

Fitch Affirms Prudential Financial Inc.'s Ratings; Outlook Positive

Written by Australian Business

CHICAGO--([BUSINESS WIRE](#))--Fitch Ratings has affirmed Prudential Financial Inc.'s (PFI) 'A-' Issuer Default Rating (IDR). In addition, Fitch affirms the 'A+' Insurer Financial Strength (IFS) ratings for PFI's U.S. operating entities and all other ratings for the group. A full list of ratings follows at the end of this release. The Rating Outlook for all ratings has been revised to Positive from Stable.

KEY RATING DRIVERS

The Positive Rating Outlook reflect PFI's improved operating and earnings profile, which has benefited from recent acquisitions and improved market conditions. Recent financial performance has exceeded rating expectations, and has led to a material improvement in key credit metrics associated with interest coverage. Fitch expects PFI's ability to sustain recent improvement in financial performance and progress on reducing leverage could lead to an upgrade within the next 12 - 24 months.

The ratings assigned to PFI and its subsidiaries continue to reflect the company's strong balance sheet fundamentals and very strong competitive position in the U.S. and Japanese life insurance markets. While the Star/Edison acquisition completed in 2011 has improved the PFI's competitive position in the Japan, Fitch notes that macroeconomic conditions in Japan continue to be challenging. Fitch's long-term foreign and local currency issuer default rating (i.e., sovereign rating) for Japan is 'A+' with a Negative Rating Outlook.

Fitch views the statutory capital adequacy of PFI's insurance subsidiaries as very strong, with regulatory capital ratios in excess of rating expectations. At year-end 2013, PFI reported a combined RBC ratio for its U.S. insurance subsidiaries of 456%. PFI's two Japanese insurance subsidiaries, Prudential of Japan and Gibraltar, reported solvency margin ratios of 772% and 937% respectively.

Fitch expects statutory capital will be maintained at current levels over the near-term subject to further clarity on pending prudential standards associated with PFI's designation by the Financial Stability Oversight Council (FSOC) as a systemically important financial institution (SIFI).

PFI has maintained a strong liquidity profile at both the holding company and insurance subsidiary levels. Holding company liquidity has benefited from an increasingly diverse stream of cash flows sourced from domestic and international insurance operations, as well as non-insurance operations (namely asset management). PFI targets minimum net cash at the holding company at \$1.3 billion. In addition, PFI has recently implemented a structure that provides access to \$1.5 billion in contingent capital and liquidity. PFI continues to maintain significantly reduced reliance on short-term funding, with outstanding commercial paper issued by PFI at less than 1% of total outstanding debt.

PFI's financial leverage remains above rating expectations, and was approximately 34% at March 31, 2014. Total leverage as measured by Total Financing and Commitments ratio (TFC) is above-average at approximately 1.5x.

Recent acquisitions, improved capital markets, and incremental changes in financial/risk management strategies have led to a material improvement in the diversification, stability, and level of earnings. Moreover, Fitch views the recent improvement in the company's financial performance to be sustainable with run-rate ROE in the 13 - 14% range over a cycle. Growth in International Insurance and other protection-oriented business units has reduced the company's earnings and capital exposure to the more market-sensitive annuity business.

As a result of recent improvement in financial performance, PFI's interest coverage metrics have improved materially. GAAP interest coverage has improved to 9.5x in 2013 compared to 6.1x in 2012. Further, adjusted statutory interest coverage has improved to the 4x - 5x range.

RATING SENSITIVITIES

Key rating triggers that could result in an upgrade include: reduction in financial leverage to 28% or below; GAAP interest coverage remaining in the 8x - 10x range (based on pre-tax adjusted operating earnings); stated NAIC RBC ratio remaining near current levels; TFC ratio at or below 1.3x; Japan solvency margin ratio remaining above 700%; and no deterioration in the creditworthiness of PFI's Japan business.

Fitch Affirms Prudential Financial Inc.'s Ratings; Outlook Positive

Written by Australian Business

Triggers that could result in a downgrade include: financial leverage above 35%; TFC above 1.5x; GAAP interest coverage ratio below 5x; stated NAIC RBC ratio below 400%; and Japan solvency margin ratio below 600%.

Fitch has affirmed the following ratings with a Positive Outlook:

Prudential Financial, Inc.

--Long-term IDR at 'A-';

--Senior notes at 'BBB+';

--Junior subordinated notes at 'BBB-'.

Prudential Financial, Inc.

--Short-term IDR at 'F2';

--CP at 'F2'.

Prudential Insurance Company of America

--IFS at 'A+'

--Long-term IDR at 'A';

--Surplus notes at 'A-';

--Short-term IDR at 'F1'.

Prudential Funding, LLC

--CP at 'F1';

--Senior unsecured at 'A'.

PRICOA Global Funding I

--Secured notes program at 'A+'.

PRUCO Life Insurance Company

Prudential Annuities Life Assurance Corp.

Prudential Retirement Insurance & Annuity Company

PRUCO Life Insurance Company of New Jersey

--IFS at 'A+'.

Additional information is available at ' www.fitchratings.com '.

Applicable Criteria and Related Research:

--'Insurance Rating Methodology' (November 2013).

Applicable Criteria and Related Research:

Insurance Rating Methodology

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=723072

Additional Disclosure

Solicitation Status

http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=838956

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING

THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://fitchratings.com/understandingcreditratings) . IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE '

[WWW.FITCHRATINGS.COM](http://www.fitchratings.com)

' PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.