

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

FORM 10-Q

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

For the quarterly period ended September 30, 2022
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 033-37587

Pruco Life Insurance Company

(Exact Name of Registrant as Specified in its Charter)

Arizona
(State or Other Jurisdiction of
Incorporation or Organization)

22-1944557
(I.R.S. Employer Identification Number)

213 Washington Street
Newark, NJ 07102
(973) 802-6000

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class

Not Applicable

Trading Symbol(s)

Not Applicable

Name of Each Exchange on Which Registered

Not Applicable

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large Accelerated Filer

☐

Accelerated Filer

☐

Non-accelerated Filer

☒

Smaller Reporting Company

☐

Emerging Growth Company

☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 November 10, 2022, 250,000 shares of the registrant's Common Stock (par value \$10) were outstanding. As of such date, The Prudential Insurance Company of America, a New Jersey corporation, owned all of the registrant's Common Stock.

**Pruco Life Insurance Company meets the conditions set
forth in General Instruction (H) (1) (a) and (b) on Form 10-Q and
is therefore filing this Form 10-Q in the reduced disclosure format.**

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FORWARD-LOOKING STATEMENTS

Certain of the statements included in this Quarterly Report on Form 10-Q, 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 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 Pruco Life Insurance Company and its subsidiary. There can be no assurance that future developments affecting Pruco Life Insurance Company and its subsidiary 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) the ongoing impact of the COVID-19 pandemic on the global economy, financial markets and our business, (2) losses on investments or financial contracts due to deterioration in credit quality or value, or counterparty default; (3) losses on insurance products due to mortality experience or policyholder behavior experience that differs significantly from our expectations when we price our products; (4) changes in interest rates and equity prices that may (a) adversely impact the profitability of our products, the value of separate accounts supporting these products or the value of assets we manage, (b) result in losses on derivatives we use to hedge risk or increase collateral posting requirements and (c) limit opportunities to invest at appropriate returns; (5) guarantees within certain of our products which are market sensitive and may decrease our earnings or increase the volatility of our results of operations or financial position; (6) liquidity needs resulting from (a) derivative collateral market exposure, (b) asset/liability mismatches, (c) the lack of available funding in the financial markets or (d) unexpected cash demands due to severe mortality calamity or lapse events; (7) financial or customer losses, or regulatory and legal actions, due to inadequate or failed processes or systems, external events and human error or misconduct such as (a) disruption of our systems and data, (b) an information security breach, (c) a failure to protect the privacy of sensitive data (d) reliance on third parties or (e) labor and employment matters; (8) changes in the regulatory landscape, including related to (a) financial sector regulatory reform, (b) changes in tax laws, (c) fiduciary rules and other standards of care, (d) state insurance laws and developments regarding group-wide supervision, capital and reserves, and (e) privacy and cybersecurity regulation; (9) technological changes which may adversely impact companies in our investment portfolio or cause insurance experience to deviate from our assumptions; (10) ratings downgrades; (11) market conditions that may adversely affect the sales or persistency of our products; (12) competition; and (13) reputational damage. Pruco Life Insurance Company 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, 2021 for discussion of certain risks relating to our business and investment in our securities.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

PRUCO LIFE INSURANCE COMPANY Unaudited Interim Consolidated Statements of Financial Position September 30, 2022 and December 31, 2021 (in thousands, except share amounts)

	September 30, 2022	December 31, 2021
ASSETS		
Fixed maturities, available for sale, at fair value (allowance for credit losses: 2022-\$4,712; 2021-\$4,149) (amortized cost: 2022-\$19,108,100; 2021-\$12,737,749)	\$ 16,321,510	\$ 13,278,166
Fixed maturities, trading, at fair value (amortized cost: 2022-\$2,472,717; 2021-\$3,319,660)	1,740,394	3,302,392
Equity securities, at fair value (cost: 2022-\$287,749; 2021-\$106,174)	268,577	111,267
Policy loans	499,612	1,327,485
Short-term investments	471,820	182,437
Commercial mortgage and other loans (net of \$16,132 and \$5,951 allowance for credit losses at September 30, 2022 and December 31, 2021, respectively)	4,385,543	2,832,560
Other invested assets (includes \$81,632 and \$348,004 of assets measured at fair value at September 30, 2022 and December 31, 2021, respectively)	1,008,769	1,209,925
Total investments	24,696,225	22,244,232
Cash and cash equivalents	2,400,480	918,931
Deferred policy acquisition costs	6,524,761	6,830,972
Accrued investment income	191,602	160,027
Reinsurance recoverables	35,398,214	38,598,767
Receivables from parent and affiliates	207,961	278,131
Deferred sales inducements	283,104	374,649
Income tax assets	1,934,535	1,316,879
Other assets	1,095,617	1,140,948
Separate account assets	110,544,648	149,797,828
TOTAL ASSETS	\$ 183,277,147	\$ 221,661,364
LIABILITIES AND EQUITY		
LIABILITIES		
Future policy benefits	\$ 22,963,655	\$ 27,927,029
Policyholders' account balances	40,678,440	35,361,795
Cash collateral for loaned securities	194,927	3,004
Long-term debt to affiliates	313,521	320,362
Payables to parent and affiliates	1,118,748	31,775
Other liabilities	3,310,087	2,264,477
Separate account liabilities	110,544,648	149,797,828
Total liabilities	179,124,026	215,706,270
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 10)		
EQUITY		
Common stock (\$10 par value; 1,000,000 shares authorized; 250,000 shares issued and outstanding)	2,500	2,500
Additional paid-in capital	6,034,840	6,042,491
Retained earnings / (accumulated deficit)	(28,370)	(437,332)
Accumulated other comprehensive income (loss)	(1,855,849)	347,435
Total equity	4,153,121	5,955,094
TOTAL LIABILITIES AND EQUITY	\$ 183,277,147	\$ 221,661,364

See Notes to Unaudited Interim Consolidated Financial Statements

PRUCO LIFE INSURANCE COMPANY

Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss)
Three and Nine Months Ended September 30, 2022 and 2021 (in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
REVENUES				
Premiums	\$ 63,354	\$ 51,537	\$ 195,020	\$ 140,804
Policy charges and fee income	438,781	610,101	1,256,155	942,166
Net investment income	210,762	179,110	582,190	373,277
Asset administration fees	68,554	91,938	219,576	104,425
Other income (loss)	(163,701)	61,409	(803,321)	105,283
Realized investment gains (losses), net	23,958	(5,008,612)	1,522,774	(5,054,506)
TOTAL REVENUES	641,708	(4,014,517)	2,972,394	(3,388,551)
BENEFITS AND EXPENSES				
Policyholders' benefits	122,139	386,003	500,009	557,992
Interest credited to policyholders' account balances	105,170	(304,406)	391,640	(200,836)
Amortization of deferred policy acquisition costs	96,048	138,794	731,768	225,749
General, administrative and other expenses	241,370	(1,039,337)	795,514	(807,697)
TOTAL BENEFITS AND EXPENSES	564,727	(818,946)	2,418,931	(224,792)
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURE	76,981	(3,195,571)	553,463	(3,163,759)
Income tax expense (benefit)	(1,983)	(744,016)	69,090	(782,332)
INCOME (LOSS) FROM OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURE	78,964	(2,451,555)	484,373	(2,381,427)
Equity in earnings of operating joint venture, net of taxes	(253)	466	(75,411)	621
NET INCOME (LOSS)	\$ 78,711	\$ (2,451,089)	\$ 408,962	\$ (2,380,806)
Other comprehensive income (loss), before tax:				
Foreign currency translation adjustments	(3,649)	877	(11,519)	(3,904)
Net unrealized investment gains (losses)	(862,220)	(70,667)	(2,775,879)	(204,902)
Total	(865,869)	(69,790)	(2,787,398)	(208,806)
Less: Income tax expense (benefit) related to other comprehensive income (loss)	(181,602)	(15,007)	(584,114)	(43,342)
Other comprehensive income (loss), net of taxes	(684,267)	(54,783)	(2,203,284)	(165,464)
Comprehensive income (loss)	\$ (605,556)	\$ (2,505,872)	\$ (1,794,322)	\$ (2,546,270)

See Notes to Unaudited Interim Consolidated Financial Statements

PRUCO LIFE INSURANCE COMPANY
Unaudited Interim Consolidated Statements of Equity
Three and Nine Months Ended September 30, 2022 and 2021 (in thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, December 31, 2021	\$ 2,500	\$ 6,042,491	\$ (437,332)	\$ 347,435	\$ 5,955,094
Contributed capital		8,160			8,160
Comprehensive income (loss):					
Net income (loss)			(24,987)		(24,987)
Other comprehensive income (loss), net of tax				(804,210)	(804,210)
Total comprehensive income (loss)					(829,197)
Balance, March 31, 2022	<u>\$ 2,500</u>	<u>\$ 6,050,651</u>	<u>\$ (462,319)</u>	<u>\$ (456,775)</u>	<u>\$ 5,134,057</u>
Contributed capital		3,194			3,194
Contributed (distributed) capital-parent/child asset transfers		(13,504)			(13,504)
Comprehensive income (loss):					
Net income (loss)			355,238		355,238
Other comprehensive income (loss), net of taxes				(714,807)	(714,807)
Total comprehensive income (loss)					(359,569)
Balance, June 30, 2022	<u>\$ 2,500</u>	<u>\$ 6,040,341</u>	<u>\$ (107,081)</u>	<u>\$ (1,171,582)</u>	<u>\$ 4,764,178</u>
Contributed capital		6,508			6,508
Contributed (distributed) capital-parent/child asset transfers		(12,009)			(12,009)
Comprehensive income (loss):					
Net income (loss)			78,711		78,711
Other comprehensive income (loss), net of tax				(684,267)	(684,267)
Total comprehensive income (loss)					(605,556)
Balance, September 30, 2022	<u>\$ 2,500</u>	<u>\$ 6,034,840</u>	<u>\$ (28,370)</u>	<u>\$ (1,855,849)</u>	<u>\$ 4,153,121</u>

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, December 31, 2020	\$ 2,500	\$ 1,726,690	\$ 1,772,398	\$ 546,128	\$ 4,047,716
Contributed capital		105,900			105,900
Comprehensive income (loss):					
Net income (loss)			103,377		103,377
Other comprehensive income (loss), net of tax				(281,676)	(281,676)
Total comprehensive income (loss)					(178,299)
Balance, March 31, 2021	<u>\$ 2,500</u>	<u>\$ 1,832,590</u>	<u>\$ 1,875,775</u>	<u>\$ 264,452</u>	<u>\$ 3,975,317</u>
Contributed capital		0			0
Return of capital		(34,091)			(34,091)
Comprehensive income (loss):					
Net income (loss)			(33,094)		(33,094)
Other comprehensive income (loss), net of tax				170,995	170,995
Total comprehensive income (loss)					137,901
Balance, June 30, 2021	<u>\$ 2,500</u>	<u>\$ 1,798,499</u>	<u>\$ 1,842,681</u>	<u>\$ 435,447</u>	<u>\$ 4,079,127</u>
Contributed capital		3,813,370			3,813,370
Contributed (distributed) capital-parent/child asset transfers		(24,674)			(24,674)
Comprehensive income (loss):					
Net income (loss)			(2,451,089)		(2,451,089)
Other comprehensive income (loss), net of tax				(54,783)	(54,783)
Total comprehensive income (loss)					(2,505,872)
Balance, September 30, 2021	<u>\$ 2,500</u>	<u>\$ 5,587,195</u>	<u>\$ (608,408)</u>	<u>\$ 380,664</u>	<u>\$ 5,361,951</u>

See Notes to Unaudited Interim Consolidated Financial Statements

PRUCO LIFE INSURANCE COMPANY
Unaudited Interim Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2022 and 2021 (in thousands)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 408,962	\$ (2,380,806)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Policy charges and fee income	(70,540)	(23,117)
Interest credited to policyholders' account balances	391,640	(200,836)
Realized investment (gains) losses, net	(1,522,774)	5,054,506
Amortization and other non-cash items	132,174	2,194,580
Change in:		
Future policy benefits	2,021,063	1,650,019
Reinsurance recoverables	(875,612)	(1,031,339)
Accrued investment income	(35,718)	(45,742)
Net payables to/receivables from parent and affiliates	97,663	37,027
Deferred policy acquisition costs	11,130	(3,757,575)
Income taxes	(26,802)	(839,899)
Derivatives, net	(1,144,519)	(481,898)
Other, net	1,636,794	143,809
Cash flows from (used in) operating activities	1,023,461	318,729
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	1,511,002	932,746
Fixed maturities, trading	871,217	5,567
Equity securities	109,213	99,362
Policy loans	126,551	128,140
Ceded policy loans	(85,231)	(9,616)
Short-term investments	212,518	79,584
Commercial mortgage and other loans	179,274	198,654
Other invested assets	70,570	122,821
Payments for the purchase/origination of:		
Fixed maturities, available-for-sale	(5,061,674)	(1,422,592)
Fixed maturities, trading	(186,069)	(107,007)
Equity securities	(281,610)	(41,092)
Policy loans	(111,949)	(90,102)
Ceded policy loans	55,194	10,061
Short-term investments	(485,509)	(77,669)
Commercial mortgage and other loans	(547,112)	(227,104)
Other invested assets	(108,025)	(83,235)
Notes receivable from parent and affiliates, net	410	(54,928)
Derivatives, net	(331,816)	4,459
Other, net	35,618	(5,775)
Cash flows from (used in) investing activities	(4,027,428)	(537,726)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Policyholders' account deposits	9,164,371	3,677,850
Ceded policyholders' account deposits	(916,797)	(842,153)
Policyholders' account withdrawals	(4,338,707)	(3,010,737)
Ceded policyholders' account withdrawals	425,911	246,895
Net change in securities sold under agreement to repurchase and cash collateral for loaned securities	191,938	(2,717)
Contributed capital	0	493,756
Contributed (distributed) capital - parent/child asset transfers	(15,366)	(3,946)
Proceeds from the issuance of debt (maturities longer than 90 days)	0	323,839
Drafts outstanding	(49,310)	18,192
Other, net	23,476	(8,026)
Cash flows from (used in) financing activities	4,485,516	892,953
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,481,549	673,956
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	918,931	426,979
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 2,400,480	\$ 1,100,935

Significant Non-Cash Transactions

"Cash flows from (used in) operating activities" for the nine months ended September 30, 2022 excludes certain non-cash activities in the amount of \$525 million related to the Company entering into an affiliated reinsurance agreement with Lotus Reinsurance Company Ltd. ("Lotus Re") on January 1, 2022 and \$4,130 million related to the novated variable indexed annuities under the reinsurance agreement with Fortitude Life Insurance & Annuity Company ("FLIAC"). See Note 6 for more details regarding these transactions.

Cash Flows from Investing and Financing Activities for the nine months ended September 30, 2021 excludes certain non-cash transactions related to the Pruco Life Insurance Company recapturing the risks related to its business that had previously been reinsured to Prudential Annuities Life Assurance Corporation from April 1, 2016 through June 30, 2021, which was effective July 1, 2021. See Note 1 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, for more details.

See Notes to Unaudited Interim Consolidated Financial Statements

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements

1. BUSINESS AND BASIS OF PRESENTATION

Pruco Life Insurance Company ("Pruco Life") is a wholly-owned subsidiary of The Prudential Insurance Company of America ("Prudential Insurance"), which in turn is a direct wholly-owned subsidiary of Prudential Financial, Inc. ("Prudential Financial"). Pruco Life is a stock life insurance company organized in 1971 under the laws of the State of Arizona. It is licensed to sell life insurance and annuities in the District of Columbia, Guam and in all states except New York, and sells such products primarily through affiliated and unaffiliated distributors.

Pruco Life has one wholly-owned insurance subsidiary, Pruco Life Insurance Company of New Jersey ("PLNJ"). PLNJ is a stock life insurance company organized in 1982 under the laws of the State of New Jersey. It is licensed to sell life insurance and annuities in New Jersey and New York only. Pruco Life and its subsidiary are together referred to as the "Company", "we" or "our" and all financial information is shown on a consolidated basis.

Prudential Financial Sale of PALAC

Effective April 1, 2022, Prudential Financial completed the sale of Prudential Annuities Life Assurance Corporation ("PALAC") to Fortitude Group Holdings, LLC ("Fortitude"). As such, PALAC is no longer an affiliate of Prudential Financial or the Company. Fortitude subsequently renamed the company Fortitude Life Insurance & Annuity Company ("FLIAC").

2021 Variable Annuities Recapture

Effective July 1, 2021, the Company recaptured the risks related to its variable annuity base contracts, along with the living benefit guarantees, that had previously been reinsured to PALAC from April 1, 2016 through June 30, 2021. The recapture does not impact PLNJ, which will continue to reinsure its new and in force business to Prudential Insurance. The product risks related to the previously reinsured business that were being managed in PALAC, were transferred to the Company. In addition, the living benefit hedging program related to the previously reinsured living benefit riders are being managed within the Company. This transaction is referred to as the "2021 Variable Annuities Recapture". See Note 1 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, for more details.

