Membership Interests in the Company will be extinguished and Eligible Policyholders will receive consideration in the form of shares of Common Stock, cash or Policy Credits based on allocation methodologies defined in the Plan; (3) the Company will establish a Closed Block and a Canadian Closed Block in accordance with Article IX of the Plan to provide for the reasonable dividend expectations of the holders of policies included therein and (4) shares of Common Stock will be offered to the public (the “IPO”) to finance, among other things, the cash and Policy Credits paid or credited to policyholders in connection with the Reorganization.

In addition, the Plan provides that Eligible Policyholders who do not receive shares of Common Stock as a form of consideration will be allocated an Additional Fixed Component and an Additional Variable Component of consideration as provided in Article VII of the Plan (the “Supplemental Shares”). Also, the amount of any cash or Policy Credits distributed to Eligible Policyholders will reflect any appreciation of the average market price of the Common Stock during the first 20 days of trading in excess of 110% of the offering price in the IPO (the “Initial Stock Price”) up to a limit of 120% of the Initial Stock Price (the “Top-up”). We note that the ultimate percentage of the Common Stock held by Eligible Policyholders immediately following the IPO will depend on, among other things, the number of shares sold in the IPO and the result of the election by Eligible Policyholders who will receive cash unless they affirmatively elect to receive Common Stock.

The Plan also provides that, in connection with the Reorganization, the Company may, but shall not be required to,

- 1) raise capital by means of a private placement of Class B common stock of the Holding Company (“Class B Common Stock”) and limited recourse debt securities of the Intermediate Holding Company (the “Closed Block Debt”),
- 2) pay an extraordinary dividend of certain of its subsidiaries so that they become subsidiaries of the Holding Company but no longer subsidiaries of the Company (the “destacking”) and
- 3) pay an additional extraordinary dividend to the Holding Company.

The Plan provides in addition that the Company may, but shall not be required to, complete one or more financing transactions prior to, on or within 30 days after the Effective Date of the Reorganization. These may include one or more of a public or private offering of debt, preferred or convertible preferred securities, additional Common Stock, securities convertible into or exchangeable to any of the foregoing, or bank borrowings.

The Plan must be approved by (a) at least 2/3 of the votes validly cast by policyholders who are Qualified Voters, and at least one million Qualified Voters, or a lesser number of Qualified Voters determined by the Commissioner, must vote on the Plan, pursuant to Article XI of the Plan, and (b) the Commissioner after a public hearing, pursuant to Article X of the Plan. We note that in order for the Commissioner to approve the Plan, the Commissioner must find that the proposed Reorganization, among other things, is fair and equitable to policyholders. We express no view as to the sufficiency of





this opinion for purposes of obtaining such approvals or any other regulatory or statutory purpose. If approved by Qualified Voters and the Commissioner, and if the other conditions set forth in the Plan or required by law are satisfied, the Plan will become effective on the date on which the closing of the IPO occurs (the “Effective Date”). Subject to Section 14.10 of the Plan, the Plan may be amended or withdrawn by the Company’s Board at any time prior to the Effective Date.

You have not asked for our opinion and we do not express any opinion as to (1) which of the Company’s policyholders are to be included among the Eligible Policyholders, (2) the fairness of the Plan or the proposed consideration to be paid to any particular Eligible Policyholder or to any class of Eligible Policyholders in connection with the Reorganization, including any provisions of the Plan relating to which Eligible Policyholders receive Common Stock, cash or Policy Credits and other provisions of the Plan which distinguish among Eligible Policyholders such as the Supplemental Shares and Top-up provisions and those provisions with respect to the escrow or similar arrangement referred to in the ADR Memorandum, (3) the terms of the IPO, the Initial Stock Price or the price at which the Common Stock issued in connection with the Plan or pursuant to the IPO will trade, or (4) any matters relating to the establishment or the operation of the Closed Block or the Canadian Closed Block, including the Class B Common Stock and the Closed Block Debt. The Initial Stock Price will be a function of market conditions and the recent performance of and outlook for the Holding Company at the time. We believe that trading in the Common Stock for a period following the completion of a distribution of the Common Stock, including the IPO, would be characterized by a redistribution of the Common Stock among Eligible Policyholders that were issued shares of Common Stock and other investors. It is possible that during this period of redistribution the Common Stock may trade at prices below the prices at which it would trade on a fully distributed basis, and we are expressing no opinion herein as to the price at which the Common Stock will trade at any future time. We have also been advised that the Company has retained Daniel J. McCarthy, M.A.A.A., a consulting actuary associated with Milliman & Robertson, Inc., to opine on the reasonableness and appropriateness of the methodology and underlying assumptions used to allocate consideration among the Eligible Policyholders and certain matters relating to the establishment of the Closed Block and the Canadian Closed Block.

