

PRUDENTIAL FINANCIAL INC

Form 10-Q

May 07, 2015

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2015

OR

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

For the Transition Period from to

Commission File Number 001-16707

Prudential Financial, Inc.

(Exact Name of Registrant as Specified in its Charter)

New Jersey
(State or Other Jurisdiction of
Incorporation or Organization)

22-3703799
(I.R.S. Employer
Identification Number)

751 Broad Street

Newark, New Jersey 07102

(973) 802-6000

(Address and Telephone Number of Registrant's Principal Executive Offices)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of the Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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As of April 30, 2015, 453 million shares of the registrant's Common Stock (par value \$0.01) were outstanding.

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Forward-Looking Statements

Certain of the statements included in this Quarterly Report on Form 10-Q, including but not limited to those in Management's Discussion and Analysis of Financial Condition and Results of Operations, constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Words such as expects, believes, anticipates, includes, plans, assumes, estimates, projects, should, will, shall or variations of such words are generally part of forward-looking statements. Forward-looking statements are made based on management's current expectations and beliefs concerning future developments and their potential effects upon Prudential Financial, Inc. and its subsidiaries. There can be no assurance that future developments affecting Prudential Financial, Inc. and its subsidiaries will be those anticipated by management. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and there are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements, including, among others: (1) general economic, market and political conditions, including the performance and fluctuations of fixed income, equity, real estate and other financial markets; (2) the availability and cost of additional debt or equity capital or external financing for our operations; (3) interest rate fluctuations or prolonged periods of low interest rates; (4) the degree to which we choose not to hedge risks, or the potential ineffectiveness or insufficiency of hedging or risk management strategies we do implement; (5) any inability to access our credit facilities; (6) reestimates of our reserves for future policy benefits and claims; (7) differences between actual experience regarding mortality, morbidity, persistency, utilization, interest rates or market returns and the assumptions we use in pricing our products, establishing liabilities and reserves or for other purposes; (8) changes in our assumptions related to deferred policy acquisition costs, value of business acquired or goodwill; (9) changes in assumptions for our pension and other post-retirement benefit plans; (10) changes in our financial strength or credit ratings; (11) statutory reserve requirements associated with term and universal life insurance policies under Regulation XXX and Guideline AXXX; (12) investment losses, defaults and counterparty non-performance; (13) competition in our product lines and for personnel; (14) difficulties in marketing and distributing products through current or future distribution channels; (15) changes in tax law; (16) economic, political, currency and other risks relating to our international operations; (17) fluctuations in foreign currency exchange rates and foreign securities markets; (18) regulatory or legislative changes, including the Dodd-Frank Wall Street Reform and Consumer Protection Act; (19) inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others; (20) adverse determinations in litigation or regulatory matters and our exposure to contingent liabilities, including in connection with our divestiture or winding down of businesses; (21) domestic or international military actions, natural or man-made disasters including terrorist activities or pandemic disease, or other events resulting in catastrophic loss of life; (22) ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks; (23) effects of acquisitions, divestitures and restructurings, including possible difficulties in integrating and realizing projected results of acquisitions; (24) interruption in telecommunication, information technology or other operational systems or failure to maintain the security, confidentiality or privacy of sensitive data on such systems; (25) changes in statutory or U.S. GAAP accounting principles, practices or policies; and (26) Prudential Financial, Inc.'s primary reliance, as a holding company, on dividends or distributions from its subsidiaries to meet debt payment obligations and the ability of the subsidiaries to pay such dividends or distributions in light of our ratings objectives and/or applicable regulatory restrictions. Prudential Financial, Inc. does not intend, and is under no obligation, to update any particular forward-looking statement included in this document. See Risk Factors included in the Annual Report on Form 10-K for the year ended December 31, 2014 for discussion of certain risks relating to our businesses and investment in our securities.

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Throughout this Quarterly Report on Form 10-Q, *Prudential Financial* and the *Registrant* refer to *Prudential Financial, Inc.*, the ultimate holding company for all of our companies. *Prudential Insurance* refers to *The Prudential Insurance Company of America*. *Prudential*, the *Company*, *we* and *our* refer to our consolidated operations.

PART I - FINANCIAL INFORMATION**ITEM 1. Financial Statements****PRUDENTIAL FINANCIAL, INC.****Unaudited Interim Consolidated Statements of Financial Position**

March 31, 2015 and December 31, 2014 (in millions, except share amounts)