Reinsurance Agreement with FLIAC

Effective December 1, 2021, the Company entered into a reinsurance agreement with FLIAC (previously named PALAC) under which the Company assumed all of its variable and fixed indexed annuities and fixed annuities with a guaranteed lifetime withdrawal income feature from FLIAC. See Note 6 for additional information regarding this reinsurance arrangement.

Basis of Presentation

The Unaudited Interim Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") on a basis consistent with reporting interim financial information in accordance with instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission ("SEC"). Intercompany balances and transactions have been eliminated.

In the opinion of management, all adjustments necessary for a fair statement of the financial position and results of operations have been made. All such adjustments are of a normal, recurring nature. Interim results are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with the Company's Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The most significant estimates include those used in determining deferred policy acquisition costs ("DAC") and related amortization; policyholders' account balances and reinsurance related to the fair value of embedded derivative instruments associated with the index-linked features of certain universal life and annuity products; valuation of investments including derivatives, measurement of allowance for credit losses, and the recognition of other-than-temporary impairments; future policy benefits including guarantees; reinsurance recoverables; provision for income taxes and valuation of deferred tax assets; and accruals for contingent liabilities, including estimates for losses in connection with unresolved legal and regulatory matters.

COVID-19

Since the first quarter of 2020, the novel coronavirus ("COVID-19") has resulted in extreme stress and disruption in the global economy and financial markets. The pandemic has adversely impacted, and may continue to adversely impact, the Company's results of operations, financial condition and cash flows. Due to the highly uncertain nature of these conditions, it is not possible to estimate the ultimate impacts at this time. The risks have manifested, and may continue to manifest, in the Company's financial statements in the areas of, among others, (i) insurance liabilities and related balances: potential changes to assumptions regarding investment returns, mortality and policyholder behavior which are reflected in our insurance liabilities and certain related balances (e.g., DAC, etc.) and; (ii) investments: increased risk of loss on our investments due to default or deterioration in credit quality or value. The Company cannot predict what impact the COVID-19 pandemic will ultimately have on its businesses.

Reclassifications

Certain amounts in prior periods have been reclassified to conform to the current period presentation.

Out of Period Adjustments

During the three and six months ended June 30, 2022, the Company recorded out of period adjustments resulting in an aggregate net benefit of \$32 million and \$50 million, respectively, to "Income (loss) from operations before income taxes and equity in earnings of operating joint venture". These adjustments related to reserves for certain universal and variable life products and certain portions of variable life and annuities reinsurance activity, of which \$48 million was recorded in the first quarter of 2022.

During the three months ended September 30, 2022, the Company recorded out of period adjustments resulting in an aggregate net charge of \$68 million to "Income (loss) from operations before income taxes and equity in earnings of operating joint venture". The adjustments primarily relate to the valuation of the embedded derivative associated with the variable indexed annuities reinsurance recoverable that should have been recorded in the second quarter of 2022 to "Realized investment gains (losses), net".

The aggregate impact of out of period adjustments recorded in the first nine months of 2022 was a net benefit of \$53 million to "Income (loss) from operations before income taxes and equity in earnings of operating joint venture".

Management has evaluated the impact of all out of period adjustments, both individually and in the aggregate, and concluded that they are not material to any current or previously reported quarterly or annual financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

Recent Accounting Pronouncements

Changes to U.S. GAAP are established by the Financial Accounting Standards Board ("FASB") in the form of Accounting Standards Updates ("ASUs") to the FASB Accounting Standards Codification ("ASC"). The Company considers the applicability and impact of all ASUs. ASUs listed below include those that have been adopted during the current fiscal year and/or those that have been issued but not yet adopted as of September 30, 2022, and as of the date of this filing. ASUs not listed below were assessed and determined to be either not applicable or not material.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

ASU issued but not yet adopted as of September 30, 2022 — ASU 2018-12

ASU 2018-12, *Financial Services - Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*, was issued by the FASB on August 15, 2018, and was amended by ASU 2019-09, *Financial Services - Insurance (Topic 944): Effective Date*, issued in October 2019, and ASU 2020-11, *Financial Services-Insurance (Topic 944): Effective Date and Early Application*, issued in November 2020. The Company will adopt ASU 2018-12 effective January 1, 2023 using the modified retrospective transition method where permitted, and apply the guidance as of January 1, 2021 (and record transition adjustments as of January 1, 2021) in the 2023 financial statements.

ASU 2018-12 will impact, at least to some extent, the accounting and disclosure requirements for all long-duration insurance and investment contracts issued by the Company. The Company expects the standard to have a significant financial impact on the Consolidated Financial Statements and will significantly increase disclosures. As of the January 1, 2021 transition date, the Company estimates that the implementation of the standard will result in approximately a \$700 million decrease to \$100 million increase to “Total equity”, largely from remeasuring in force contract liabilities using upper-medium grade fixed income instrument yields as of the transition date and from other changes in reserves. In addition to the impacts to the balance sheet, the Company also expects an impact to the pattern of earnings emergence following the transition date.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Outlined below are four key areas of change, although there are other less significant policy changes not noted below.

ASU 2018-12 Amended Topic	Description	Method of adoption	Effect on the financial statements or other significant matters
<i>Cash flow assumptions used to measure the liability for future policy benefits for non-participating traditional and limited-pay insurance products</i>	Requires an entity to review, and if necessary, update the cash flow assumptions used to measure the liability for future policy benefits, for both changes in future assumptions and actual experience, at least annually using a retrospective update method with a cumulative catch-up adjustment recorded in a separate line item in the Consolidated Statements of Operations.	An entity may choose one of two adoption methods for the liability for future policy benefits: (1) a modified retrospective transition method whereby the entity may choose to apply the amendments to contracts in force as of the beginning of the prior year (if early adoption is elected) or as of the beginning of the earliest period presented on the basis of their existing carrying amounts, adjusted for the removal of any related amounts in Accumulated other comprehensive income (loss) ("AOCI") or (2) a full retrospective transition method.	The Company will adopt this guidance effective January 1, 2023 using the modified retrospective transition method. As a result of the modified retrospective transition method, the Company expects the vast majority of the impact of updating cash flow assumptions as of the transition date to be reflected in the pattern of earnings in subsequent periods.
<i>Discount rate assumption used to measure the liability for future policy benefits for non-participating traditional and limited-pay insurance products</i>	Requires discount rate assumptions to be based on an upper-medium grade fixed income instrument yield, which will be updated each quarter with the impact recorded through OCI. An entity shall maximize the use of relevant observable information and minimize the use of unobservable information in determining the discount rate assumptions.	As noted above, an entity may choose either a modified retrospective transition method or full retrospective transition method for the liability for future policy benefits. Under either method, for balance sheet remeasurement purposes, the liability for future policy benefits will be remeasured using current discount rates as of either the beginning of the prior year (if early adoption is elected) or the beginning of the earliest period presented with the impact recorded as a cumulative effect adjustment to AOCI.	As noted above, the Company will adopt the guidance for the liability for future policy benefits effective January 1, 2023 using the modified retrospective transition method. The Company expects an impact to AOCI as a result of remeasuring in force contract liabilities using upper-medium grade fixed income instrument yields as of the adoption date. The adjustment will largely reflect the difference between discount rates locked-in at contract inception versus discount rates as of the adoption date. The magnitude of such adjustment is currently being assessed.
<i>Amortization of DAC and other balances</i>	Requires DAC and other balances, such as unearned revenue reserves and deferred sales inducements, to be amortized on a constant level basis over the expected term of the related contract, independent of expected profitability.	An entity may apply one of two adoption methods: (1) a modified retrospective transition method whereby the entity may choose to apply the amendments to contracts in force as of the beginning of the prior year (if early adoption is elected) or as of the beginning of the earliest period presented on the basis of their existing carrying amounts, adjusted for the removal of any related amounts in AOCI or (2) if an entity chooses a full retrospective transition method for its liability for future policy benefits, as described above, it is required to also use a full retrospective transition method for DAC and other balances.	The Company will adopt this guidance effective January 1, 2023 using the modified retrospective transition method. Under the modified retrospective transition method, the Company does not expect a significant impact to the balance sheet, other than the impact of the removal of any related amounts in AOCI.
<i>Market Risk Benefits ("MRB")</i>	Requires an entity to measure all market risk benefits (e.g., living benefit and death benefit guarantees associated with variable annuities) at fair value, and record MRB assets and liabilities separately on the Statements of Financial Position. Changes in fair value of market risk benefits are recorded in net income, except for the portion of the change in MRB liabilities attributable to changes in an entity's non-performance risk ("NPR"), which is recognized in OCI.	An entity shall adopt the guidance for market risk benefits using the retrospective transition method, which includes a cumulative-effect adjustment on the balance sheet as of either the beginning of prior year (if early adoption is elected) or the beginning of the earliest period presented. An entity shall maximize the use of relevant observable information and minimize the use of unobservable information in determining the balance of the market risk benefits upon adoption.	The Company will adopt this guidance effective January 1, 2023 using the retrospective transition method. Upon adoption, the Company expects a decrease to "Retained earnings" and an offsetting increase to AOCI from reclassifying the cumulative effect of changes in NPR from retained earnings to AOCI. The Company also expects an impact to "Retained earnings" related to the difference between the fair value and carrying value of benefits not currently measured at fair value (e.g., guaranteed minimum death benefits on variable annuities). The magnitude of such adjustments is currently being assessed.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Other ASU issued but not yet adopted as of September 30, 2022

Standard	Description	Effective date and method of adoption	Effect on the financial statements or other significant matters
ASU 2022-02, Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosure	This ASU eliminates the accounting guidance for Troubled Debt Restructurings (“TDR”) for creditors and adds enhanced disclosure requirements for certain loan refinancings and restructurings by creditors made to borrowers experiencing financial difficulty. Following adoption of the ASU, all loan refinancings and restructurings are subject to the modification guidance in ASC 310-20. This ASU also amends the guidance on the vintage disclosures to require disclosure of current-period gross write-offs by year of origination.	January 1, 2023 using the prospective method with an option to apply a modified retrospective transition method for the recognition and measurement of TDRs which will include a cumulative effect adjustment on the balance sheet in the period of adoption. Early adoption is permitted beginning January 1, 2022, including adoption in an interim period provided guidance is applied as of the beginning of the year.	The Company does not expect the adoption of the ASU to have a significant impact on the Consolidated Financial Statements and Notes to the Consolidated Financial Statements.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

3. INVESTMENTS

Fixed Maturity Securities

The following tables set forth the composition of fixed maturity securities (excluding investments classified as trading), as of the dates indicated:

September 30, 2022					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
(in thousands)					
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 304,752	\$ 336	\$ 69,382	\$ 0	\$ 235,706
Obligations of U.S. states and their political subdivisions	612,918	1,729	49,593	0	565,054
Foreign government bonds	331,252	865	72,507	10	259,600
U.S. public corporate securities	7,004,770	13,841	1,127,789	0	5,890,822
U.S. private corporate securities	3,572,279	7,959	379,408	1,342	3,199,488
Foreign public corporate securities	1,471,519	1,098	195,069	490	1,277,058
Foreign private corporate securities	3,642,894	25	787,306	2,863	2,852,750
Asset-backed securities(1)	1,296,006	309	44,161	0	1,252,154
Commercial mortgage-backed securities	726,470	0	73,131	0	653,339
Residential mortgage-backed securities(2)	145,240	227	9,921	7	135,539
Total fixed maturities, available-for-sale	<u>\$ 19,108,100</u>	<u>\$ 26,389</u>	<u>\$ 2,808,267</u>	<u>\$ 4,712</u>	<u>\$ 16,321,510</u>

(1) Includes credit-tranched securities collateralized by loan obligations, education loans, auto loans and home equity.

(2) Includes publicly-traded agency pass-through securities and collateralized mortgage obligations.

December 31, 2021					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
(in thousands)					
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 303,040	\$ 31,011	\$ 111	\$ 0	\$ 333,940
Obligations of U.S. states and their political subdivisions	584,244	46,978	701	0	630,521
Foreign government bonds	324,454	29,299	3,271	11	350,471
U.S. public corporate securities	4,794,878	366,764	29,770	0	5,131,872
U.S. private corporate securities	1,964,767	59,037	16,880	2,049	2,004,875
Foreign public corporate securities	906,031	34,234	10,363	0	929,902
Foreign private corporate securities	2,741,449	62,932	48,381	2,089	2,753,911
Asset-backed securities(1)	547,549	860	1,099	0	547,310
Commercial mortgage-backed securities	552,653	25,928	3,397	0	575,184
Residential mortgage-backed securities(2)	18,684	1,501	5	0	20,180
Total fixed maturities, available-for-sale	<u>\$ 12,737,749</u>	<u>\$ 658,544</u>	<u>\$ 113,978</u>	<u>\$ 4,149</u>	<u>\$ 13,278,166</u>

(1) Includes credit-tranched securities collateralized by loan obligations, education loans, auto loans and other asset types.

(2) Includes publicly-traded agency pass-through securities and collateralized mortgage obligations.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The following tables set forth the fair value and gross unrealized losses on available-for-sale fixed maturity securities without an allowance for credit losses aggregated by investment category and length of time that individual fixed maturity securities had been in a continuous unrealized loss position, as of the dates indicated:

	September 30, 2022					
	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
(in thousands)						
Fixed maturities, available-for-sale:						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 217,869	\$ 68,996	\$ 1,810	\$ 386	\$ 219,679	\$ 69,382
Obligations of U.S. states and their political subdivisions	426,560	48,592	5,761	1,001	432,321	49,593
Foreign government bonds	218,160	53,333	34,375	19,174	252,535	72,507
U.S. public corporate securities	4,861,137	901,221	765,437	226,568	5,626,574	1,127,789
U.S. private corporate securities	2,663,536	296,993	372,891	82,415	3,036,427	379,408
Foreign public corporate securities	921,969	128,690	311,219	66,112	1,233,188	194,802
Foreign private corporate securities	2,175,148	521,284	669,419	266,022	2,844,567	787,306
Asset-backed securities	1,076,306	30,456	131,536	13,705	1,207,842	44,161
Commercial mortgage-backed securities	577,269	53,865	76,070	19,266	653,339	73,131
Residential mortgage-backed securities	132,471	9,858	371	63	132,842	9,921
Total fixed maturities, available-for-sale	<u>\$ 13,270,425</u>	<u>\$ 2,113,288</u>	<u>\$ 2,368,889</u>	<u>\$ 694,712</u>	<u>\$ 15,639,314</u>	<u>\$ 2,808,000</u>

	December 31, 2021					
	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
(in thousands)						
Fixed maturities, available-for-sale:						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 0	\$ 0	\$ 2,119	\$ 111	\$ 2,119	\$ 111
Obligations of U.S. states and their political subdivisions	104,621	701	0	0	104,621	701
Foreign government bonds	59,550	2,826	6,473	371	66,023	3,197
U.S. public corporate securities	1,681,201	23,160	180,249	6,610	1,861,450	29,770
U.S. private corporate securities	972,796	14,036	16,409	2,844	989,205	16,880
Foreign public corporate securities	532,445	8,255	29,718	2,108	562,163	10,363
Foreign private corporate securities	1,253,739	42,392	57,637	5,616	1,311,376	48,008
Asset-backed securities	288,971	1,099	0	0	288,971	1,099
Commercial mortgage-backed securities	157,355	1,622	40,689	1,775	198,044	3,397
Residential mortgage-backed securities	1,393	5	0	0	1,393	5
Total fixed maturities, available-for-sale	<u>\$ 5,052,071</u>	<u>\$ 94,096</u>	<u>\$ 333,294</u>	<u>\$ 19,435</u>	<u>\$ 5,385,365</u>	<u>\$ 113,531</u>

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

As of September 30, 2022 and December 31, 2021, the gross unrealized losses on fixed maturity available-for-sale securities without an allowance were composed of \$2,572.3 million and \$95.1 million, respectively, related to “1” highest quality or “2” high quality securities based on the National Association of Insurance Commissioners (“NAIC”) or equivalent rating and \$235.7 million and \$18.4 million, respectively, related to other than high or highest quality securities based on NAIC or equivalent rating. As of September 30, 2022, the \$694.7 million of gross unrealized losses of twelve months or more were concentrated in the Company’s corporate securities within the finance, consumer non-cyclical and capital goods sectors. As of December 31, 2021, the \$19.4 million of gross unrealized losses of twelve months or more were concentrated in the Company’s corporate securities within the utility, finance and consumer non-cyclical sectors.

In accordance with its policy described in Note 2 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021, the Company concluded that an adjustment to earnings for credit losses related to these fixed maturity securities was not warranted at September 30, 2022. This conclusion was based on a detailed analysis of the underlying credit and cash flows on each security. Gross unrealized losses are primarily attributable to increases in interest rates, general credit spread widening, foreign currency exchange rate movements and the financial condition or near-term prospects of the issuer. As of September 30, 2022, the Company did not intend to sell these securities, and it was not more likely than not that the Company would be required to sell these securities before the anticipated recovery of the remaining amortized cost basis.