In arriving at our opinion, we have reviewed (i) the Plan; (ii) the draft Registration Statement on Form S-1 dated March 22, 2000 confidentially filed with the SEC in connection with the IPO (the “Draft Registration Statement”) (including historical financial statements and unaudited pro forma financial statements prepared in accordance with generally accepted accounting principles (“GAAP”)); (iii) the audited GAAP financial statements of the Company for the fiscal years ended December 31, 1998, 1999 and 2000; (iv) annual statements of the Company containing financial statements prepared in accordance with Statutory Accounting Procedures prescribed by the State of New Jersey; (v) certain interim statutory and GAAP financial reports of the Company and certain internal financial analyses and forecasts prepared by the Company and its management; (vi) the draft opinions dated December 12, 2000 of Milliman & Robertson, Inc., relating to the reasonableness and appropriateness of the methodology and underlying assumptions used to allocate consideration among the Eligible Policyholders and certain matters relating to the establishment of the Closed Block and the Canadian Closed Block (the “Draft Actuarial Opinions”); (vii) IRS rulings dated April 26, 2000, June 12, 2000, and June 29, 2000; and (viii) publicly available terms of certain transactions comparable to those contemplated by the Plan involving companies comparable to the Company.

In addition, we have held discussions with certain members of the senior management of the Company with respect to certain aspects of the Plan, and the past and current business operations of the Company, the financial condition and future prospects and operations of the Company and the Holding Company, as applicable, as well as the possible effects of the Plan and of an IPO and the application of the net proceeds thereof on the financial condition and future prospects of the Company and the Holding Company, as applicable.

We also have reviewed with management certain of the possible consequences and benefits of the Reorganization on the business, operations and financial condition of the Company. In arriving at this opinion, we have taken into account a number of factors, including, but not limited to, the following: (1) the fact that the Company has advised us that in order to best respond to changes in the financial services industry and to compete more effectively on a global basis, it will need to grow and expand its operations; (2) the fact that the Company has advised us that strategic and financial flexibility is necessary to grow and expand its operations; (3) the fact that the Company has advised us that a corporate structure that would enable it, through the Holding Company, to acquire additional permanent capital beyond that which can be internally generated and have the ability to issue

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Common Stock to fund acquisitions would provide the Company with such strategic and financial flexibility; (4) the fact that in its present form as a mutual insurer, the Company has limited access to the most effective forms of external capital which are typically found in the capital markets, and the Company is constrained in its ability to facilitate organizational and operational changes; (5) the fact that upon Reorganization, the Company, through the Holding Company, will have a capital structure potentially enabling it to access the capital markets for effective forms of capital, issue Common Stock to be used as acquisition currency and facilitate organizational and operational changes; (6) the fact that upon Reorganization, the Company will have a capital structure which could enable it to provide stock-based incentive compensation to attract and retain employees; and (7) the illiquidity of Membership Interests.

In giving our opinion, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was publicly available or was furnished to us by the Company or otherwise reviewed by us, and we have not assumed any responsibility or liability therefor. We have not conducted any valuation or appraisal of any assets or liabilities, nor have any such valuations or appraisals been provided to us, except for the Actuarial Opinions, nor have we undertaken an independent determination of the surplus of the Company. In relying on financial analyses and forecasts provided to us, we have assumed that they have been reasonably prepared based on assumptions reflecting the best currently available estimates and judgments by management as to the expected future results of operations and financial condition of the Holding Company to which such analyses or forecasts relate. We note that the projections are subject to review, restatement and/or modification relating to certain outstanding issues, including, among other things, the Closed Block, the Canadian Closed Block and the ultimate size and price of the IPO.

