

PRUDENTIAL FINANCIAL INC  
Form 10-Q  
May 03, 2013  
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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, 2013

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

As of April 30, 2013, 464 million shares of the registrant's Common Stock (par value \$0.01) were outstanding. In addition, 2 million shares of the registrant's Class B Stock, for which there is no established public trading market, 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, with regard to variable annuity or other product guarantees; (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, longevity, morbidity, persistency, surrender experience, 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 retirement expense; (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; (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; (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; and (27) risks due to the lack of legal separation between our Financial Services Businesses and our Closed Block Business. 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, 2012 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, 2013 and December 31, 2012 (in millions, except share amounts)

	March 31, 2013	December 31, 2012
<b>ASSETS</b>		
Fixed maturities, available-for-sale, at fair value (amortized cost: 2013-\$273,678; 2012-\$277,654)(1)	\$ 300,382	\$ 301,336
Fixed maturities, held-to-maturity, at amortized cost (fair value: 2013-\$4,186; 2012-\$4,511)(1)	3,878	4,268
Trading account assets supporting insurance liabilities, at fair value(1)	20,890	20,590
Other trading account assets, at fair value	6,862	6,328
Equity securities, available-for-sale, at fair value (cost: 2013-\$6,613; 2012-\$6,759)(1)	8,918	8,277
Commercial mortgage and other loans (includes \$726 and \$162 measured at fair value under the fair value option at March 31, 2013 and December 31, 2012, respectively)(1)	38,458	36,733
Policy loans	11,938	11,575
Other long-term investments (includes \$487 and \$465 measured at fair value under the fair value option at March 31, 2013 and December 31, 2012, respectively)(1)	9,863	10,028
Short-term investments(1)	6,288	6,447
Total investments	407,477	405,582
Cash and cash equivalents(1)	14,477	18,100
Accrued investment income(1)	3,143	3,127
Deferred policy acquisition costs	14,374	14,100
Value of business acquired	4,167	3,248
Other assets(1)	14,151	11,887
Separate account assets (1)	266,308	253,254
<b>TOTAL ASSETS</b>	<b>\$ 724,097</b>	<b>\$ 709,298</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Future policy benefits	\$ 210,918	\$ 216,050
Policyholders' account balances	138,316	134,413
Policyholders' dividends	7,452	7,507
Securities sold under agreements to repurchase	6,702	5,818
Cash collateral for loaned securities	3,390	3,941
Income taxes	8,039	8,551
Short-term debt	2,228	2,484
Long-term debt	25,488	24,729

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Other liabilities	12,694	11,683
Notes issued by consolidated variable interest entities (includes \$1,768 and \$1,406 measured at fair value under the fair value option at March 31, 2013 and December 31, 2012, respectively)(1)	1,896	1,577
Separate account liabilities(1)	266,308	253,254
<b>Total liabilities</b>	<b>683,431</b>	<b>670,007</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES (See Note 15)</b>		
<b>EQUITY</b>		
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; 660,111,307 and 660,111,307 shares issued at March 31, 2013 and December 31, 2012, respectively)	6	6
Class B Stock (\$.01 par value; 10,000,000 shares authorized; 2,000,000 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively)	0	0
Additional paid-in capital	24,354	24,380
Common Stock held in treasury, at cost (194,777,322 and 197,077,940 shares at March 31, 2013 and December 31, 2012, respectively)	(12,018)	(12,163)
Accumulated other comprehensive income (loss)	12,418	10,214
Retained earnings	15,203	16,138
<b>Total Prudential Financial, Inc. equity</b>	<b>39,963</b>	<b>38,575</b>
Noncontrolling interests	703	716
<b>Total equity</b>	<b>40,666</b>	<b>39,291</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 724,097</b>	<b>\$ 709,298</b>

(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, 2013 and 2012 (in millions, except per share amounts)**

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>REVENUES</b>		
Premiums	\$ 7,084	\$ 6,773
Policy charges and fee income	1,356	1,049
Net investment income	3,638	3,320
Asset management fees and other income	(1,170)	(135)
Realized investment gains (losses), net:		
Other-than-temporary impairments on fixed maturity securities	(308)	(573)
Other-than-temporary impairments on fixed maturity securities transferred to Other Comprehensive Income	238	461
Other realized investment gains (losses), net	(653)	(1,272)
Total realized investment gains (losses), net	(723)	(1,384)
Total revenues	10,185	9,623
<b>BENEFITS AND EXPENSES</b>		
Policyholders' benefits	7,219	6,443
Interest credited to policyholders' account balances	1,050	966
Dividends to policyholders	560	442
Amortization of deferred policy acquisition costs	218	(225)
General and administrative expenses	2,683	2,760
Total benefits and expenses	11,730	10,386
<b>INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES</b>		
	(1,545)	(763)
Income tax expense (benefit)	(831)	179
<b>INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES</b>		
	(714)	(942)
Equity in earnings of operating joint ventures, net of taxes	49	7
<b>INCOME (LOSS) FROM CONTINUING OPERATIONS</b>		
	(665)	(935)
Income from discontinued operations, net of taxes	1	7
<b>NET INCOME (LOSS)</b>		
	(664)	(928)
Less: Income attributable to noncontrolling interests	42	11
<b>NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC</b>		
	\$ (706)	\$ (939)

**EARNINGS PER SHARE (See Note 8)  
Financial Services Businesses**



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**Basic earnings per share-Common Stock:**

Income (loss) from continuing operations attributable to Prudential Financial, Inc.	\$ (1.55)	\$ (2.04)
Income from discontinued operations, net of taxes	0.00	0.01
Net income (loss) attributable to Prudential Financial, Inc.	\$ (1.55)	\$ (2.03)

**Diluted earnings per share-Common Stock:**

Income (loss) from continuing operations attributable to Prudential Financial, Inc.	\$ (1.55)	\$ (2.04)
Income from discontinued operations, net of taxes	0.00	0.01
Net income (loss) attributable to Prudential Financial, Inc.	\$ (1.55)	\$ (2.03)
Dividends declared per share of Common Stock	\$ 0.40	

**Closed Block Business**

**Basic and Diluted earnings per share-Class B Stock:**

Income (loss) from continuing operations attributable to Prudential Financial, Inc.	\$ 5.50	\$ 6.50
Income from discontinued operations, net of taxes	0.00	0.00
Net income (loss) attributable to Prudential Financial, Inc.	\$ 5.50	\$ 6.50
Dividends declared per share of Class B Stock	\$ 2.41	

*See Notes to Unaudited Interim Consolidated Financial Statements*

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**PRUDENTIAL FINANCIAL, INC.**

**Unaudited Interim Consolidated Statements of Comprehensive Income**

**Three Months Ended March 31, 2013 and 2012 (in millions)**