The following table sets forth the amortized cost and fair value of fixed maturities by contractual maturities, as of the date indicated:

	September 30, 2022	
	Amortized Cost	Fair Value
	(in thousands)	
Fixed maturities, available-for-sale:		
Due in one year or less	\$ 368,359	\$ 353,441
Due after one year through five years	4,518,851	4,099,378
Due after five years through ten years	5,618,197	4,741,344
Due after ten years	6,434,977	5,086,315
Asset-backed securities	1,296,006	1,252,154
Commercial mortgage-backed securities	726,470	653,339
Residential mortgage-backed securities	145,240	135,539
Total fixed maturities, available-for-sale	\$ 19,108,100	\$ 16,321,510

Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Asset-backed, commercial mortgage-backed and residential mortgage-backed securities are shown separately in the table above, as they do not have a single maturity date.

The following table sets forth the sources of fixed maturity proceeds and related investment gains (losses), as well as losses on write-downs and the allowance for credit losses of fixed maturities, for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands)			
Fixed maturities, available-for-sale:				
Proceeds from sales(1)	\$ 377,344	\$ 268,215	\$ 1,055,433	\$ 585,205
Proceeds from maturities/prepayments	222,454	180,569	453,241	351,027
Gross investment gains from sales and maturities	(2,527)	7,853	(3,885)	16,361
Gross investment losses from sales and maturities	(2,371)	(2,991)	(44,274)	(14,647)
Write-downs recognized in earnings(2)	(1,088)	(1)	(20,604)	(3)
(Addition to) release of allowance for credit losses	98	(1,678)	(563)	103

(1) Excludes activity from non-cash related proceeds due to the timing of trade settlements of \$2.3 million and \$(3.5) million for the nine months ended September 30, 2022 and 2021, respectively.

(2) Amounts represent write-downs of credit adverse securities and securities actively marketed for sale.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The following tables set forth the activity in the allowance for credit losses for fixed maturity securities, as of the dates indicated:

	Three Months Ended September 30, 2022							
	U.S. Treasury Securities and Obligations of U.S. States	Foreign Government Bonds	U.S. and Foreign Corporate Securities	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Residential Mortgage-Backed Securities	Total	
	(in thousands)							
Fixed maturities, available-for-sale:								
Balance, beginning of period	\$ 0	\$ 116	\$ 4,694	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,810
Additions to allowance for credit losses not previously recorded	0	0	534	0	0	7		541
Reductions for securities sold during the period	0	(92)	(21)	0	0	0		(113)
Reductions for securities with intent to sell	0	0	0	0	0	0		0
Additions (reductions) on securities with previous allowance	0	(14)	(512)	0	0	0		(526)
Balance, end of period	\$ 0	\$ 10	\$ 4,695	\$ 0	\$ 0	\$ 7		\$ 4,712

	Three Months Ended September 30, 2021							
	U.S. Treasury Securities and Obligations of U.S. States	Foreign Government Bonds	U.S. and Foreign Corporate Securities	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Residential Mortgage-Backed Securities	Total	
	(in thousands)							
Fixed maturities, available-for-sale:								
Balance, beginning of period	\$ 0	\$ 0	\$ 558	\$ 0	\$ 0	\$ 0	\$ 0	\$ 558
Additions to allowance for credit losses not previously recorded	0	0	1,558	0	0	0	0	1,558
Reductions for securities sold during the period	0	0	(3)	0	0	0	0	(3)
Additions (reductions) on securities with previous allowance	0	0	124	0	0	0	0	124
Balance, end of period	\$ 0	\$ 0	\$ 2,237	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,237

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Nine Months Ended September 30, 2022							
	U.S. Treasury Securities and Obligations of U.S. States	Foreign Government Bonds	U.S. and Foreign Corporate Securities	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Residential Mortgage-Backed Securities	Total	
	(in thousands)							
Fixed maturities, available-for-sale:								
Balance, beginning of period	\$ 0	\$ 11	\$ 4,138	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,149
Additions to allowance for credit losses not previously recorded	0	329	12,696	0	0	0	7	13,032
Reductions for securities sold during the period	0	(96)	(1,223)	0	0	0	0	(1,319)
Reductions for securities with intent to sell	0	(324)	(16,666)	0	0	0	0	(16,990)
Additions (reductions) on securities with previous allowance	0	90	5,750	0	0	0	0	5,840
Balance, end of period	\$ 0	\$ 10	\$ 4,695	\$ 0	\$ 0	\$ 7	\$ 0	\$ 4,712

	Nine Months Ended September 30, 2021															
	U.S. Treasury Securities and Obligations of U.S. States	Foreign Government Bonds	U.S. and Foreign Corporate Securities	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Residential Mortgage-Backed Securities			Total							
	(in thousands)															
Fixed maturities, available-for-sale:																
Balance, beginning of period	\$	0	\$	0	\$	2,339	\$	0	\$	0	\$	0	\$	0	\$	2,339
Additions to allowance for credit losses not previously recorded		0		0		1,558		0		0		0		0		1,558
Reductions for securities sold during the period		0		0		(28)		0		0		0		0		(28)
Additions (reductions) on securities with previous allowance		0		0		(1,632)		0		0		0		0		(1,632)
Balance, end of period	\$	0	\$	0	\$	2,237	\$	0	\$	0	\$	0	\$	0	\$	2,237

See Note 2 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 for additional information about the Company's methodology for developing our allowance for credit losses.

For the three months ended September 30, 2022, the net decrease in the allowance for credit losses on available-for-sale securities was primarily related to recoveries in the capital goods and transportation sectors within corporate securities. For the three months ended September 30, 2021, the net increase in the allowance for credit losses on available-for-sale securities was primarily related to adverse projected cash flows in the transportation and communication sectors within private corporate securities.

For the nine months ended September 30, 2022, the net increase in the allowance for credit losses on available-for-sale securities was primarily related to adverse projected cash flows in the consumer non-cyclical and utility sectors within corporate securities, partially offset by a recovery in the transportation sector. For the nine months ended September 30, 2021, the net decrease in the allowance for credit losses on available-for-sale securities was primarily related to net recoveries in the communication and utility sectors, partially offset by adverse projected cash flows in the transportation sector within private corporate securities.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The Company did not have any fixed maturity securities purchased with credit deterioration, as of both September 30, 2022 and December 31, 2021.

Fixed Maturities, Trading

The net change in unrealized gains (losses) from fixed maturities, trading still held at period end, recorded within “Other income (loss)”, was \$(194.6) million and \$(2.6) million during the three months ended September 30, 2022 and 2021, respectively, and \$(715.1) million and \$(5.1) million during the nine months ended September 30, 2022 and 2021, respectively.

Equity Securities

The net change in unrealized gains (losses) from equity securities still held at period end, recorded within “Other income (loss)”, was \$(10.2) million and \$0.4 million during the three months ended September 30, 2022 and 2021, respectively, and \$(24.3) million and \$0.4 million during the nine months ended September 30, 2022 and 2021, respectively.

Commercial Mortgage and Other Loans

The following table sets forth the composition of “Commercial mortgage and other loans,” as of the dates indicated:

	September 30, 2022		December 31, 2021	
	Amount (in thousands)	% of Total	Amount (in thousands)	% of Total
Commercial mortgage and agricultural property loans by property type:				
Apartments/Multi-Family	\$ 1,175,873	26.7 %	\$ 748,414	26.4 %
Hospitality	104,635	2.4	48,141	1.7
Industrial	1,586,958	36.1	916,398	32.2
Office	585,829	13.2	445,055	15.7
Other	377,177	8.6	252,590	8.9
Retail	329,143	7.5	255,577	9.0
Total commercial mortgage loans	4,159,615	94.5	2,666,175	93.9
Agricultural property loans	242,060	5.5	172,336	6.1
Total commercial mortgage and agricultural property loans	4,401,675	100.0 %	2,838,511	100.0 %
Allowance for credit losses	(16,132)		(5,951)	
Total net commercial mortgage and agricultural property loans	\$ 4,385,543		\$ 2,832,560	

As of September 30, 2022, the commercial mortgage and agricultural property loans were secured by properties geographically dispersed throughout the United States (with the largest concentrations in California (27%), Texas (14%) and New York (6%)) and included loans secured by properties in Europe (10%), Mexico (2%) and Australia (1%).

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The following tables set forth the activity in the allowance for credit losses for commercial mortgage and other loans, as of the dates indicated:

	Three Months Ended September 30,					
	2022			2021		
	Commercial Mortgage Loans	Agricultural Property Loans	Total	Commercial Mortgage Loans	Agricultural Property Loans	Total
	(in thousands)					
Allowance, beginning of period	\$ 9,704	\$ 220	\$ 9,924	\$ 3,380	\$ 24	\$ 3,404
Addition to (release of) allowance for expected losses	6,116	92	6,208	850	0	850
Allowance, end of period	<u>\$ 15,820</u>	<u>\$ 312</u>	<u>\$ 16,132</u>	<u>\$ 4,230</u>	<u>\$ 24</u>	<u>\$ 4,254</u>

	Nine Months Ended September 30,					
	2022			2021		
	Commercial Mortgage Loans	Agricultural Property Loans	Total	Commercial Mortgage Loans	Agricultural Property Loans	Total
	(in thousands)					
Allowance, beginning of period	\$ 5,847	\$ 104	\$ 5,951	\$ 4,546	\$ 6	\$ 4,552
Addition to (release of) allowance for expected losses	9,973	208	10,181	(316)	18	(298)
Allowance, end of period	<u>\$ 15,820</u>	<u>\$ 312</u>	<u>\$ 16,132</u>	<u>\$ 4,230</u>	<u>\$ 24</u>	<u>\$ 4,254</u>

See Note 2 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 for additional information about the Company's methodology for developing our allowance and expected losses.

For the three months ended September 30, 2022, the net increase in the allowance for credit losses on commercial mortgage and other loans was primarily related to an increase in the general allowance due to declining market conditions and loan originations. For the three months ended September 30, 2021, the net increase in the allowance for credit losses on commercial mortgage and other loans was primarily related to the acquisition of loans, partially offset by the improving credit environment.

For the nine months ended September 30, 2022, the net increase in the allowance for credit losses on commercial mortgage and other loans was primarily related to an increase in the general allowance due to declining market conditions and loan originations. For the nine months ended September 30, 2021, the net decrease in the allowance for credit losses on commercial mortgage and other loans was primarily related to the improving credit environment, partially offset by net addition due to the acquisition of loans.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The following tables set forth key credit quality indicators based upon the recorded investment gross of allowance for credit losses, as of the dates indicated:

	September 30, 2022						
	Amortized Cost by Origination Year						
	2022	2021	2020	2019	2018	Prior	Total
	(in thousands)						
Commercial Mortgage Loans							
Loan-to-Value Ratio:							
0%-59.99%	\$ 90,906	\$ 226,541	\$ 36,873	\$ 155,892	\$ 102,585	\$ 897,176	\$ 1,509,973
60%-69.99%	219,322	596,059	215,695	273,141	160,422	305,514	1,770,153
70%-79.99%	165,886	412,375	104,215	77,670	2,728	97,763	860,637
80% or greater	0	0	0	0	0	18,852	18,852
Total	\$ 476,114	\$ 1,234,975	\$ 356,783	\$ 506,703	\$ 265,735	\$ 1,319,305	\$ 4,159,615
Debt Service Coverage Ratio:							
Greater or Equal to 1.2x	\$ 476,114	\$ 1,228,561	\$ 244,892	\$ 446,081	\$ 249,203	\$ 1,185,016	\$ 3,829,867
1.0 - 1.2x	0	6,414	84,070	26,681	16,532	48,303	182,000
Less than 1.0x	0	0	27,821	33,941	0	85,986	147,748
Total	\$ 476,114	\$ 1,234,975	\$ 356,783	\$ 506,703	\$ 265,735	\$ 1,319,305	\$ 4,159,615
Agricultural Property Loans							
Loan-to-Value Ratio:							
0%-59.99%	\$ 37,995	\$ 132,328	\$ 26,783	\$ 16,089	\$ 6,332	\$ 22,533	\$ 242,060
60%-69.99%	0	0	0	0	0	0	0
70%-79.99%	0	0	0	0	0	0	0
80% or greater	0	0	0	0	0	0	0
Total	\$ 37,995	\$ 132,328	\$ 26,783	\$ 16,089	\$ 6,332	\$ 22,533	\$ 242,060
Debt Service Coverage Ratio:							
Greater or Equal to 1.2x	\$ 37,995	\$ 132,328	\$ 26,783	\$ 16,089	\$ 6,332	\$ 22,533	\$ 242,060
1.0 - 1.2x	0	0	0	0	0	0	0
Less than 1.0x	0	0	0	0	0	0	0
Total	\$ 37,995	\$ 132,328	\$ 26,783	\$ 16,089	\$ 6,332	\$ 22,533	\$ 242,060

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	December 31, 2021						
	Amortized Cost by Origination Year						
	2021	2020	2019	2018	2017	Prior	Total
	(in thousands)						
Commercial Mortgage Loans							
Loan-to-Value Ratio:							
0%-59.99%	\$ 47,161	\$ 0	\$ 179,682	\$ 76,656	\$ 126,934	\$ 553,022	\$ 983,455
60%-69.99%	307,999	225,330	289,322	170,444	126,159	116,654	1,235,908
70%-79.99%	163,451	86,083	75,185	13,728	55,032	51,203	444,682
80% or greater	0	0	0	0	958	1,172	2,130
Total	\$ 518,611	\$ 311,413	\$ 544,189	\$ 260,828	\$ 309,083	\$ 722,051	\$ 2,666,175
Debt Service Coverage Ratio:							
Greater or Equal to 1.2x	\$ 501,456	\$ 195,164	\$ 481,289	\$ 253,938	\$ 289,443	\$ 638,092	\$ 2,359,382
1.0 - 1.2x	17,155	109,862	39,577	6,890	7,100	39,213	219,797
Less than 1.0x	0	6,387	23,323	0	12,540	44,746	86,996
Total	\$ 518,611	\$ 311,413	\$ 544,189	\$ 260,828	\$ 309,083	\$ 722,051	\$ 2,666,175
Agricultural Property Loans							
Loan-to-Value Ratio:							
0%-59.99%	\$ 98,579	\$ 26,581	\$ 16,226	\$ 6,463	\$ 8,372	\$ 16,115	\$ 172,336
60%-69.99%	0	0	0	0	0	0	0
70%-79.99%	0	0	0	0	0	0	0
80% or greater	0	0	0	0	0	0	0
Total	\$ 98,579	\$ 26,581	\$ 16,226	\$ 6,463	\$ 8,372	\$ 16,115	\$ 172,336
Debt Service Coverage Ratio:							
Greater or Equal to 1.2x	\$ 98,579	\$ 26,581	\$ 16,226	\$ 6,463	\$ 8,372	\$ 15,300	\$ 171,521
1.0 - 1.2x	0	0	0	0	0	0	0
Less than 1.0x	0	0	0	0	0	815	815
Total	\$ 98,579	\$ 26,581	\$ 16,226	\$ 6,463	\$ 8,372	\$ 16,115	\$ 172,336

See Note 2 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 for additional information about the Company's commercial mortgage and other loans credit quality monitoring process.

The following tables set forth an aging of past due commercial mortgage and other loans based upon the recorded investment gross of allowance for credit losses, as well as the amount of commercial mortgage and other loans on non-accrual status, as of the dates indicated:

	September 30, 2022					
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due(1)	Total Loans	Non-Accrual Status(2)
	(in thousands)					
Commercial mortgage loans	\$ 4,159,615	\$ 0	\$ 0	\$ 0	\$ 4,159,615	\$ 0
Agricultural property loans	242,060	0	0	0	242,060	0
Total	\$ 4,401,675	\$ 0	\$ 0	\$ 0	\$ 4,401,675	\$ 0

(1) As of September 30, 2022, there were no loans in this category accruing interest.

(2) For additional information regarding the Company's policies for accruing interest on loans, see Note 2 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	December 31, 2021					Non-Accrual Status(2)
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due(1)	Total Loans	
	(in thousands)					
Commercial mortgage loans	\$ 2,666,175	\$ 0	\$ 0	\$ 0	\$ 2,666,175	\$ 0
Agricultural property loans	172,336	0	0	0	172,336	0
Total	<u>\$ 2,838,511</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,838,511</u>	<u>\$ 0</u>

(1) As of December 31, 2021, there were no loans in this category accruing interest.

(2) For additional information regarding the Company's policies for accruing interest on loans, see Note 2 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

For the three months ended September 30, 2022 and 2021, there were \$0.0 million and \$806.1 million of commercial mortgage and other loans acquired, other than those through direct origination, and there were \$0.0 million and \$68.8 million of commercial mortgage and other loans sold.