As to all legal and tax matters relevant to rendering our opinion, we have been advised by and have relied upon the advice of legal counsel and tax advisors to the Company, including as to the legality of the Plan and the transactions contemplated thereby, their compliance with New Jersey law and the terms and conditions of the Plan required to obtain the approval of the Plan by the Commissioner. In addition, upon your instruction and with your consent, we have assumed that (i) no legal, tax or regulatory changes which occur after the date of this opinion will have a material adverse effect upon the financial condition, operations or future prospects of the Company or the Holding Company or the effect of the Plan, (ii) the Reorganization will meet all applicable legal and regulatory requirements and that all necessary action will have been taken to comply with all applicable laws and requirements, including the receipt of all required approvals by policyholders, regulators and otherwise, (iii) any debt issuance by the Company, the Intermediate Holding Company or the Holding Company will not have a material adverse impact on the Company's business operations or performance or ratings by A.M. Best Company, Inc., Moody's Investors Service, Standard & Poors, and Fitch IBCA, Duff & Phelps and (iv) the terms of the IPO (which have not yet been determined) will not affect the legal or tax treatment of the Reorganization. With your consent, we have also assumed that the Reorganization will not have the effect of increasing premiums or reducing policy benefits, values, guarantees or other policy obligations of the Company (as provided in the Plan).

We have assumed that the Company will receive, prior to the Effective Date, an opinion from its tax counsel as to certain tax matters as described in Section 12.1 of the Plan. For purposes of our opinion, we have assumed that such opinion of tax counsel will be correct as of the Effective Date with no changes or exceptions whatsoever. We note, however, that we have received copies of the Internal Revenue Service rulings referred to in the seventh paragraph of this opinion and that the effectiveness of the Plan is not contingent upon the receipt of additional Internal Revenue Service rulings regarding the general federal income tax consequences of the transaction. For purposes of our opinion, we have also assumed that the Company will receive an exemption from the Department of Labor from Section 406 (a) of the Employee Retirement Income Security Act of 1974 and Section 4975 of the Code with respect to the receipt of consideration pursuant to the Plan by employee benefit plans subject to the provisions of such sections.

Our opinion is necessarily based on economic, market and other conditions as in effect on, and the information made available to us as of, the date hereof. It should be understood that subsequent developments may affect this opinion and that we do not have any obligation to update, revise, or reaffirm this opinion. Our opinion is given as of the date hereof and assumes that the Plan is approved without any changes, and that the Reorganization is completed on the basis described in the Plan.

J.P. Morgan Securities Inc. and its affiliates, as part of their investment banking business, are continually engaged in the valuation of businesses and their securities in connection with mergers and

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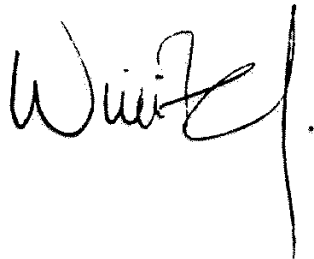
acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for other purposes. We are familiar with the Company and have acted as financial advisor to the Company in connection with this transaction, for which we will receive a fee. In the past, J.P. Morgan Securities Inc. and its affiliates have provided financial advisory services for the Company and have received fees for the rendering of these services.

On the basis of and subject to the foregoing, it is our opinion as of the date hereof that the provision of Common Stock, cash and Policy Credits upon the extinguishment of the policyholders' Membership Interests pursuant to the Plan is fair from a financial point of view to the Eligible Policyholders of the Company, as a group.

This letter is provided to the Board of Directors of the Company in connection with and for the purposes of its evaluation of the Plan and the Reorganization. This opinion does not constitute a recommendation to any policyholder of the Company as to how such policyholder should vote with respect to the Plan and the Reorganization. This opinion may not be disclosed, referred to, or communicated (in whole or in part) to any third party for any purpose whatsoever except with our prior written consent in each instance, except that a copy of it may be (a) provided to the Commissioner and the Department and (b) reproduced in full in any policyholder information statement mailed to policyholders of the Company, but may not otherwise be disclosed publicly in any manner without our prior written approval and must be treated as confidential except as otherwise required by applicable law.

Very truly yours,

J.P. MORGAN SECURITIES INC.

A handwritten signature in black ink, appearing to read "W. Cruger", with a long vertical line extending downwards from the end of the signature.

William F. Cruger  
Managing Director

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## MCDERMOTT, WILL & EMERY

April 27, 2001

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

Re: Plan of Reorganization

Ladies and Gentlemen:

You have requested our opinion, as Tax Counsel to The Prudential Insurance Company of America (“Company”), concerning certain federal income tax consequences of the conversion of Company from a mutual life insurance company to a stock life insurance company that is an indirect subsidiary of a holding company, Prudential Financial, Inc., pursuant to the Plan of Reorganization as approved and adopted as of December 15, 2000 (and subsequently amended and restated) (the “Plan”), under Chapter 17C of Title 17 of the New Jersey Revised Statutes. Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Plan.

