

PRUDENTIAL FINANCIAL INC

Form 10-Q

November 05, 2015

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 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 22-3703799
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) 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 x 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 x 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 x Accelerated filer " Non-accelerated filer " Smaller reporting company "

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

As of October 31, 2015, 449 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," "intends," "should," "will," "shall" or variations of these 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

September 30, 2015 and December 31, 2014 (in millions, except share amounts)

	September 30, 2015	December 31, 2014
ASSETS		
Fixed maturities, available-for-sale, at fair value (amortized cost: 2015-\$263,281; 2014-\$265,116)(1)	\$ 290,778	\$ 299,090
Fixed maturities, held-to-maturity, at amortized cost (fair value: 2015-\$2,669; 2014-\$2,902)(1)	2,380	2,575
Trading account assets supporting insurance liabilities, at fair value(1)	20,408	20,263
Other trading account assets, at fair value(1)	14,075	10,874
Equity securities, available-for-sale, at fair value (cost: 2015-\$6,755; 2014-\$6,921)	9,109	9,861
Commercial mortgage and other loans (includes \$151 and \$380 measured at fair value under the fair value option at September 30, 2015 and December 31, 2014, respectively)(1)	50,048	46,432
Policy loans	11,624	11,712
Other long-term investments (includes \$1,298 and \$1,082 measured at fair value under the fair value option at September 30, 2015 and December 31, 2014, respectively)(1)	10,591	10,921
Short-term investments	7,937	8,258
Total investments	416,950	419,986
Cash and cash equivalents(1)	20,207	14,918
Accrued investment income(1)	3,156	3,130
Deferred policy acquisition costs	16,206	15,971
Value of business acquired	2,847	2,836
Other assets(1)	14,545	13,379
Separate account assets	280,616	296,435
TOTAL ASSETS	\$ 754,527	\$ 766,655
LIABILITIES AND EQUITY		
LIABILITIES		
Future policy benefits	\$ 222,220	\$ 217,766
Policyholders’ account balances(1)	136,620	136,150
Policyholders’ dividends	6,153	7,661
Securities sold under agreements to repurchase	8,107	9,407
Cash collateral for loaned securities	4,241	4,241
Income taxes	9,644	9,881
Short-term debt	1,833	3,839
Long-term debt	20,329	19,831
Other liabilities(1)	13,624	13,037
Notes issued by consolidated variable interest entities (includes \$8,354 and \$6,033 measured at fair value under the fair value option at September 30, 2015 and December 31, 2014, respectively)(1)	8,370	6,058
Separate account liabilities	280,616	296,435
Total liabilities	711,757	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 September 30, 2015 and December 31, 2014)	6	6
Class B Stock (\$.01 par value; 0 shares authorized and issued at September 30, 2015; 10,000,000 shares authorized and 2,000,000 shares issued at December 31, 2014)	0	0
Additional paid-in capital	24,348	24,565
Common Stock held in treasury, at cost (210,667,509 and 205,277,862 shares at September 30, 2015 and December 31, 2014, respectively)	(13,612) (13,088)
Class B Stock held in treasury, at cost (0 and 2,000,000 shares at September 30, 2015 and December 31, 2014, respectively)	0	(651)
Accumulated other comprehensive income (loss)	13,463	16,050
Retained earnings	18,515	14,888
Total Prudential Financial, Inc. equity	42,720	41,770
Noncontrolling interests	50	579
Total equity	42,770	42,349
TOTAL LIABILITIES AND EQUITY	\$ 754,527	\$ 766,655

(1) See Note 5 for details of balances associated with variable interest entities.
See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Operations