For the nine months ended September 30, 2022 and 2021, there were \$27.6 million and \$806.1 million of commercial mortgage and other loans acquired, other than those through direct origination, and there were \$24.8 million and \$68.8 million of commercial mortgage and other loans sold.

The Company did not have any commercial mortgage and other loans purchased with credit deterioration, as of both September 30, 2022 and December 31, 2021.

Other Invested Assets

The following table sets forth the composition of "Other invested assets," as of the dates indicated:

	September 30, 2022	December 31, 2021
	(in thousands)	
Company's investment in separate accounts	\$ 573	\$ 53,694
LPs/LLCs:		
Equity method:		
Private equity	291,802	286,141
Hedge funds	530,458	432,749
Real estate-related	104,304	89,337
Subtotal equity method	926,564	808,227
Fair value:		
Private equity	61,474	69,137
Hedge funds	433	481
Real estate-related	9,499	9,861
Subtotal fair value	71,406	79,479
Total LPs/LLCs	997,970	887,706
Derivative instruments	10,226	268,525
Total other invested assets	<u>\$ 1,008,769</u>	<u>\$ 1,209,925</u>

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Accrued Investment Income

The following table sets forth the composition of “Accrued investment income,” as of the dates indicated:

	September 30, 2022	December 31, 2021
	(in thousands)	
Fixed maturities	\$ 160,791	\$ 117,216
Equity securities	381	2
Commercial mortgage and other loans	12,351	7,025
Policy loans	15,178	35,153
Other invested assets	47	254
Short-term investments and cash equivalents	2,854	377
Total accrued investment income	<u>\$ 191,602</u>	<u>\$ 160,027</u>

There were no significant write-downs on accrued investment income for both the three months and nine months ended September 30, 2022 and 2021.

Net Investment Income

The following table sets forth “Net investment income” by investment type, for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands)			
Fixed maturities, available-for-sale	\$ 153,170	\$ 85,160	\$ 384,347	\$ 208,748
Fixed maturities, trading	12,752	18,458	40,796	19,533
Equity securities	3,077	163	4,429	368
Commercial mortgage and other loans	29,682	17,098	74,731	43,846
Policy loans	5,354	17,748	15,573	52,097
Other invested assets	7,109	47,685	82,142	66,493
Short-term investments and cash equivalents	14,444	303	18,533	463
Gross investment income	225,588	186,615	620,551	391,548
Less: investment expenses	(14,826)	(7,505)	(38,361)	(18,271)
Net investment income	<u>\$ 210,762</u>	<u>\$ 179,110</u>	<u>\$ 582,190</u>	<u>\$ 373,277</u>

Realized Investment Gains (Losses), Net

The following table sets forth “Realized investment gains (losses), net” by investment type, for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands)			
Fixed maturities(1)	\$ (5,888)	\$ 3,183	\$ (69,326)	\$ 1,814
Commercial mortgage and other loans	(7,513)	2,538	(13,872)	3,686
Other invested assets	(75,864)	(6,452)	(72,328)	(5,543)
Derivatives(2)	113,201	(5,007,888)	1,678,490	(5,054,459)
Short-term investments and cash equivalents	22	7	(190)	(4)
Realized investment gains (losses), net	<u>\$ 23,958</u>	<u>\$ (5,008,612)</u>	<u>\$ 1,522,774</u>	<u>\$ (5,054,506)</u>

(1) Includes fixed maturity securities classified as available-for-sale and excludes fixed maturity securities classified as trading.

(2) Includes the impact of the 2021 Variable Annuities Recapture. See Note 1 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, for more details.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Net Unrealized Gains (Losses) on Investments within AOCI

The following table sets forth net unrealized gains (losses) on investments, as of the dates indicated:

	September 30, 2022	December 31, 2021
	(in thousands)	
Fixed maturity securities, available-for-sale with an allowance	\$ 4,377	\$ 3,685
Fixed maturity securities, available-for-sale without an allowance	(2,786,255)	540,881
Derivatives designated as cash flow hedges(1)	228,289	39,896
Affiliated notes	(13,673)	73
Other investments(2)	(540)	1,854
Net unrealized gains (losses) on investments	<u>\$ (2,567,802)</u>	<u>\$ 586,389</u>

(1) For more information on cash flow hedges, see Note 4.

(2) Includes net unrealized gains (losses) on certain joint ventures that are strategic in nature and are included in "Other assets".

Repurchase Agreements and Securities Lending

In the normal course of business, the Company sells securities under agreements to repurchase and enters into securities lending transactions. As of both September 30, 2022 and December 31, 2021, the Company had no repurchase agreements.

The following table sets forth the composition of "Cash collateral for loaned securities," which represents the liability to return cash collateral received for the following types of securities loaned, as of the dates indicated:

	September 30, 2022			December 31, 2021		
	Remaining Contractual Maturities of the Agreements			Remaining Contractual Maturities of the Agreements		
	Overnight & Continuous	Up to 30 Days	Total	Overnight & Continuous	Up to 30 Days	Total
	(in thousands)					
U.S. public corporate securities	\$ 5,530	\$ 0	\$ 5,530	\$ 3,004	\$ 0	\$ 3,004
Foreign public corporate securities	3,342	0	3,342	0	0	0
Equity securities	186,055	0	186,055	0	0	0
Total cash collateral for loaned securities(1)	<u>\$ 194,927</u>	<u>\$ 0</u>	<u>\$ 194,927</u>	<u>\$ 3,004</u>	<u>\$ 0</u>	<u>\$ 3,004</u>

(1) The Company did not have any agreements with remaining contractual maturities greater than thirty days, as of the dates indicated.

4. DERIVATIVES AND HEDGING

Types of Derivative Instruments and Derivative Strategies

The Company utilizes various derivative instruments and strategies to manage its risk. Commonly used derivative instruments include, but are not necessarily limited to:

- Interest rate contracts: futures, swaps, options, caps and floors
- Equity contracts: futures, options and total return swaps
- Foreign exchange contracts: futures, options, forwards and swaps
- Credit contracts: single and index reference credit default swaps

Other types of financial contracts that the Company accounts for as derivatives include:

- Embedded derivatives

For detailed information on these contracts and the related strategies, see Note 4 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Primary Risks Managed by Derivatives

The table below provides a summary of the gross notional amount and fair value of derivative contracts by the primary underlying risks, excluding embedded derivatives and associated reinsurance recoverables. Many derivative instruments contain multiple underlying risks. The fair value amounts below represent the value of derivative contracts prior to taking into account of the netting effects of master netting agreements and cash collateral.

Primary Underlying Risk/Instrument Type	September 30, 2022			December 31, 2021		
	Gross Notional	Fair Value		Gross Notional	Fair Value	
		Assets	Liabilities		Assets	Liabilities
		(in thousands)				
Derivatives Designated as Hedge Accounting Instruments:						
Currency/Interest Rate						
Interest Rate Swaps	\$ 3,225	\$ 0	\$ (302)	\$ 3,344	\$ 55	\$ 0
Foreign Currency Swaps	1,467,687	251,132	(17)	886,552	37,259	(6,900)
Total Derivatives Designated as Hedge Accounting Instruments	\$ 1,470,912	\$ 251,132	\$ (319)	\$ 889,896	\$ 37,314	\$ (6,900)
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate						
Interest Rate Swaps	\$ 137,756,210	\$ 7,164,547	\$ (16,687,241)	\$ 130,358,860	\$ 5,698,740	\$ (10,348,130)
Interest Rate Options	8,293,000	103,440	(231,918)	9,883,000	280,323	(173,863)
Interest Rate Futures	2,314,100	7,133	(1,060)	4,109,300	2,876	(2,709)
Interest Rate Forwards	0	0	(1)	195,000	3,760	(991)
Foreign Currency						
Foreign Currency Forwards	260,555	9,396	(1,318)	119,653	842	(1,063)
Credit						
Credit Default Swaps	1,614,050	0	(7,209)	306,900	24,789	0
Currency/Interest Rate						
Foreign Currency Swaps	2,235,760	339,553	(4,373)	2,139,523	68,477	(23,251)
Equity						
Total Return Swaps	12,523,023	956,848	(141,162)	15,129,666	66,627	(475,209)
Equity Options	38,312,555	311,055	(1,282,390)	19,461,881	902,050	(1,535,272)
Equity Futures	3,358,298	1,571	(40,850)	5,015,002	736	(6,595)
Total Derivatives Not Qualifying as Hedge Accounting Instruments	\$ 206,667,551	\$ 8,893,543	\$ (18,397,522)	\$ 186,718,785	\$ 7,049,220	\$ (12,567,083)
Total Derivatives(1)(2)	\$ 208,138,463	\$ 9,144,675	\$ (18,397,841)	\$ 187,608,681	\$ 7,086,534	\$ (12,573,983)

- (1) Excludes embedded derivatives and associated reinsurance recoverables which contain multiple underlying risks. The fair value of these embedded derivatives was a net liability of \$4,945 million and \$9,048 million as of September 30, 2022 and December 31, 2021, respectively included in "Future policy benefits" and \$3,643 million and \$3,246 million as of September 30, 2022 and December 31, 2021, respectively included in "Policyholders' account balances". Other assets included \$107 million and \$73 million as of September 30, 2022 and December 31, 2021, respectively. Other liabilities included \$30 million and \$13 million as of September 30, 2022 and December 31, 2021, respectively. The fair value of the related reinsurance, included in "Reinsurance recoverables" and/or "Reinsurance payables" was an asset of \$475 million and \$931 million as of September 30, 2022 and December 31, 2021, respectively.
- (2) Recorded in "Other invested assets" and "Payables to parent and affiliates" on the Unaudited Interim Consolidated Statements of Financial Position.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Offsetting Assets and Liabilities

The following table presents recognized derivative instruments (excluding embedded derivatives and associated reinsurance recoverables), and repurchase and reverse repurchase agreements that are offset in the Unaudited Interim Consolidated Statements of Financial Position, and/or are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the Unaudited Interim Consolidated Statements of Financial Position.

September 30, 2022					
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Consolidated Statements of Financial Position	Net Amounts Presented in the Consolidated Statements of Financial Position	Financial Instruments/ Collateral(1)	Net Amount
(in thousands)					
Offsetting of Financial Assets:					
Derivatives	\$ 9,144,675	\$ (9,134,449)	\$ 10,226	\$ 0	\$ 10,226
Securities purchased under agreements to resell	0	0	0	0	0
Total Assets	<u>\$ 9,144,675</u>	<u>\$ (9,134,449)</u>	<u>\$ 10,226</u>	<u>\$ 0</u>	<u>\$ 10,226</u>
Offsetting of Financial Liabilities:					
Derivatives	\$ 18,397,841	\$ (17,295,924)	\$ 1,101,917	\$ (1,101,917)	\$ 0
Securities sold under agreements to repurchase	0	0	0	0	0
Total Liabilities	<u>\$ 18,397,841</u>	<u>\$ (17,295,924)</u>	<u>\$ 1,101,917</u>	<u>\$ (1,101,917)</u>	<u>\$ 0</u>

December 31, 2021					
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Consolidated Statements of Financial Position	Net Amounts Presented in the Consolidated Statements of Financial Position	Financial Instruments/ Collateral(1)	Net Amount
(in thousands)					
Offsetting of Financial Assets:					
Derivatives	\$ 7,086,534	\$ (6,818,009)	\$ 268,525	\$ 0	\$ 268,525
Securities purchased under agreements to resell	185,000	0	185,000	(185,000)	0
Total Assets	<u>\$ 7,271,534</u>	<u>\$ (6,818,009)</u>	<u>\$ 453,525</u>	<u>\$ (185,000)</u>	<u>\$ 268,525</u>
Offsetting of Financial Liabilities:					
Derivatives	\$ 12,573,983	\$ (12,568,082)	\$ 5,901	\$ (5,901)	\$ 0
Securities sold under agreements to repurchase	0	0	0	0	0
Total Liabilities	<u>\$ 12,573,983</u>	<u>\$ (12,568,082)</u>	<u>\$ 5,901</u>	<u>\$ (5,901)</u>	<u>\$ 0</u>

(1) Amounts exclude the excess of collateral received/pledged from/to the counterparty.

For information regarding the rights of offset associated with the derivative assets and liabilities in the table above see “Credit Risk” below and Note 9. For securities purchased under agreements to resell and securities sold under agreements to repurchase, the Company monitors the value of the securities and maintains collateral, as appropriate, to protect against credit exposure. Where the Company has entered into repurchase and resale agreements with the same counterparty, in the event of default, the Company would generally be permitted to exercise rights of offset. For additional information on the Company’s accounting policy for securities repurchase and resale agreements, see Note 2 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Cash Flow Hedges

The primary derivative instruments used by the Company in its cash flow hedge accounting relationships are currency swaps and interest rate swaps. These instruments are only designated for hedge accounting in instances where the appropriate criteria are met. The Company does not use futures, options, credit, or equity derivatives in any of its cash flow hedge accounting relationships.

The following tables provide the financial statement classification and impact of derivatives used in qualifying and non-qualifying hedge relationships, excluding the offset of the hedged item in an effective hedge relationship.

	Three Months Ended September 30, 2022			
	Realized Investment Gains (Losses)	Net Investment Income	Other Income	Change in AOCI
	(in thousands)			
Derivatives Designated as Hedge Accounting Instruments:				
Cash flow hedges				
Interest Rate	\$ 1	\$ (6)	\$ 0	\$ (113)
Currency/Interest Rate	10,342	9,735	48,729	84,011
Total cash flow hedges	10,343	9,729	48,729	83,898
Derivatives Not Qualifying as Hedge Accounting Instruments:				
Interest Rate	(1,064,307)	0	0	0
Currency	19,236	0	0	0
Currency/Interest Rate	79,436	0	383	0
Credit	9,495	0	0	0
Equity	(114,772)	0	0	0
Embedded Derivatives	1,173,770	0	0	0
Total Derivatives Not Qualifying as Hedge Accounting Instruments	102,858	0	383	0
Total	\$ 113,201	\$ 9,729	\$ 49,112	\$ 83,898

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Nine Months Ended September 30, 2022				
	Realized Investment Gains (Losses)	Net Investment Income	Other Income	Change in AOCI
(in thousands)				
Derivatives Designated as Hedge Accounting Instruments:				
Cash flow hedges				
Interest Rate	\$ 1	\$ 10	\$ 0	\$ (334)
Currency/Interest Rate	9,989	26,301	88,912	188,727
Total cash flow hedges	9,990	26,311	88,912	188,393
Derivatives Not Qualifying as Hedge Accounting Instruments:				
Interest Rate	(4,360,659)	0	0	0
Currency	39,037	0	0	0
Currency/Interest Rate	192,373	0	786	0
Credit	(31,954)	0	0	0
Equity	1,209,765	0	0	0
Embedded Derivatives	4,619,938	0	0	0
Total Derivatives Not Qualifying as Hedge Accounting Instruments	1,668,500	0	786	0
Total	<u>\$ 1,678,490</u>	<u>\$ 26,311</u>	<u>\$ 89,698</u>	<u>\$ 188,393</u>

Three Months Ended September 30, 2021				
	Realized Investment Gains (Losses)	Net Investment Income	Other Income	Change in AOCI
(in thousands)				
Derivatives Designated as Hedge Accounting Instruments:				
Cash flow hedges				
Interest Rate	\$ 0	\$ 12	\$ 0	\$ (20)
Currency/Interest Rate	928	5,211	10,053	19,988
Total cash flow hedges	928	5,223	10,053	19,968
Derivatives Not Qualifying as Hedge Accounting Instruments:				
Interest Rate	(283,767)	0	0	0
Currency	1,428	0	0	0
Currency/Interest Rate	35,346	0	42	0
Credit	(190)	0	0	0
Equity	(104,815)	0	0	0
Embedded Derivatives	(4,656,818)	0	0	0
Total Derivatives Not Qualifying as Hedge Accounting Instruments	(5,008,816)	0	42	0
Total	<u>\$ (5,007,888)</u>	<u>\$ 5,223</u>	<u>\$ 10,095</u>	<u>\$ 19,968</u>

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Nine Months Ended September 30, 2021				
	Realized Investment Gains (Losses)	Net Investment Income	Other Income	Change in AOCI
(in thousands)				
Derivatives Designated as Hedge Accounting Instruments:				
Cash flow hedges				
Interest Rate	\$ 2	\$ 35	\$ 0	\$ (119)
Currency/Interest Rate	834	10,002	11,174	40,447
Total cash flow hedges	836	10,037	11,174	40,328
Derivatives Not Qualifying as Hedge Accounting Instruments:				
Interest Rate	(304,420)	0	0	0
Currency	2,261	0	0	0
Currency/Interest Rate	38,437	0	28	0
Credit	(202)	0	0	0
Equity	(69,558)	0	0	0
Embedded Derivatives	(4,721,813)	0	0	0
Total Derivatives Not Qualifying as Hedge Accounting Instruments	(5,055,295)	0	28	0
Total	<u>\$ (5,054,459)</u>	<u>\$ 10,037</u>	<u>\$ 11,202</u>	<u>\$ 40,328</u>

Presented below is a rollforward of current period cash flow hedges in AOCI before taxes:

	(in thousands)
Balance, December 31, 2021	\$ 39,896
Amount recorded in AOCI	
Interest Rate	(323)
Currency/Interest Rate	313,928
Total amount recorded in AOCI	313,605
Amount reclassified from AOCI to income	
Interest Rate	(11)
Currency/Interest Rate	(125,201)
Total amount reclassified from AOCI to income	(125,212)
Balance, September 30, 2022	<u>\$ 228,289</u>

The changes in fair value of cash flow hedges are deferred in AOCI and are included in "Net unrealized investment gains (losses)" in the Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss); these amounts are then reclassified to earnings when the hedged item affects earnings. Using September 30, 2022 values, it is estimated that a pre-tax gain of \$22 million is expected to be reclassified from AOCI to earnings during the subsequent twelve months ending September 30, 2023.