In connection with rendering our opinion, we have examined the Plan, including all Exhibits and Schedules thereto; the Policyholder Information Booklet dated April 27, 2001 that will be mailed to Eligible Policyholders and Qualified Voters, among others, in connection with the special meeting at which policyholders will vote on the Plan; the private letter rulings issued by the Internal Revenue Service (“IRS”) dated April 26, 2000 and June 12, 2000; the request for private letter ruling dated December 15, 1999 and the request for supplemental private letter ruling dated February 23, 2001, including all exhibits thereto and supplemental filings; and such other records, documents, certificates, and instruments as in our judgment are necessary or appropriate to enable us to render the opinion below.

In rendering this opinion, we have assumed that (i) the Reorganization will be consummated in accordance with the terms, conditions and other provisions of the Plan; (ii) all of the factual information, descriptions and representations concerning the Reorganization contained in the documents described above are accurate and complete as of the date of this letter and will be accurate and complete as of the Effective Date in all material respects; and (iii) the representations and other statements in your letter to us dated April 27, 2001 are and, as of the Effective Date, will be accurate and complete in all material respects and any such representation made “to the best of the knowledge” or similarly qualified is and, as of the Effective Date, will be, in each case, correct without such qualification.

In our examination of such materials, we also have assumed the genuineness of all signatures, the legal capacity of all natural persons, the authenticity of all documents submitted to us as originals, the conformity to the original documents of all documents submitted to us as certified or photocopies and the authenticity of the originals of such documents. Other than obtaining the representations set forth in the above-described letter, we have not independently verified any factual matters relating to the Reorganization in connection with, or apart from, our preparation of this opinion. Accordingly, our opinion does not take into account any matters not set forth herein that might have been disclosed by independent verification. In the course of preparing our opinion, nothing has come to our attention that would lead us to believe that any of the facts, representations or other information on which we have relied in rendering our opinion is incorrect.

Based on the foregoing, in reliance thereon and subject thereto, it is our opinion that the principal federal income tax consequences to Eligible Policyholders of their receipt of consideration pursuant to Article VIII of the Plan described in “Federal Income Tax, ERISA/Employee Benefit Plan Considerations and Other Considerations for Third Party Owners (such as Life Insurance Trusts and Custodial Arrangements)” of the Policyholder Information Booklet, Part 1 are accurately described in all material respects under the applicable federal income tax law in effect on the date hereof.

We note that the federal income tax consequences of the Reorganization, including the principal federal income tax consequences to Eligible Policyholders of the receipt of consideration, is the subject of a private letter ruling issued by the IRS to Company on April 26, 2000. In this letter, the IRS ruled substantially to the effect that:

1. The Policies issued or purchased before the Effective Date will not be deemed newly issued, issued in exchange for existing policies or newly purchased for any material federal income tax purpose as a result of the reorganization of Company pursuant to the Plan.
2. Eligible Policyholders will not recognize any gain for federal income tax purposes upon the receipt of Prudential Financial, Inc. common stock pursuant to the Plan in exchange for their Membership Interests.
3. Common Stock received by Eligible Policyholders in exchange for their Membership Interests will have a basis of zero for federal income tax purposes.
4. The holding period for federal income tax purposes of Common Stock received by Eligible Policyholders will include the period during which the underlying policy was held.
5. Eligible Policyholders who receive cash for their Membership Interests will be taxable on the full amount of the cash in the year it is received by, or made available to, the Eligible Policyholders.

We also note that, on February 23, 2001, Company filed a supplemental letter requesting that the IRS confirm these rulings in view of certain factual developments since the April 26, 2000 letter, which we do not believe are material to the aforementioned rulings. While that request remains pending as of the date of this letter, we expect the IRS to issue a supplemental private letter ruling confirming the rulings in due course.

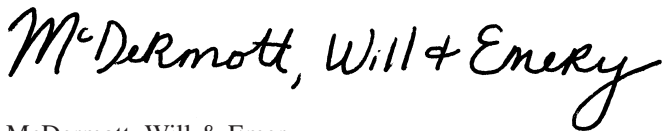
Our opinion is limited to the foregoing United States federal income tax consequences of the Reorganization. Our opinion does not address any other United States federal income tax consequences of the Reorganization or the effect of the Reorganization under state, local or foreign law. Our opinion represents our best legal judgment as to the matters addressed herein, but is not binding on the IRS or the courts. Accordingly, no assurance can be given that this opinion, if contested, would be sustained by a court.