	March 31, 2015	December 31, 2014
ASSETS		
Fixed maturities, available-for-sale, at fair value (amortized cost: 2015-\$263,134; 2014-\$265,116)(1)	\$ 299,422	\$ 299,090
Fixed maturities, held-to-maturity, at amortized cost (fair value: 2015-\$2,817; 2014-\$2,902)(1)	2,513	2,575
Trading account assets supporting insurance liabilities, at fair value(1)	20,626	20,263
Other trading account assets, at fair value(1)	11,989	10,874
Equity securities, available-for-sale, at fair value (cost: 2015 - \$7,045; 2014 - \$6,921)	10,206	9,861
Commercial mortgage and other loans (includes \$316 and \$380 measured at fair value under the fair value option at March 31, 2015 and December 31, 2014, respectively)(1)	47,478	46,432
Policy loans	11,693	11,712
Other long-term investments (includes \$1,203 and \$1,082 measured at fair value under the fair value option at March 31, 2015 and December 31, 2014, respectively)(1)	11,001	10,921
Short-term investments	5,947	8,258
Total investments	420,875	419,986
Cash and cash equivalents(1)	19,119	14,918
Accrued investment income(1)	3,135	3,130
Deferred policy acquisition costs	15,639	15,971
Value of business acquired	2,514	2,836
Other assets(1)	14,624	13,379
Separate account assets	302,706	296,435
TOTAL ASSETS	\$ 778,612	\$ 766,655
LIABILITIES AND EQUITY		
LIABILITIES		
Future policy benefits	\$ 220,840	\$ 217,766
Policyholders' account balances(1)	135,143	136,150
Policyholders' dividends	8,337	7,661
Securities sold under agreements to repurchase	7,766	9,407
Cash collateral for loaned securities	4,437	4,241
Income taxes	11,390	9,881
Short-term debt	3,013	3,839
Long-term debt	19,703	19,831

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Other liabilities(1)	12,873	13,037
Notes issued by consolidated variable interest entities (includes \$6,810 and \$6,033 measured at fair value under the fair value option at March 31, 2015 and December 31, 2014, respectively)(1)	6,830	6,058
Separate account liabilities	302,706	296,435
Total liabilities	733,038	724,306
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 15)		
EQUITY		
Preferred Stock (\$.01 par value; 10,000,000 shares authorized; none issued)	0	0
Common Stock (\$.01 par value; 1,500,000,000 shares authorized; 660,111,339 shares issued at both March 31, 2015 and December 31, 2014)	6	6
Class B Stock (\$.01 par value; 0 shares authorized and issued at March 31, 2015; 10,000,000 shares authorized and 2,000,000 shares issued at December 31, 2014)	0	0
Additional paid-in capital	24,346	24,565
Common Stock held in treasury, at cost (206,589,103 and 205,277,862 shares at March 31, 2015 and December 31, 2014, respectively)	(13,233)	(13,088)
Class B Stock held in treasury, at cost (0 and 2,000,000 shares at March 31, 2015 and December 31, 2014, respectively)	0	(651)
Accumulated other comprehensive income (loss)	17,752	16,050
Retained earnings	16,173	14,888
Total Prudential Financial, Inc. equity	45,044	41,770
Noncontrolling interests	530	579
Total equity	45,574	42,349
TOTAL LIABILITIES AND EQUITY	\$ 778,612	\$ 766,655

(1) See Note 5 for details of balances associated with variable interest entities.

See Notes to Unaudited Interim Consolidated Financial Statements

Table of Contents**PRUDENTIAL FINANCIAL, INC.****Unaudited Interim Consolidated Statements of Operations****Three Months Ended March 31, 2015 and 2014 (in millions, except per share amounts)**

	Three Months Ended March 31,	
	2015	2014
REVENUES		
Premiums	\$ 6,647	\$ 5,868
Policy charges and fee income	1,608	1,501
Net investment income	3,769	3,838
Asset management and service fees	952	904
Other income	215	535
Realized investment gains (losses), net:		
Other-than-temporary impairments on fixed maturity securities	(14)	(79)
Other-than-temporary impairments on fixed maturity securities transferred to Other comprehensive income	6	63
Other realized investment gains (losses), net	2,369	224
Total realized investment gains (losses), net	2,361	208
Total revenues	15,552	12,854
BENEFITS AND EXPENSES		
Policyholders' benefits	7,239	6,386
Interest credited to policyholders' account balances	1,233	1,015
Dividends to policyholders	781	600
Amortization of deferred policy acquisition costs	789	437
General and administrative expenses	2,762	2,698
Total benefits and expenses	12,804	11,136
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	2,748	1,718
Total income tax expense (benefit)	699	473
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	2,049	1,245
Equity in earnings of operating joint ventures, net of taxes	(3)	0
INCOME (LOSS) FROM CONTINUING OPERATIONS	2,046	1,245
Income (loss) from discontinued operations, net of taxes	0	4
NET INCOME (LOSS)	2,046	1,249
Less: Income (loss) attributable to noncontrolling interests	10	11
NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.	\$ 2,036	\$ 1,238
EARNINGS PER SHARE(1)		
Basic earnings per share-Common Stock:		
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	\$ 4.44	\$ 2.62
Income (loss) from discontinued operations, net of taxes	0.00	0.01

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Net income (loss) attributable to Prudential Financial, Inc.	\$ 4.44	\$ 2.63
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Diluted earnings per share-Common Stock:

Income (loss) from continuing operations attributable to Prudential Financial, Inc.	\$ 4.37	\$ 2.58
Income (loss) from discontinued operations, net of taxes	0.00	0.01

Net income (loss) attributable to Prudential Financial, Inc.	\$ 4.37	\$ 2.59
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