The exposures the Company is hedging with these qualifying cash flow hedges include the variability of the payment or receipt of interest or foreign currency amounts on existing financial instruments.

There were no material amounts reclassified from AOCI into earnings relating to instances in which the Company discontinued cash flow hedge accounting because the forecasted transaction did not occur by the anticipated date or within the additional time period permitted by the authoritative guidance for the accounting for derivatives and hedging.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Credit Derivatives

Credit Derivatives, where the Company has written credit protection on certain index references, have outstanding notional amounts of \$1,614 million and \$157 million as of September 30, 2022 and December 31, 2021, respectively. These credit derivatives are reported at fair value as a liability of \$7 million and as an asset of \$11 million as of September 30, 2022 and December 31, 2021, respectively. As of September 30, 2022 the notional amount of these credit derivatives had the following NAIC rating: \$1,567 million in NAIC 3 and \$47 million in NAIC 6.

The Company has purchased credit protection using credit derivatives in order to hedge specific credit exposures in the Company's investment portfolio. The Company has outstanding notional amounts of \$0 million and \$150 million reported as of September 30, 2022 and December 31, 2021, respectively. These credit derivatives are reported at fair value as an asset of \$0 million and \$14 million as of September 30, 2022 and December 31, 2021, respectively.

Counterparty Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by counterparties to financial derivative transactions with a positive fair value. The Company manages credit risk by entering into derivative transactions with regulated derivatives exchanges for exchange traded derivatives and its affiliate, Prudential Global Funding LLC ("PGF"), related to its over-the-counter ("OTC") derivatives. PGF, in turn, manages its credit risk by: (i) entering into derivative transactions with highly rated major international financial institutions and other creditworthy counterparties governed by master netting agreement, as applicable; (ii) trading through central clearing and OTC parties; (iii) obtaining collateral, such as cash and securities, when appropriate; and (iv) setting limits on single-party credit exposures which are subject to periodic management review.

Substantially all of the Company's derivative agreements have zero thresholds which require daily full collateralization by the party in a liability position.

5. FAIR VALUE OF ASSETS AND LIABILITIES

Fair Value Measurement - Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The authoritative fair value guidance establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1 – Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities.

Level 2 – Fair value is based on significant inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities, and other market observable inputs.

Level 3 – Fair value is based on at least one significant unobservable input for the asset or liability. The assets and liabilities in this category may require significant judgment or estimation in determining the fair value.

For a discussion of the Company's valuation methodologies for assets and liabilities measured at fair value and the fair value hierarchy, see Note 5 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Assets and Liabilities by Hierarchy Level – The tables below present the balances of assets and liabilities reported at fair value on a recurring basis, as of the dates indicated.

	September 30, 2022				
	Level 1	Level 2	Level 3	Netting(1)	Total
	(in thousands)				
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 0	\$ 235,706	\$ 0	\$	235,706
Obligations of U.S. states and their political subdivisions	0	565,054	0		565,054
Foreign government bonds	0	258,876	724		259,600
U.S. corporate public securities	0	5,890,822	0		5,890,822
U.S. corporate private securities	0	2,963,019	236,469		3,199,488
Foreign corporate public securities	0	1,270,546	6,512		1,277,058
Foreign corporate private securities	0	2,672,166	180,584		2,852,750
Asset-backed securities(2)	0	1,223,163	28,991		1,252,154
Commercial mortgage-backed securities	0	567,588	85,751		653,339
Residential mortgage-backed securities	0	135,539	0		135,539
Subtotal	0	15,782,479	539,031		16,321,510
Fixed maturities, trading	0	1,740,394	0		1,740,394
Equity securities	225,662	14,243	28,672		268,577
Short-term investments	0	294,792	4,188		298,980
Cash equivalents	0	1,584,254	0		1,584,254
Other invested assets(3)	8,704	9,135,971	0	(9,134,449)	10,226
Other assets	0	0	107,435		107,435
Reinsurance recoverables	0	0	475,186		475,186
Receivables from parent and affiliates	0	147,896	0		147,896
Subtotal excluding separate account assets	234,366	28,700,029	1,154,512	(9,134,449)	20,954,458
Separate account assets(4)(5)	75,660	105,362,383	3,954		105,441,997
Total assets	\$ 310,026	\$ 134,062,412	\$ 1,158,466	\$ (9,134,449)	\$ 126,396,455
Future policy benefits(6)	\$ 0	\$ 0	\$ 4,945,400	\$	4,945,400
Policyholders' account balances	0	0	3,642,839		3,642,839
Payables to parent and affiliates	0	18,353,401	0	(17,290,756)	1,062,645
Other liabilities	44,440	(29,851)	0	(5,168)	9,421
Total liabilities	\$ 44,440	\$ 18,323,550	\$ 8,588,239	\$ (17,295,924)	\$ 9,660,305

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	December 31, 2021				
	Level 1	Level 2	Level 3	Netting(1)	Total
	(in thousands)				
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 0	\$ 333,940	\$ 0	\$	\$ 333,940
Obligations of U.S. states and their political subdivisions	0	630,521	0		630,521
Foreign government bonds	0	350,321	150		350,471
U.S. corporate public securities	0	5,131,872	0		5,131,872
U.S. corporate private securities	0	1,873,370	131,505		2,004,875
Foreign corporate public securities	0	921,008	8,894		929,902
Foreign corporate private securities	0	2,508,676	245,235		2,753,911
Asset-backed securities(2)	0	484,861	62,449		547,310
Commercial mortgage-backed securities	0	463,689	111,495		575,184
Residential mortgage-backed securities	0	20,180	0		20,180
Subtotal	0	12,718,438	559,728		13,278,166
Fixed maturities, trading	0	3,302,392	0		3,302,392
Equity securities	58,160	40,635	12,472		111,267
Short-term investments	9,997	135,440	0		145,437
Cash equivalents	13,999	422,633	0		436,632
Other invested assets(3)	246,097	6,840,437	0	(6,818,009)	268,525
Other assets	0	0	72,937		72,937
Reinsurance recoverables	0	0	931,207		931,207
Receivables from parent and affiliates	0	162,045	0		162,045
Subtotal excluding separate account assets	328,253	23,622,020	1,576,344	(6,818,009)	18,708,608
Separate account assets(4)(5)	52,100	144,059,558	0		144,111,658
Total assets	\$ 380,353	\$ 167,681,578	\$ 1,576,344	\$ (6,818,009)	\$ 162,820,266
Future policy benefits(6)	\$ 0	\$ 0	\$ 9,047,956	\$	\$ 9,047,956
Policyholders' account balances	0	0	3,245,773		3,245,773
Payables to parent and affiliates	0	12,563,253	0	(12,563,253)	0
Other liabilities	10,730	12,624	0	(4,829)	18,525
Total liabilities	\$ 10,730	\$ 12,575,877	\$ 12,293,729	\$ (12,568,082)	\$ 12,312,254

(1) "Netting" amounts represent cash collateral of \$(8,161) million and \$(5,750) million as of September 30, 2022 and December 31, 2021, respectively.

(2) Includes credit-tranched securities collateralized by syndicated bank loans, sub-prime mortgages, auto loans, credit cards, education loans and other asset types.

(3) Other invested assets excluded from the fair value hierarchy include certain hedge funds, private equity funds and other funds for which fair value is measured at net asset value ("NAV") per share (or its equivalent) as a practical expedient. As September 30, 2022 and December 31, 2021, the fair values of such investments were \$71 million and \$79 million, respectively.

(4) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in the Company's Unaudited Interim Consolidated Statements of Financial Position.

(5) Separate account assets included in the fair value hierarchy exclude investments in entities that calculate NAV per share (or its equivalent) as a practical expedient. Such investments excluded from the fair value hierarchy include investments in real estate, hedge funds and a corporate owned life insurance fund, for which fair value is measured at NAV per share (or its equivalent). At September 30, 2022 and December 31, 2021, the fair value of such investments was \$5,103 million and \$5,686 million, respectively.

(6) As of September 30, 2022, the net embedded derivative liability position of \$4,945 million includes \$758 million of embedded derivatives in an asset position and \$5,703 million of embedded derivatives in a liability position. As of December 31, 2021, the net embedded derivative liability position of \$9,048 million includes \$610 million of embedded derivatives in an asset position and \$9,658 million of embedded derivatives in a liability position.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Quantitative Information Regarding Internally Priced Level 3 Assets and Liabilities – The tables below present quantitative information on significant internally-priced Level 3 assets and liabilities.

September 30, 2022							
	Fair Value	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Weighted Average	Impact of Increase in Input on Fair Value(1)
	(in thousands)						
Assets:							
Corporate securities(2)	\$ 325,618	Discounted cash flow	Discount rate	5.87 %	20 %	10.93 %	Decrease
		Market Comparables	EBITDA multiples(3)	1.8 X	18.5 X	7.2 X	Increase
Reinsurance recoverables	\$ 475,186	Fair values are determined using the same unobservable inputs as future policy benefits.					
Liabilities:							
Future policy benefits(4)	\$ 4,945,400	Discounted cash flow	Lapse rate(6)	1 %	20 %		Decrease
			Spread over SOFR(7)	0.50 %	2.35 %		Decrease
			Utilization rate(8)	38 %	95 %		Increase
			Withdrawal rate	See table footnote (9) below.			
			Mortality rate(10)	0 %	15 %		Decrease
			Equity volatility curve	18 %	29 %		Increase
Policyholders' account balances(5)	\$ 3,642,839	Discounted cash flow	Lapse rate(6)	1 %	80 %		Decrease
			Spread over SOFR(7)	0.28 %	2.06 %		Decrease
			Mortality rate(10)	0 %	23 %		Decrease
			Equity volatility curve	6 %	38 %		Increase

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

December 31, 2021

	December 31, 2021						Impact of Increase in Input on Fair Value(1)
	Fair Value	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Weighted Average	
	(in thousands)						
Assets:							
Corporate securities(2)	\$ 312,139	Discounted cash flow	Discount rate	1.65 %	20 %	4.57 %	Decrease
		Market Comparables	EBITDA multiples(3)	4.9X	19.2X	9.0X	Increase
		Liquidation	Liquidation value	62.58 %	62.58 %	62.58 %	Increase
Reinsurance recoverables	\$ 931,207	Fair values are determined using the same unobservable inputs as future policy benefits.					
Liabilities:							
Future policy benefits(4)	\$ 9,047,956	Discounted cash flow	Lapse rate(6)	1 %	20 %		Decrease
			Spread over LIBOR(7)	0.03 %	1.13 %		Decrease
			Utilization rate(8)	39 %	96 %		Increase
			Withdrawal rate	See table footnote (9) below.			
			Mortality rate(10)	0 %	15 %		Decrease
			Equity volatility curve	16 %	25 %		Increase
Policyholders' account balances(5)	\$ 3,245,773	Discounted cash flow	Lapse rate(6)	1 %	42 %		Decrease
			Spread over LIBOR(7)	0.03 %	1.13 %		Decrease
			Mortality rate(10)	0 %	23 %		Decrease
			Equity volatility curve	6 %	31 %		Increase

(1) Conversely, the impact of a decrease in input would have the opposite impact on fair value as that presented in the table.

(2) Includes assets classified as fixed maturities, available-for-sale and fixed maturities, trading.

(3) Represents multiples of earnings before interest, taxes, depreciation and amortization ("EBITDA"), and are amounts used when the Company has determined that market participants would use such multiples when valuing the investments.

(4) Future policy benefits primarily represent general account liabilities for the living benefit features of the Company's variable annuity contracts which are accounted for as embedded derivatives. Since the valuation methodology for these liabilities uses a range of inputs that vary at the contract level over the cash flow projection period, presenting a range, rather than weighted average, is a more meaningful representation of the unobservable inputs used in the valuation.

(5) Policyholders' account balances primarily represent general account liabilities for the index-linked interest credited on certain of the Company's life and annuity products that are accounted for as embedded derivatives. Since the valuation methodology for these liabilities uses a range of inputs that vary at the contract level over the cash flow projection period, presenting a range, rather than a weighted average, is a more meaningful representation of the unobservable inputs used in the valuation.

(6) Lapse rates for contracts with living benefit guarantees are adjusted at the contract level based on the in-the-moneyness of the living benefit and reflect other factors, such as the applicability of any surrender charges. Lapse rates are reduced when contracts are more in-the-money. Lapse rates for contracts with index-linked crediting guarantees may be adjusted at the contract level based on the applicability of any surrender charges, product type, and market related factors such as interest rates. Lapse rates are also generally assumed to be lower for the period where surrender charges apply. For any given contract, lapse rates vary throughout the period over which cash flows are projected for the purposes of valuing these embedded derivatives.

(7) The spread over the Secured Overnight Financing Rate ("SOFR") swap curve and the London Inter-Bank Offered Rate ("LIBOR") swap curve represents the premium added to the proxy for the risk-free rate (SOFR or LIBOR, as applicable) to reflect the Company's estimates of rates that a market participant would use to value the living benefits in both the accumulation and payout phases and index-linked interest crediting guarantees as of September 30, 2022 and December 31, 2021, respectively. This spread includes an estimate of NPR, which is the risk that the obligation will not be fulfilled by the Company. NPR is primarily estimated by utilizing the credit spreads associated with issuing funding agreements, adjusted for any illiquidity risk premium. In order to reflect the financial strength ratings of the Company, credit spreads associated with funding agreements, as opposed to credit spread associated with debt, are utilized in developing this estimate because funding agreements, living benefit guarantees, and index-linked interest crediting guarantees are insurance liabilities and are therefore senior to debt.

(8) The utilization rate assumption estimates the percentage of contracts that will utilize the benefit during the contract duration and begin lifetime withdrawals at various time intervals from contract inception. The remaining contractholders are assumed to either begin lifetime withdrawals immediately or never utilize the benefit. Utilization assumptions may vary by product type, tax status and age. The impact of changes in these assumptions is highly dependent on the product type, the age of the contractholder at the time of the sale, and the timing of the first lifetime income withdrawal. Range reflects the utilization rate for the vast majority of business with living benefits.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

- (9) The withdrawal rate assumption estimates the magnitude of annual contractholder withdrawals relative to the maximum allowable amount under the contract. These assumptions vary based on the age of the contractholder, the tax status of the contract and the duration since the contractholder began lifetime withdrawals. As of September 30, 2022 and December 31, 2021, the minimum withdrawal rate assumption is 77% and 76%, respectively. As of September 30, 2022 and December 31, 2021, the maximum withdrawal rate assumption may be greater than 100%. The fair value of the liability will generally increase the closer the withdrawal rate is to 100% and decrease as the withdrawal rate moves further away from 100%.
- (10) The range reflects the mortality rates for the vast majority of business with living benefits and other contracts, with policyholders ranging from 45 to 90 years old. While the majority of living benefits have a minimum age requirement, certain other contracts do not have an age restriction. This results in contractholders with mortality rates approaching 0% for certain benefits. Mortality rates may vary by product, age, and duration. A mortality improvement assumption is also incorporated into the overall mortality table.

Interrelationships Between Unobservable Inputs – In addition to the sensitivities of fair value measurements to changes in each unobservable input in isolation, as reflected in the table above, interrelationships between these inputs may also exist, such that a change in one unobservable input may give rise to a change in another, or multiple, inputs. Examples of such interrelationships for significant internally-priced Level 3 assets and liabilities are as follows:

Corporate Securities – The rate used to discount future cash flows reflects current risk-free rates plus credit and liquidity spread requirements that market participants would use to value an asset. The discount rate may be influenced by many factors, including market cycles, expectations of default, collateral, term, and asset complexity. Each of these factors can influence discount rates, either in isolation, or in response to other factors. During weaker economic cycles, as the expectations of default increases, credit spreads widen, which results in a decrease in fair value.