Our opinion is based on the Internal Revenue Code of 1986, as amended, Treasury Regulations, case law and IRS rulings as they exist on the date hereof. These authorities are all subject to change and such change may be made with retroactive effect. We can give no assurance that after any such change, our opinion would not be different.

This letter is being rendered to you solely for purposes of satisfying the requirement set forth in Section 12.1 of the Plan. This opinion letter (and the opinions expressed herein) may not be relied on by you for any other purpose, or relied on by, or furnished to, any other person, firm or corporation without our prior written consent. We undertake no responsibility to update or supplement our opinion.

We hereby consent to the inclusion of this opinion letter as an Exhibit to the Policyholder Information Booklet, Part 1.

Very truly yours,

A handwritten signature in black ink that reads "McDermott, Will & Emery". The signature is written in a cursive, flowing style.

McDermott, Will & Emery



# GROOM LAW GROUP

April 27, 2001

The Prudential Insurance Company of America  
Prudential Plaza  
Newark, New Jersey 07102

Re: Plan of Reorganization

Ladies and Gentlemen:

You have requested our opinion, as Tax Counsel to The Prudential Insurance Company of America ("Company"), concerning certain federal income tax consequences of the conversion of Company from a mutual life insurance company to a stock life insurance company that will be an indirect subsidiary of a holding company, Prudential Financial, Inc., pursuant to the Plan of Reorganization as adopted as of December 15, 2000 (and subsequently amended and restated) (the "Plan"), under Chapter 17C of Title 17 of the New Jersey Revised Statutes. Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Plan.

In connection with rendering our opinion, we have examined the Plan, including all Exhibits and Schedules thereto; the Policyholder Information Booklet dated April 27, 2001 that will be mailed to Eligible Policyholders and Qualified Voters, among others, in connection with the special meeting at which policyholders will vote on the Plan; the private letter ruling issued by the Internal Revenue Service ("IRS") dated June 12, 2000; and such other records, documents, certificates, and instruments as in our judgment are necessary or appropriate to enable us to render the opinion below.

Based on the foregoing, and on the Internal Revenue Code of 1986, as amended (the "Code"), and Treasury Regulations, administrative and judicial interpretations thereunder (the "Federal Income Tax Law"), all as in effect on the date hereof, we are of the following opinions:

1. Policies described in Section 8.1(a)-(c) of the Plan issued by the Company prior to the Plan Effective Date will not be deemed newly issued, issued in exchange for existing policies or newly purchased for any material federal income tax purposes as a result of the consummation of the Plan or the crediting of consideration in the form of Policy Credits.
2. With respect to any Policy described in Section 8.1(a)-(c) of the Plan, the crediting of consideration in the form of Policy Credits to such Policy pursuant to Section 8.1 of the Plan will not adversely affect the tax-favored status accorded to the Policy under the Code, and will not be treated as a distribution under, or a contribution to, such Policy under the Code. The Internal Revenue Service issued rulings to this effect by letter dated June 12, 2000.
3. The summary of the principal federal income tax consequences to Eligible Policyholders that are employee benefit plans as defined in section 3(3) of the Employee Retirement Income Security Act of 1974 (whether or not subject thereto) or that hold contracts described in sections 401, 403, 408 or 408A of the Code resulting from their receipt of consideration pursuant to Article VIII of the Plan, as set forth in the section captioned "Federal Income Tax, ERISA/Employee Benefit Plan Considerations and Other Considerations for Third Party Owners (such as Life Insurance Trusts and Custodial Arrangements)" in the Policyholder Information Booklet, Part 1 is correct and complete in all material respects as of the date of mailing of such material.

This opinion is limited solely to the Federal Income Tax Law in effect on the date hereof and the relevant facts that exist as of the date hereof. We will update this opinion on the Effective Date. During the interim period, no assurance can be given that the law or the facts will not change, possibly with retroactive effect. We are delivering this opinion to you, and no other person is permitted to rely on it without our express written consent. We hereby consent to the inclusion of this opinion in the Policyholder Information Booklet, Part 1.

Very truly yours,



GROOM LAW GROUP, CHARTERED

## **Notes**

## **Notes**

## **Notes**









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