Three and Nine Months Ended September 30, 2015 and 2014 (in millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
REVENUES				
Premiums	\$5,985	\$6,644	\$20,214	\$18,580
Policy charges and fee income	1,624	1,496	4,482	4,517
Net investment income	3,741	3,841	11,181	11,433
Asset management and service fees	946	949	2,854	2,781
Other income (loss)	(397)	(625)	(58)	177
Realized investment gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	(81)	(2)	(149)	(113)
Other-than-temporary impairments on fixed maturity securities transferred to Other comprehensive income	8	(3)	39	66
Other realized investment gains (losses), net	1,773	80	4,300	939
Total realized investment gains (losses), net	1,700	75	4,190	892
Total revenues	13,599	12,380	42,863	38,380
BENEFITS AND EXPENSES				
Policyholders' benefits	6,648	7,334	21,739	20,186
Interest credited to policyholders' account balances	840	882	2,749	3,075
Dividends to policyholders	367	745	1,585	2,056
Amortization of deferred policy acquisition costs	922	346	1,846	1,265
General and administrative expenses	2,773	2,789	8,018	8,289
Total benefits and expenses	11,550	12,096	35,937	34,871
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES				
	2,049	284	6,926	3,509
Total income tax expense (benefit)	584	(234)	1,962	643
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES				
	1,465	518	4,964	2,866
Equity in earnings of operating joint ventures, net of taxes	2	5	8	11
INCOME (LOSS) FROM CONTINUING OPERATIONS				
	1,467	523	4,972	2,877
Income (loss) from discontinued operations, net of taxes	0	0	0	8
NET INCOME (LOSS)				
	1,467	523	4,972	2,885
Less: Income (loss) attributable to noncontrolling interests	2	11	65	45
NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.				
	\$1,465	\$512	\$4,907	\$2,840
EARNINGS PER SHARE(1)				
Basic earnings per share-Common Stock:				
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	\$3.22	\$1.00	\$10.74	\$5.87
Income (loss) from discontinued operations, net of taxes	0.00	0.00	0.00	0.02
Net income (loss) attributable to Prudential Financial, Inc.	\$3.22	\$1.00	\$10.74	\$5.89
Diluted earnings per share-Common Stock:				
	\$3.16	\$0.99	\$10.56	\$5.79

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Income (loss) from continuing operations attributable to Prudential Financial, Inc.

Income (loss) from discontinued operations, net of taxes	0.00	0.00	0.00	0.01
Net income (loss) attributable to Prudential Financial, Inc.	\$3.16	\$0.99	\$10.56	\$5.80
Dividends declared per share of Common Stock	\$0.58	\$0.53	\$1.74	\$1.59

For the three and nine months ended September 30, 2015, represents consolidated earnings per share of Common (1) Stock. For the three and nine months ended September 30, 2014, represents earnings of the Company's former Financial Services Businesses per share of Common Stock. See Note 8 for additional information.

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Comprehensive Income

Three and Nine Months Ended September 30, 2015 and 2014 (in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
NET INCOME (LOSS)	\$1,467	\$523	\$4,972	\$2,885
Other comprehensive income (loss), before tax:				
Foreign currency translation adjustments for the period	(96)	(498)	(259)	(251)
Net unrealized investment gains (losses)	169	1,331	(4,043)	7,650
Defined benefit pension and postretirement unrecognized periodic benefit	47	37	153	80
Total	120	870	(4,149)	7,479
Less: Income tax expense (benefit) related to other comprehensive income (loss)	68	446	(1,501)	2,651
Other comprehensive income (loss), net of taxes	52	424	(2,648)	4,828
Comprehensive income (loss)	1,519	947	2,324	7,713
Less: Comprehensive income (loss) attributable to noncontrolling interests	(5)	11	4	53
Comprehensive income (loss) attributable to Prudential Financial, Inc.	\$1,524	\$936	\$2,320	\$7,660

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Equity

Nine Months Ended September 30, 2015 and 2014 (in millions)

	Prudential Financial, Inc. Equity								
	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Class B Stock Held in Treasury	Accumulated Other Comprehensive Income (Loss)	Total Prudential Financial, Inc. Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2014	\$6	\$ 24,565	\$ 14,888	\$(13,088)	\$(651)	\$ 16,050	\$ 41,770	\$ 579	\$ 42,349
Common Stock acquired				(750)			(750)		(750)
Class B Stock canceled		(167)	(484)		651		0		0
Contributions from noncontrolling interests								28	28
Distributions to noncontrolling interests								(416)	(416)
Consolidations (deconsolidations) of noncontrolling interests								(145)	(145)
Stock-based compensation programs		(50)		226			176		176
Dividends declared on Common Stock			(796)				(796)		(796)
Comprehensive income:									
Net income (loss)			4,907				4,907	65	4,972
Other comprehensive income (loss), net of tax						(2,587)	(2,587)	(61)	(2,648)
Total comprehensive income (loss)							2,320	4	2,324
Balance, September 30, 2015	\$6	\$ 24,348	\$ 18,515	\$(13,612)	\$0	\$ 13,463	\$ 42,720	\$ 50	\$ 42,770

Prudential Financial, Inc. Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Class B Stock Held in Treasury	Accumulated Other Comprehensive Income	Total Prudential Financial, Inc. Equity	Noncontrolling Interests	Total Equity
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						Income (Loss)			
Balance, December 31, 2013	\$6	\$ 24,475	\$14,531	\$(12,415)	\$0	\$ 8,681	\$ 35,278	\$ 603	\$35,881
Common Stock acquired				(750)			(750)		(750)
Contributions from noncontrolling interests		(4)							