Future Policy Benefits – The Company expects efficient benefit utilization and withdrawal rates to generally be correlated with lapse rates. However, behavior is highly dependent on the facts and circumstances surrounding the individual contractholder, such as their liquidity needs or tax situation, which could drive lapse behavior independent of other contractholder behavior assumptions. To the extent more efficient contractholder behavior results in greater in-the-moneyness at the contract level, lapse rates may decline for those contracts. Similarly, to the extent that increases in equity volatility are correlated with overall declines in the capital markets, lapse rates may decline as contracts become more in-the-money.

Changes in Level 3 Assets and Liabilities – The following tables describe changes in fair values of Level 3 assets and liabilities as of the dates indicated, as well as the portion of gains or losses included in income attributable to unrealized gains or losses related to those assets and liabilities still held at the end of their respective periods. When a determination is made to classify assets and liabilities within Level 3, the determination is based on significance of the unobservable inputs in the overall fair value measurement. All transfers are based on changes in the observability of the valuation inputs, including the availability of pricing service information that the Company can validate. Transfers into Level 3 are generally the result of unobservable inputs utilized within valuation methodologies and the use of indicative broker quotes for assets that were previously valued using observable inputs. Transfers out of Level 3 are generally due to the use of observable inputs in valuation methodologies as well as the availability of pricing service information for certain assets that the Company can validate.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Three Months Ended September 30, 2022											
	Fair Value, beginning of period	Total realized and unrealized gains (losses)(1)	Purchases	Sales	Issuances	Settlements	Other(2)	Transfers into Level 3	Transfers out of Level 3	Fair Value, end of period	Unrealized gains (losses) for assets still held(3)
(in thousands)											
Fixed maturities, available-for-sale:											
U.S. government	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	0
Foreign government	135	88	501	0	0	0	0	0	0	724	86
Corporate securities(4)	317,878	(7,376)	66,826	(11,975)	0	(54,455)	106,408	6,259	0	423,565	(6,546)
Structured securities(5)	123,288	(2,903)	28,250	0	0	(403)	0	0	(33,490)	114,742	(2,860)
Other assets:											
Fixed maturities, trading	0	0	0	0	0	0	0	0	0	0	0
Equity securities	29,783	(1,111)	0	0	0	0	0	0	0	28,672	(1,110)
Short-term investments	2,772	2	0	0	0	(5,876)	7,290	0	0	4,188	0
Cash equivalents	0	0	0	0	0	0	0	0	0	0	0
Other assets	75,858	56,595	(24,914)	0	0	(104)	0	0	0	107,435	56,700
Reinsurance recoverables	555,053	(113,280)	33,413	0	0	0	0	0	0	475,186	(109,508)
Separate account assets	0	(46)	7,000	(3,000)	0	0	0	0	0	3,954	(46)
Liabilities:											
Future policy benefits	(5,706,968)	1,009,622	0	0	(248,054)	0	0	0	0	(4,945,400)	975,995
Policyholders' account balances(6)	(3,427,667)	217,837	0	0	0	(433,009)	0	0	0	(3,642,839)	843,341

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Three Months Ended September 30, 2022

	Total realized and unrealized gains (losses)					Unrealized gains (losses) for assets still held(3)				
	Realized investment gains (losses), net(1)	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (loss)	Net investment income	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (loss)	
	(in thousands)									
Fixed maturities, available-for-sale	\$ 307	\$ 0	\$ 0	\$ (9,226)	\$ (1,272)	\$ 491	\$ 0	\$ 0	\$ (9,811)	
Other assets:										
Fixed maturities, trading	0	0	0	0	0	0	0	0	0	0
Equity securities	0	(1,111)	0	0	0	0	(1,110)	0	0	0
Short-term investments	0	0	0	0	2	0	0	0	0	0
Cash equivalents	0	0	0	0	0	0	0	0	0	0
Other assets	56,595	0	0	0	0	56,700	0	0	0	0
Reinsurance recoverables	(113,280)	0	0	0	0	(109,508)	0	0	0	0
Separate account assets	0	0	(46)	0	0	0	0	(46)	0	0
Liabilities:										
Future policy benefits	1,009,622	0	0	0	0	975,995	0	0	0	0
Policyholders' account balances	217,837	0	0	0	0	843,341	0	0	0	0

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Nine Months Ended September 30, 2022											
	Fair Value, beginning of period	Total realized and unrealized gains (losses)(1)	Purchases	Sales	Issuances	Settlements	Other(2)	Transfers into Level 3	Transfers out of Level 3	Fair Value, end of period	Unrealized gains (losses) for assets still held(3)
(in thousands)											
Fixed maturities, available-for-sale:											
U.S. government	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	0
Foreign government	150	73	501	0	0	0	0	0	0	724	71
Corporate securities(4)	385,634	(56,596)	200,137	(24,363)	0	(87,790)	106,408	6,259	(106,124)	423,565	(53,687)
Structured securities(5)	173,944	(25,231)	61,740	0	0	(1,476)	0	0	(94,235)	114,742	(25,140)
Other assets:											
Fixed maturities, trading	0	0	0	0	0	0	0	0	0	0	0
Equity securities	12,472	(3,231)	10,000	(230)	0	0	9,661	0	0	28,672	(3,249)
Short-term investments	0	7	2,766	0	0	(5,930)	7,290	55	0	4,188	0
Cash equivalents	0	0	0	0	0	0	0	0	0	0	0
Other assets	72,937	60,932	(23,673)	0	0	(2,761)	0	0	0	107,435	63,692
Reinsurance recoverables	931,207	(558,774)	102,753	0	0	0	0	0	0	475,186	(535,503)
Separate account assets	0	(46)	7,000	(3,000)	0	0	0	0	0	3,954	(46)
Liabilities:											
Future policy benefits	(9,047,956)	4,866,162	0	0	(763,606)	0	0	0	0	(4,945,400)	4,655,099
Policyholders' account balances(6)	(3,245,773)	188,287	0	0	0	(824,375)	239,022	0	0	(3,642,839)	1,272,540

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Nine Months Ended September 30, 2022

	Total realized and unrealized gains (losses)					Unrealized gains (losses) for assets still held(3)				
	Realized investment gains (losses), net(1)	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (loss)	Net investment income	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (loss)	
	(in thousands)									
Fixed maturities, available-for-sale	\$ (16,505)	\$ 0	\$ 0	\$ (64,307)	\$ (942)	\$ (13,988)	\$ 0	\$ 0	\$ (64,768)	
Other assets:										
Fixed maturities, trading	0	0	0	0	0	0	0	0	0	0
Equity securities	0	(3,231)	0	0	0	0	(3,249)	0	0	0
Short-term investments	0	0	0	0	7	0	0	0	0	0
Cash equivalents	0	0	0	0	0	0	0	0	0	0
Other assets	60,932	0	0	0	0	63,692	0	0	0	0
Reinsurance recoverables	(558,774)	0	0	0	0	(535,503)	0	0	0	0
Separate account assets	0	0	(46)	0	0	0	0	(46)	0	0
Liabilities:										
Future policy benefits	4,866,162	0	0	0	0	4,655,099	0	0	0	0
Policyholders' account balances	188,287	0	0	0	0	1,272,540	0	0	0	0

Three Months Ended September 30, 2021

	Three Months Ended September 30, 2021										
	Fair Value, beginning of period	Total realized and unrealized gains (losses)(1)	Purchases	Sales	Issuances	Settlements	Other(2)	Transfers into Level 3	Transfers out of Level 3	Fair Value, end of period	Unrealized gains (losses) for assets still held(3)
	(in thousands)										
Fixed maturities, available-for-sale:											
U.S. government	\$ 55,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 55,000	\$ 0
Foreign government	156	(4)	0	0	0	0	0	0	0	152	(5)
Corporate securities(4)	170,830	(6,783)	3,173	0	0	(7,907)	119,218	4,106	0	282,637	(6,710)
Structured securities(5)	27,179	(452)	12,500	0	0	(308)	19,859	0	(25,450)	33,328	(449)
Other assets:											
Fixed maturities, trading	801	0	0	0	0	0	0	0	(801)	0	0
Equity securities	8,005	477	0	0	0	0	3,874	0	0	12,356	477
Short-term investments	0	0	0	0	0	0	1,690	0	0	1,690	0
Cash equivalents	0	0	0	0	0	0	1,230	0	0	1,230	0
Other assets	0	0	0	0	0	0	0	0	0	0	0
Reinsurance recoverables	9,275,523	(8,372,926)	36,892	0	0	0	0	0	0	939,489	(32,262)
Separate account assets	0	0	0	0	0	0	0	0	0	0	0
Liabilities:											
Future policy benefits	(9,263,516)	331,967	0	0	(276,639)	0	0	0	0	(9,208,188)	218,025
Policyholders' account balances(6)	(1,156,610)	5,389	0	0	(3,202)	0	0	0	0	(1,154,423)	21,559

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Three Months Ended September 30, 2021										
	Total realized and unrealized gains (losses)					Unrealized gains (losses) for assets still held(3)				
	Realized investment gains (losses), net(1)	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (loss)	Net investment income	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (loss)	
(in thousands)										
Fixed maturities, available-for-sale	\$ (1,656)	\$ 0	\$ 0	\$ (5,768)	\$ 185	\$ (1,678)	\$ 0	\$ 0	\$ (5,486)	
Other assets:										
Fixed maturities, trading	0	0	0	0	0	0	0	0	0	
Equity securities	0	477	0	0	0	0	477	0	0	
Short-term investments	0	0	0	0	0	0	0	0	0	
Cash equivalents	0	0	0	0	0	0	0	0	0	
Other assets	0	0	0	0	0	0	0	0	0	
Reinsurance recoverables	(8,372,926)	0	0	0	0	(32,262)	0	0	0	
Separate account assets	0	0	0	0	0	0	0	0	0	
Liabilities:										
Future policy benefits	331,967	0	0	0	0	218,025	0	0	0	
Policyholders' account balances	5,389	0	0	0	0	21,559	0	0	0	

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Nine Months Ended September 30, 2021											
	Fair Value, beginning of period	Total realized and unrealized gains (losses)(1)	Purchases	Sales	Issuances	Settlements	Other(2)	Transfers into Level 3	Transfers out of Level 3	Fair Value, end of period	Unrealized gains (losses) for assets still held(3)
(in thousands)											
Fixed maturities, available-for-sale:											
U.S. government	\$ 55,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 55,000	\$ 0
Foreign government	163	(11)	0	0	0	0	0	0	0	152	(13)
Corporate securities(4)	174,776	(13,815)	5,515	0	0	(12,280)	119,218	9,223	0	282,637	(13,811)
Structured securities(5)	2,065	(465)	38,450	0	0	(1,131)	19,859	0	(25,450)	33,328	(462)
Other assets:											
Fixed maturities, trading	755	46	0	0	0	0	0	0	(801)	0	46
Equity securities	7,889	593	0	0	0	0	3,874	0	0	12,356	593
Short-term investments	0	0	0	0	0	0	1,690	0	0	1,690	0
Cash equivalents	0	0	0	0	0	0	1,230	0	0	1,230	0
Other assets	0	0	0	0	0	0	0	0	0	0	0
Reinsurance recoverables	13,239,539	(12,892,808)	592,758	0	0	0	0	0	0	939,489	(524,521)
Separate account assets	0	0	0	0	0	0	0	0	0	0	0
Liabilities:											
Future policy benefits	(13,227,814)	4,848,168	0	0	(828,542)	0	0	0	0	(9,208,188)	4,365,984
Policyholders' account balances(6)	(1,155,274)	(31,278)	0	0	0	32,129	0	0	0	(1,154,423)	21,234

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Nine Months Ended September 30, 2021									
	Total realized and unrealized gains (losses)					Unrealized gains (losses) for assets still held(3)			
	Realized investment gains (losses), net(1)	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (loss)	Net investment income	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (loss)
	(in thousands)								
Fixed maturities, available-for-sale	\$ 152	\$ 0	\$ 0	\$ (14,678)	\$ 235	\$ 121	\$ 0	\$ 0	\$ (14,407)
Other assets:									
Fixed maturities, trading	0	46	0	0	0	0	46	0	0
Equity securities	0	593	0	0	0	0	593	0	0
Short-term investments	0	0	0	0	0	0	0	0	0
Cash equivalents	0	0	0	0	0	0	0	0	0
Other assets	0	0	0	0	0	0	0	0	0
Reinsurance recoverables	(12,892,808)	0	0	0	0	(524,521)	0	0	0
Separate account assets	0	0	0	0	0	0	0	0	0
Liabilities:									
Future policy benefits	4,848,168	0	0	0	0	4,365,984	0	0	0
Policyholders' account balances	(31,278)	0	0	0	0	21,234	0	0	0

- (1) Realized investment gains (losses) on future policy benefits and reinsurance recoverables primarily represent the change in the fair value of the Company's living benefit guarantees on certain of its variable annuity contracts.
- (2) For current year "Other" largely represent non-cash moves related to novated variable indexed annuities under the reinsurance agreement with FLIAC. See Note 6 for more details regarding these transactions. In addition, PHAB represents an out of period adjustment related to certain portions of reinsurance activity that had been incorrectly recorded on the balance sheet during the fourth quarter of 2021. Prior year represents non-cash transfers related to the 2021 Variable Annuities Recapture. Refer to Note 1 of the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, for more details.
- (3) Unrealized gains or losses related to assets still held at the end of the period do not include amortization or accretion of premiums and discounts.
- (4) Includes U.S. corporate private, foreign corporate public, foreign corporate private securities and foreign government bonds.
- (5) Includes asset-backed and commercial mortgage-backed securities.
- (6) Issuances and settlements for Policyholders' account balances are presented net in the rollforward.

Three Month Ended September 30,		Nine Month Ended September 30,	
2022	2021	2022	2021

September 30, 2022	December 31, 2021
(in thousands)	

September 30, 2022				
Fair Value				Carrying Amount(1)
Level 1	Level 2	Level 3	Total	Total
(in thousands)				

Liabilities:										
Policyholders' account balances - investment contracts	\$	0	\$	1,250,349	\$	2,813,665	\$	4,064,014	\$	4,086,739
Cash collateral for loaned securities		0		194,927		0		194,927		194,927
Long-term debt to affiliates		0		295,260		0		295,260		313,521
Payables to parent and affiliates		0		56,103		0		56,103		56,103
Other liabilities		0		982,334		33,250		1,015,584		1,015,584
Total liabilities	\$	0	\$	2,778,973	\$	2,846,915	\$	5,625,888	\$	5,666,874

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

December 31, 2021					
	Fair Value				Carrying Amount(1)
	Level 1	Level 2	Level 3	Total	Total
(in thousands)					
Assets:					
Commercial mortgage and other loans	\$ 0	\$ 0	\$ 2,883,710	\$ 2,883,710	\$ 2,832,560
Policy loans	0	0	1,327,485	1,327,485	1,327,485
Short-term investments	37,000	0	0	37,000	37,000
Cash and cash equivalents	297,299	185,000	0	482,299	482,299
Accrued investment income	0	160,027	0	160,027	160,027
Reinsurance recoverables	0	0	29,931	29,931	28,883
Receivables from parent and affiliates	0	116,086	0	116,086	116,086
Other assets	0	134,598	434,383	568,981	568,981
Total assets	<u>\$ 334,299</u>	<u>\$ 595,711</u>	<u>\$ 4,675,509</u>	<u>\$ 5,605,519</u>	<u>\$ 5,553,321</u>
Liabilities:					
Policyholders' account balances - investment contracts	\$ 0	\$ 1,356,850	\$ 2,590,487	\$ 3,947,337	\$ 3,941,822
Cash collateral for loaned securities	0	3,004	0	3,004	3,004
Long-term debt to affiliates	0	319,225	0	319,225	320,362
Payables to parent and affiliates	0	31,775	0	31,775	31,775
Other liabilities	0	864,788	34,091	898,879	898,879
Total liabilities	<u>\$ 0</u>	<u>\$ 2,575,642</u>	<u>\$ 2,624,578</u>	<u>\$ 5,200,220</u>	<u>\$ 5,195,842</u>

(1) Carrying values presented herein differ from those in the Company's Unaudited Interim Consolidated Statements of Financial Position because certain items within the respective financial statement captions are not considered financial instruments or out of scope under authoritative guidance relating to disclosures of the fair value of financial instruments.

6. REINSURANCE

The Company participates in reinsurance with its affiliates Prudential Arizona Reinsurance Captive Company ("PARCC"), Prudential Arizona Reinsurance Term Company ("PAR Term"), Prudential Arizona Reinsurance Universal Company ("PAR U"), Prudential Universal Reinsurance Company ("PURC"), Prudential Term Reinsurance Company ("Term Re"), Gibraltar Universal Life Reinsurance Company ("GUL Re"), Dryden Arizona Reinsurance Term Company ("DART"), Lotus Reinsurance Company Ltd. ("Lotus Re"), PALAC, a former subsidiary of Prudential Financial that was sold to Fortitude on April 1, 2022, which is discussed in Note 1, and Prudential Life Insurance Company of Taiwan Inc. ("Prudential of Taiwan"), a subsidiary of Prudential Financial that was sold to a third-party on June 30, 2021, as discussed below. As of July 1, 2021, the Company recaptured the risks related to its business that had been previously reinsured to PALAC as a result of the 2021 Variable Annuities Recapture, which is discussed below and in Note 1. The Company also participates in reinsurance with its parent company Prudential Insurance, as well as third parties. The reinsurance agreements provide risk diversification and additional capacity for future growth, limit the maximum net loss potential, manage statutory capital, and facilitate the Company's capital market hedging program. Life reinsurance is accomplished through various plans of reinsurance, primarily yearly renewable term and coinsurance. Reinsurance ceded arrangements do not discharge the Company as the primary insurer. Ceded balances would represent a liability of the Company in the event the reinsurers were unable to meet their obligations to the Company under the terms of the reinsurance agreements. The Company believes a material reinsurance liability resulting from such inability of reinsurers to meet their obligations is unlikely.

Reserves related to reinsured long-duration contracts are accounted for using assumptions consistent with those used to account for the underlying contracts. Amounts recoverable from reinsurers for long-duration reinsurance arrangements are estimated in a manner consistent with the claim liabilities and policy benefits associated with the reinsured policies. Reinsurance policy charges and fee income ceded for universal life and variable annuity products are accounted for as a reduction of policy charges and fee income. Reinsurance premiums ceded for term insurance products are accounted for as a reduction of premiums.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Reinsurance agreements that do not expose the Company to a reasonable possibility of a significant loss from insurance risk are recorded using the deposit method of accounting. The deposit assets on reinsurance are recorded within “Other assets” and the corresponding funds withheld liability for assets retained under these reinsurance agreements are recorded within “Other liabilities.” Balances associated with these agreements are included in the tables below.

Realized investment gains and losses include the impact of reinsurance agreements, particularly reinsurance agreements involving living benefit guarantees and index-linked features of certain annuity products. The Company has entered into reinsurance agreements to transfer the risk related to the living benefit guarantees on variable annuities to PALAC which was recaptured as part of the 2021 Variable Annuities Recapture, and the PLNJ business which was reinsured to Prudential Insurance. These reinsurance agreements are derivatives and have been accounted for in the same manner as embedded derivatives and the changes in the fair value of these derivatives are recognized through “Realized investment gains (losses), net”. See Note 4 for additional information related to the accounting for embedded derivatives.

Reinsurance amounts included in the Company’s Unaudited Interim Consolidated Statements of Financial Position as of September 30, 2022 and December 31, 2021 were as follows:

	September 30, 2022	December 31, 2021
	(in thousands)	
Reinsurance recoverables	\$ 35,398,214	\$ 38,598,767
Policy loans	(1,012,193)	(156,749)
Deferred policy acquisition costs	(3,212,823)	(2,575,232)
Deferred sales inducements	(34,396)	(37,905)
Other assets(1)	967,288	850,681
Policyholders’ account balances(1)	9,044,315	14,386,443
Future policy benefits	4,922,733	5,286,252
Other liabilities(1)	2,671,666	1,642,413

(1) Prior period has been reclassified to conform to the current period presentation to include reinsurance agreements using the deposit method of accounting.

Unaffiliated reinsurance amounts included in the table above and in the Company's Unaudited Interim Consolidated Statements of Financial Position were as follows:

	September 30, 2022	December 31, 2021(1)
	(in thousands)	
Deferred policy acquisition costs	\$ 484,567	\$ 0
Other assets	855,948	497,050
Policyholders’ account balances	4,645,231	0
Future policy benefits	0	9
Other liabilities	685,076	467,203

(1) Prior period has been reclassified to conform to the current period presentation.

The deposit assets on reinsurance totaled \$642 million and \$497 million at September 30, 2022 and December 31, 2021, respectively. The funds withheld liabilities totaled \$570 million and \$419 million at September 30, 2022 and December 31, 2021, respectively.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Reinsurance recoverables by counterparty are broken out below:

	September 30, 2022	December 31, 2021
	(in thousands)	
PAR U	\$ 13,012,849	\$ 13,523,832
PALAC(1)	0	7,198,504
PURC	5,726,187	5,830,441
PARCC	2,252,763	2,371,491
GUL Re	2,610,043	2,710,926
PAR Term	1,976,071	1,972,339
Prudential Insurance	1,252,406	2,082,551
Term Re	2,032,964	1,953,063
Lotus Re	2,083,169	32,039
DART	730,897	644,101
Unaffiliated(1)	3,720,865	279,480
Total reinsurance recoverables	<u>\$ 35,398,214</u>	<u>\$ 38,598,767</u>

(1) Due to the sale of PALAC on April 1, 2022 the reinsurance recoverable balance has become unaffiliated.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Reinsurance amounts, included in the Company's Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and nine months ended September 30, were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
(in thousands)				
Premiums:				
Direct	\$ 463,646	\$ 487,010	\$ 1,408,917	\$ 1,459,895
Assumed	(2,653)	41	(10,730)	125
Ceded	(397,639)	(435,514)	(1,203,167)	(1,319,216)
Net premiums	63,354	51,537	195,020	140,804
Policy charges and fee income:				
Direct	798,978	919,203	2,601,946	2,722,548
Assumed	153,387	146,257	465,580	432,907
Ceded	(513,584)	(455,359)	(1,811,371)	(2,213,289)
Net policy charges and fee income	438,781	610,101	1,256,155	942,166
Net investment income:				
Direct	226,827	180,642	617,818	377,942
Assumed	349	(55)	1,167	675
Ceded	(16,414)	(1,477)	(36,795)	(5,340)
Net investment income	210,762	179,110	582,190	373,277
Asset administration fees:				
Direct	84,959	101,105	271,071	296,542
Assumed	0	0	0	0
Ceded	(16,405)	(9,167)	(51,495)	(192,117)
Net asset administration fees	68,554	91,938	219,576	104,425
Other income (loss):				
Direct	(181,634)	24,609	(855,885)	66,286
Assumed	3,059	(6)	550	(66)
Ceded	(2,925)	35,687	(3,363)	35,793
Amortization of reinsurance income	17,799	1,119	55,377	3,270
Net Other income (loss)	(163,701)	61,409	(803,321)	105,283
Realized investment gains (losses), net:				
Direct	(4,646)	3,362,148	2,351,109	7,864,422
Assumed	122,365	0	(363,265)	0
Ceded	(93,761)	(8,370,760)	(465,070)	(12,918,928)
Realized investment gains (losses), net	23,958	(5,008,612)	1,522,774	(5,054,506)
Policyholders' benefits (including change in reserves):				
Direct	779,276	975,500	3,105,928	2,775,018
Assumed	267,428	222,418	1,267,705	639,927
Ceded	(924,565)	(811,915)	(3,873,624)	(2,856,953)
Net policyholders' benefits (including change in reserves)	122,139	386,003	500,009	557,992
Interest credited to policyholders' account balances:				
Direct	267,194	150,269	672,034	430,494
Assumed	(52,300)	30,540	49,803	95,658
Ceded	(109,724)	(485,215)	(330,197)	(726,988)
Net interest credited to policyholders' account balances	105,170	(304,406)	391,640	(200,836)
Reinsurance expense allowances and general and administrative expenses, net of capitalization and amortization	(107,471)	(1,398,529)	(323,553)	(2,159,809)

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Unaffiliated reinsurance assumed and ceded amounts included in the table above and in the Company's Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss) were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021(1)	2022	2021(1)
(in thousands)				
Premiums:				
Assumed	\$ (2,653)	\$ 41	\$ (16,061)	\$ 125
Ceded	(9,581)	(6,089)	(25,274)	(19,739)
Policy charges and fee income:				
Assumed	1,929	0	13,350	0
Ceded	(21,197)	(23,479)	(59,453)	(53,500)
Net investment income:				
Ceded	(4,122)	0	195	0
Other income (loss):				
Assumed	3,059	(8)	549	(68)
Realized investment gains (losses), net:				
Assumed	122,365	0	(159,281)	0
Ceded	(575)	(9,800)	(14,340)	(119,980)
Policyholders' benefits (including change in reserves):				
Assumed	587	154	1,941	420
Ceded	(15,441)	(37,674)	(53,029)	(169,169)
Interest credited to policyholders' account balances:				
Assumed	(83,933)	0	(86,713)	0

(1) Prior period has been reclassified to conform to the current period presentation.

The gross and net amounts of life insurance face amount in force as of September 30, 2022 and 2021 were as follows:

	2022	2021
	(in thousands)	
Direct gross life insurance face amount in force	\$ 1,089,504,288	\$ 1,071,060,317
Assumed gross life insurance face amount in force	36,865,826	38,117,216
Reinsurance ceded	(1,010,441,444)	(991,290,617)
Net life insurance face amount in force	<u>\$ 115,928,670</u>	<u>\$ 117,886,916</u>

Information regarding significant affiliated reinsurance agreements is described below.

PAR U

Pruco Life reinsures an amount equal to 70% of all the risks associated with Universal Protector policies having no-lapse guarantees as well as certain of its universal policies, with effective dates prior to January 1, 2011.

Effective July 1, 2012, PLNJ reinsures an amount equal to 95% of all the risks associated with Universal Protector policies having no-lapse guarantees as well as certain of its universal policies, with effective dates through December 31, 2019, excluding those policies that are subject to principle-based reserving.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

On January 2, 2013, Pruco Life began to assume Guaranteed Universal Life ("GUL") business from Prudential Insurance in connection with the acquisition of The Hartford Life Business. The GUL business assumed from Prudential Insurance was subsequently retroceded to PAR U.

PALAC

Effective April 1, 2016, the Company entered into a reinsurance agreement to reinsure its variable annuity base contracts, along with the living benefit guarantees to PALAC, excluding the PLNJ business, which was reinsured to Prudential Insurance. This reinsurance agreement covers new and in force business and excludes business reinsured externally. As of December 31, 2020, the Company discontinued the sales of traditional variable annuities with guaranteed living benefit riders. This discontinuation had no impact on the reinsurance agreement between PALAC, Prudential Insurance, and the Company.

Effective July 1, 2021, the Company recaptured the risks related to its business, as discussed above, that had previously been reinsured to PALAC from April 1, 2016 through June 30, 2021. The recapture does not impact PLNJ, which will continue to reinsure its new and in force business to Prudential Insurance. The product risks related to the previously reinsured business that were being managed in PALAC, were transferred to the Company. In addition, the living benefit hedging program related to the previously reinsured living benefit riders are being managed within the Company. See Note 1 for additional information.

On April 1, 2022, PALAC was sold to Fortitude as discussed in Note 1 and is no longer considered an affiliate of the Company.

PURC

Pruco Life reinsures an amount equal to 70% of all the risks associated with its Universal Protector policies having no-lapse guarantees as well as certain of its universal policies, with effective dates from January 1, 2011 through December 31, 2013, with PURC and 95% of all the risks associated with Universal Protector policies having no-lapse guarantees, as well as certain of its universal policies, with effective dates from January 1, 2014 through December 31, 2016.

PARCC

Prior to July 1, 2019, the Company reinsured 90% of the risks under its term life insurance policies, with effective dates prior to January 1, 2010 through an automatic coinsurance agreement with PARCC. Effective July 1, 2019, the Company amended the coinsurance agreement to increase the percentage from 90% to 100% of the policy risk amount reinsured. The amended agreement does not impact contracts issued by PLNJ, which remain at the original percentage.

GUL Re

Effective January 1, 2017, Pruco Life entered into an automatic coinsurance agreement with GUL Re to reinsure an amount equal to 95% of all the risks associated with Universal Protector policies having no-lapse guarantees, as well as certain of its universal policies, with effective dates on or after January 1, 2017 through December 31, 2019, excluding those policies that are subject to principle-based reserving.

Effective July 1, 2017, Pruco Life amended this agreement to include 30% of Universal Protector policies having no-lapse guarantees as well as certain of its universal policies with effective dates prior to January 1, 2014.

PAR Term

Prior to July 1, 2019, the Company reinsures 95% of the risks under its term life insurance policies with effective dates January 1, 2010 through December 31, 2013, through an automatic coinsurance agreement with PAR Term. Effective July 1, 2019, the Company amended the coinsurance agreement to increase the percentage from 95% to 100% of the policy risk amount reinsured. The amended agreement does not impact contracts issued by PLNJ, which remain at the original percentage.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Prudential of Taiwan

On January 31, 2001, Pruco Life transferred all of its assets and liabilities associated with its Taiwanese branch, including its Taiwanese insurance book of business, to Prudential of Taiwan. The mechanism used to transfer this block of business in Taiwan is referred to as a “full acquisition and assumption” transaction. Under this mechanism, Pruco Life is jointly liable with Prudential of Taiwan for two years from the giving of notice to all obligees for all matured obligations and for two years after the maturity date of not-yet-matured obligations. Prudential of Taiwan is also contractually liable, under indemnification provisions of the transaction, for any liabilities that may be asserted against Pruco Life.

The transfer of the insurance related assets and liabilities was accounted for as a long-duration coinsurance transaction under U.S. GAAP. Under this accounting treatment, the insurance related liabilities remained on the books of Pruco Life and an offsetting reinsurance recoverable was established. These assets and liabilities were denominated in U.S. dollars.

On August 11, 2020, Prudential International Insurance Holdings, Ltd. (“PIIH”), a subsidiary of Prudential Financial, entered into a Share Purchase Agreement with Taishin Financial Holding Co., Ltd. (the “Buyer”) pursuant to which PIIH has agreed to sell to the Buyer all of the issued and outstanding capital stock of Prudential of Taiwan. The Share Purchase Agreement contains customary warranties and covenants of PIIH and the Buyer. On June 30, 2021, PIIH completed the sale of Prudential of Taiwan to the Buyer. This resulted in the removal of the insurance related liabilities and offsetting reinsurance recoverables previously on the books of Pruco Life. The Buyer provided Pruco Life a backstop indemnification and Pruco Life provided a guarantee to stand ready to perform in the event of default by both Prudential of Taiwan and the Buyer. Refer to Note 10 for details on the guarantee.

Term Re

The Company reinsures 95% of the risks under its term life insurance policies, with effective dates on or after January 1, 2014 through December 31, 2017, through an automatic coinsurance agreement with Term Re.

Prudential Insurance

The Company has a yearly-renewable term (“YRT”) reinsurance agreement with Prudential Insurance and reinsures the majority of all mortality risks not otherwise reinsured. This agreement was terminated for new business effective January 1, 2020, with certain new business (primarily Universal Life policies) terminated as early as 2017. The Company now reinsures a portion of the mortality risk directly to third-party reinsurers and retains all of the non-reinsured portion of the mortality risk. Effective July 1, 2019, certain term life insurance policies were recaptured and subsequently reinsured to PARCC and PAR Term as noted above. As of January 1, 2022, most of the variable life insurance policies were recaptured resulting in a \$305 million loss recorded through “Policy charges and fee income.” Those policies were then reinsured to Lotus Re as mentioned below.

On January 2, 2013, Pruco Life began to assume GUL business from Prudential Insurance in connection with the acquisition of the Hartford Financial Services Group, Inc. (“Hartford Financial”). The GUL business assumed from Prudential Insurance was subsequently retroceded to PAR U. In May 2018, Hartford Financial sold a group of operating subsidiaries, which includes two of Prudential Insurance's counterparties to these reinsurance arrangements. There was no impact to the terms, rights or obligations of Prudential Insurance, or operation of these reinsurance arrangements, as a result of this change in control of such counterparties. Similarly, there was no impact to the Company's reinsurance arrangements with respect to such GUL business as a result of this change in control. In January 2021, there was a definitive agreement announced to subsequently sell the two counterparties mentioned above, which were then acquired by Sixth Street in July 2021. There was no impact to the terms, rights or obligations of the Company, or operation of these reinsurance arrangements, as a result of this change in control of such counterparties.

The Company has reinsured a group annuity contract with Prudential Insurance, in consideration for a single premium payment by the Company, providing reinsurance equal to 100% of all payments due under the contract.

Effective April 1, 2016, PLNJ entered into a reinsurance agreement to reinsure its variable annuity base contracts, along with the living benefit guarantees to Prudential Insurance. This reinsurance agreement covers new and in force business.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Lotus Re

Effective October 1, 2021, the Company entered into an automatic coinsurance agreement with Lotus Re to reinsure \$32 million worth of liabilities associated with the risks associated with a portion of its Variable Life policies in the extended term policy status.

Effective January 1, 2022 the Company recaptured the risks that were previously ceded to Lotus Re from October 1, 2021 through December 31, 2021. Immediately thereafter, the Company entered into a reinsurance agreement with Lotus Re to cede 100% of the risks associated with a closed block of Variable Life business on a coinsurance and modified coinsurance basis including policies in the extended term policy status. The amount of the net liabilities associated with the transaction for coinsurance and modified coinsurance were \$1,381 million and \$14,037 million, respectively. As part of the consideration, the Company also ceded to Lotus Re \$855 million of policy loan assets associated with the reinsured policies while receiving \$820 million in cash from Lotus Re. As a result, the Company recorded a \$1,346 million deferred gain, which will be recognized over the remaining life of the underlying policies. In tandem with the transaction, effective January 1, 2022, Lotus Re established an automatic YRT agreement with the Company to cede back a portion of the mortality risks associated with the reinsured policies for the purposes of the Company maintaining YRT reinsurance with external counterparties.

DART

Effective January 1, 2018, the Company entered into an automatic coinsurance agreement with DART to reinsure an amount equal to 95% of the risks associated with its term life insurance policies with effective dates on or after January 1, 2018 through December 31, 2019, excluding those policies that are subject to principle-based reserving.

Information regarding significant third-party reinsurance arrangements is described below.

FLIAC

Effective December 1, 2021, the Company entered into a reinsurance agreement with FLIAC under which the Company assumed all of its variable indexed annuities. The reinsurance of the variable indexed annuities transfers all significant risks, including mortality risk, embedded in the reinsured contracts. As a result of the agreement, Reinsurance recoverables includes the assumed modified coinsurance arrangement, which reflects the value of the invested assets retained by FLIAC and the associated asset returns. The Company also assumed all of FLIAC's fixed indexed annuities and fixed annuities with a guaranteed lifetime withdrawal income feature which are accounted for under deposit accounting. The reinsurance agreement offers the policyholders the opportunity to novate their contracts from FLIAC to the Company and any such novated contracts shall cease to be reinsured contracts under this reinsurance agreement. As of September 30, 2022, the total account value of contracts novated from FLIAC to the Company were \$4.3 billion for variable indexed annuities contracts and \$1.6 billion for fixed annuities and fixed indexed annuities contracts, which is approximately 63% of the total reinsured block.

Union Hamilton

Between April 1, 2015 and December 31, 2016, the Company, excluding its subsidiary, reinsured approximately 50% of the new business related to "highest daily" living benefits rider guarantees on HDI v.3.0 product, available with Prudential Premier® Retirement Variable Annuity, to Union Hamilton Reinsurance Ltd. ("Union Hamilton"). This reinsurance remains in force for the duration of the underlying annuity contracts. New sales of HDI v.3.0 subsequent to December 31, 2016 are not covered by this external reinsurance agreement. As of September 30, 2022, \$2.4 billion of HDI v.3.0 account values are reinsured to Union Hamilton.

7. INCOME TAXES

The Company uses a full year projected effective tax rate approach to calculate year-to-date taxes. In determining the full year projected tax rate, the Company considers the realizability of deferred tax assets, including those associated with unrealized investment losses, and has determined based upon the weight of available evidence that no valuation allowance is necessary related to unrealized investment losses. In addition, certain items impacting total income tax expense are recorded in the periods in which they occur. The projected effective tax rate is the ratio of projected "Income tax expense (benefit)" divided by projected "Income (loss) from operations before income taxes and equity in earnings of operating joint venture." Taxes attributable to operating joint ventures are recorded within "Equity in earnings of operating joint ventures, net of taxes." The interim period tax expense (or benefit) is the difference between the year-to-date income tax provision and the amounts reported for the previous interim periods of the fiscal year.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The Company's income tax provision, on a consolidated basis, amounted to an income tax expense of \$69.1 million, or 12.48% of income (loss) from operations before income taxes and equity in earnings of operating joint venture, in the first nine months of 2022, compared to an income tax benefit of \$(782.3) million, or 24.73%, in the first nine months of 2021. The Company's current and prior effective tax rates differed from the U.S. statutory tax rate of 21% primarily due to non-taxable investment income and tax credits.

Regulatory Developments

Inflation Reduction Act. On August 16, 2022, President Biden signed into law the Inflation Reduction Act of 2022 (the "Inflation Reduction Act"). One of the most significant provisions of the Inflation Reduction Act is a 15% book-income alternative minimum tax on corporations with average applicable financial statement income over \$1 billion for any 3-year period ending with 2022 or later. This provision is effective in taxable years beginning after December 31, 2022, and therefore does not impact the Company's current effective tax rate. The impact of the book-income alternative minimum tax, if any, will vary from year to year based on the relationship of our book-income to our taxable income.

8. EQUITY

Accumulated Other Comprehensive Income (Loss)

AOCI represents the cumulative OCI items that are reported separate from net income and detailed on the Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss). The balance of and changes in each component of AOCI as of and for the nine months ended September 30, 2022 and 2021, are as follows:

	Accumulated Other Comprehensive Income (Loss)		
	Foreign Currency Translation Adjustment	Net Unrealized Investment Gains (Losses)(1)	Total Accumulated Other Comprehensive Income (Loss)
	(in thousands)		
Balance, December 31, 2021	\$ (11,274)	\$ 358,709	\$ 347,435
Change in OCI before reclassifications	(11,519)	(2,719,993)	(2,731,512)
Amounts reclassified from AOCI	0	(55,886)	(55,886)
Income tax benefit (expense)	1,357	582,757	584,114
Balance, September 30, 2022	<u>\$ (21,436)</u>	<u>\$ (1,834,413)</u>	<u>\$ (1,855,849)</u>

	Accumulated Other Comprehensive Income (Loss)		
	Foreign Currency Translation Adjustment	Net Unrealized Investment Gains (Losses)(1)	Total Accumulated Other Comprehensive Income (Loss)
	(in thousands)		
Balance, December 31, 2020	\$ (7,797)	\$ 553,925	\$ 546,128
Change in OCI before reclassifications	(3,904)	(181,041)	(184,945)
Amounts reclassified from AOCI	0	(23,861)	(23,861)
Income tax benefit (expense)	313	43,029	43,342
Balance, September 30, 2021	<u>\$ (11,388)</u>	<u>\$ 392,052</u>	<u>\$ 380,664</u>

(1) Includes cash flow hedges of \$228 million and \$40 million as of September 30, 2022 and December 31, 2021, respectively, and \$32 million and \$(8) million as of September 30, 2021 and December 31, 2020, respectively.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Reclassifications out of Accumulated Other Comprehensive Income (Loss)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
(in thousands)				
<u>Amounts reclassified from AOCI (1)(2):</u>				
Net unrealized investment gains (losses):				
Cash flow hedges - Currency/Interest rate(3)	\$ 68,800	\$ 16,205	\$ 125,212	\$ 22,047
Net unrealized investment gains (losses) on available-for-sale securities	(5,888)	3,183	(69,326)	1,814
Total net unrealized investment gains (losses)(4)	62,912	19,388	55,886	23,861
Total reclassifications for the period	\$ 62,912	\$ 19,388	\$ 55,886	\$ 23,861

(1) All amounts are shown before tax.

(2) Positive amounts indicate gains/benefits reclassified out of AOCI. Negative amounts indicate losses/costs reclassified out of AOCI.

(3) See Note 4 for additional information on cash flow hedges.

(4) See table below for additional information on unrealized investment gains (losses), including the impact on DAC and other costs, future policy benefits, policyholders' account balances and other liabilities.

Net Unrealized Investment Gains (Losses)

Net unrealized investment gains (losses) on available-for-sale fixed maturity securities and certain other invested assets and other assets are included in the Company's Unaudited Interim Consolidated Statements of Financial Position as a component of AOCI. Changes in these amounts include reclassification adjustments to exclude from OCI those items that are included as part of "Net income" for a period that had been part of OCI in earlier periods. The amounts for the periods indicated below, split between amounts related to net unrealized investment gains (losses) on available-for-sale fixed maturity securities on which an allowance for credit losses has been recognized, and all other net unrealized investment gains (losses), are as follows:

	Net Unrealized Gains (Losses) on Investments on Available-for-Sale Fixed Maturity Securities on which an allowance for credit losses has been recorded	Net Unrealized Gains (Losses) on All Other Investments(1)	DAC and Other Costs(2)	Future Policy Benefits, Policyholders' Account Balances and Other Liabilities(3)	Income Tax Benefit (Expense)	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
(in thousands)						
Balance, December 31, 2021	\$ 3,685	\$ 582,704	\$ 983,085	\$ (1,115,484)	\$ (95,281)	\$ 358,709
Net investment gains (losses) on investments arising during the period	4	(3,098,309)	0	0	650,446	(2,447,859)
Reclassification adjustment for (gains) losses included in net income	684	(56,570)	0	0	11,732	(44,154)
Reclassification due to allowance for credit losses recorded during the period	4	(4)	0	0	0	0
Impact of net unrealized investment (gains) losses	0	0	(2,499,252)	2,877,564	(79,421)	298,891
Balance, September 30, 2022	\$ 4,377	\$ (2,572,179)	\$ (1,516,167)	\$ 1,762,080	\$ 487,476	\$ (1,834,413)

(1) Includes cash flow hedges. See Note 4 for information on cash flow hedges.

(2) "Other costs" primarily includes reinsurance recoverables and deferred reinsurance losses.

(3) "Other liabilities" primarily includes reinsurance payables.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

9. RELATED PARTY TRANSACTIONS

The Company has extensive transactions and relationships with Prudential Insurance and other affiliates. Although we seek to ensure that these transactions and relationships are fair and reasonable, it is possible that the terms of these transactions are not the same as those that would result from transactions among unrelated parties.

Expense Charges and Allocations

The majority of the Company's expenses are allocations or charges from Prudential Insurance or other affiliates. These expenses can be grouped into general and administrative expenses and agency distribution expenses.

The Company's general and administrative expenses are charged to the Company using allocation methodologies based on business production processes. Management believes that the methodology is reasonable and reflects costs incurred by Prudential Insurance to process transactions on behalf of the Company. The Company operates under service and lease agreements whereby services of officers and employees, supplies, use of equipment and office space are provided by Prudential Insurance. The Company reviews its allocation methodology periodically which it may adjust accordingly. General and administrative expenses include allocations of stock compensation expenses related to a stock-based awards program and a deferred compensation program issued by Prudential Financial. The expense charged to the Company for the stock-based awards program was \$0.3 million and \$0.0 million for the three months ended September 30, 2022 and 2021, respectively, and \$0.8 million and \$0.4 million for the nine months ended September 30, 2022 and 2021, respectively. The expense charged to the Company for the deferred compensation program was \$0.7 million and \$0.6 million for the three months ended September 30, 2022 and 2021, respectively, and \$3.9 million and \$2.9 million for the nine months ended September 30, 2022 and 2021, respectively.

The Company is charged for its share of employee benefit expenses. These expenses include costs for funded and non-funded, non-contributory defined benefit pension plans. Some of these benefits are based on final earnings and length of service while others are based on an account balance, which takes into consideration age, service and earnings during a career. The Company's share of net expense for the pension plans was \$4 million and \$2 million for the three months ended September 30, 2022 and 2021, respectively, and \$14 million and \$8 million for the nine months ended September 30, 2022 and 2021, respectively.

The Company is also charged for its share of the costs associated with welfare plans issued by Prudential Insurance. These expenses include costs related to medical, dental, life insurance and disability. The Company's share of net expense for the welfare plans was \$4 million and \$3 million for the three months ended September 30, 2022 and 2021, respectively, and \$11 million and \$9 million for the nine months ended September 30, 2022 and 2021, respectively.

Prudential Insurance sponsors voluntary savings plans for its employee 401(k) plans. The plans provide for salary reduction contributions by employees and matching contributions by the Company of up to 4% of annual salary. The Company's expense for its share of the voluntary savings plan was \$3 million and \$1 million for the three months ended September 30, 2022 and 2021, respectively, and \$7 million and \$3 million for the nine months ended September 30, 2022 and 2021, respectively.

The Company is charged distribution expenses from Prudential Insurance's agency network for both its domestic life and annuity products through a transfer pricing agreement, which is intended to reflect a market-based pricing arrangement.

The Company pays commissions and certain other fees to Prudential Annuities Distributors, Inc. ("PAD") in consideration for PAD's marketing and underwriting of the Company's annuity products. Commissions and fees are paid by PAD to broker-dealers who sell the Company's annuity products. Commissions and fees paid by the Company to PAD were \$139 million and \$98 million for the three months ended September 30, 2022 and 2021, respectively, and \$471 million and \$291 million for the nine months ended September 30, 2022 and 2021, respectively.

The Company is charged for its share of corporate expenses incurred by Prudential Financial to benefit its businesses, such as advertising, executive oversight, external affairs and philanthropic activity. The Company's share of corporate expenses was \$24 million and \$17 million for the three months ended September 30, 2022 and 2021, respectively, and \$58 million and \$49 million for the nine months ended September 30, 2022 and 2021, respectively.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Corporate-Owned Life Insurance

The Company has sold five Corporate-Owned Life Insurance (“COLI”) policies to Prudential Insurance, and one to Prudential Financial. The cash surrender value included in separate accounts for these COLI policies was \$4,322 million at September 30, 2022 and \$5,248 million at December 31, 2021. Fees related to these COLI policies were \$13 million and \$15 million for the three months ended September 30, 2022 and 2021, respectively, and \$40 million and \$42 million for the nine months ended September 30, 2022 and 2021, respectively. The Company reinsures the risk associated with these COLI policies to an affiliate reinsurer as part of a broader program related to variable insurance policies.

Affiliated Investment Management Expenses

In accordance with an agreement with PGIM, Inc. (“PGIM”), the Company pays investment management expenses to PGIM who acts as investment manager to certain Company general account and separate account assets. Investment management expenses paid to PGIM related to this agreement were \$11 million and \$6 million for the three months ended September 30, 2022 and 2021, respectively, and \$29 million and \$13 million for the nine months ended September 30, 2022 and 2021, respectively. These expenses are recorded as “Net investment income” in the Company's Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss).

Derivative Trades

In its ordinary course of business, the Company enters into OTC derivative contracts with an affiliate, PGF. For these OTC derivative contracts, PGF has a substantially equal and offsetting position with an external counterparty. See Note 4 for additional information.

Joint Ventures

The Company has made investments in joint ventures with certain subsidiaries of Prudential Financial. “Other invested assets” includes \$563 million and \$466 million as of September 30, 2022 and December 31, 2021, respectively. “Net investment income” related to these ventures includes gains of \$2 million and \$20 million for the three months ended September 30, 2022 and 2021, respectively, and gains of \$21 million and \$27 million for the nine months ended September 30, 2022 and 2021, respectively.

Affiliated Asset Administration Fee Income

The Company has a revenue sharing agreement with AST Investment Services, Inc. (“ASTISI”) and PGIM Investments LLC (“PGIM Investments”) whereby the Company receives fee income based on policyholders' separate account balances invested in the Advanced Series Trust. Income received from ASTISI and PGIM Investments related to this agreement was \$74 million and \$95 million for the three months ended September 30, 2022 and 2021, respectively, and \$237 million and \$280 million for the nine months ended September 30, 2022 and 2021, respectively. These revenues are recorded as “Asset administration fees” in the Company's Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss).

The Company has a revenue sharing agreement with PGIM Investments, whereby the Company receives fee income based on policyholders' separate account balances invested in The Prudential Series Fund. Income received from PGIM Investments related to this agreement was \$9 million and \$4 million for the three months ended September 30, 2022 and 2021, respectively, and \$28 million and \$11 million for the nine months ended September 30, 2022 and 2021, respectively. These revenues are recorded as “Asset administration fees” in the Company's Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss).

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Affiliated Notes Receivable

Affiliated notes receivable included in “Receivables from parent and affiliates” at September 30, 2022 and December 31, 2021 were as follows:

	Maturity Dates		Interest Rates			September 30, 2022	December 31, 2021
						(in thousands)	
U.S. dollar fixed rate notes	2022	- 2027	0.00%	- 14.85 %	\$	147,896	\$ 162,045
Total notes receivable - affiliated(1)						<u>\$ 147,896</u>	<u>\$ 162,045</u>

(1) All notes receivable may be called for prepayment prior to the respective maturity dates under specified circumstances.

The affiliated notes receivable shown above are classified as available-for-sale securities and other trading assets carried at fair value. The Company monitors the internal and external credit ratings of these loans and loan performance. The Company also considers any guarantees made by Prudential Insurance for loans due from affiliates.

Accrued interest receivable related to these loans was \$1 million at both September 30, 2022 and December 31, 2021, and is included in “Other assets”. Revenues related to these loans were \$1 million for both the three months ended September 30, 2022 and 2021, and \$3 million for both the nine months ended September 30, 2022 and 2021, and are included in “Other income (loss)”.

Affiliated Commercial Mortgage Loan

The affiliated commercial mortgage loan included in "Commercial mortgage and other loans" at September 30, 2022 and December 31, 2021 were as follows:

	Maturity Date	Interest Rate		September 30, 2022	December 31, 2021
				(in thousands)	
Affiliated Commercial Mortgage Loan	2025	7.13 %	\$	72,522	\$ 73,412

This affiliated commercial mortgage loan was transferred from PALAC as part of the 2021 Variable Annuities Recapture. See Note 1 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, for more details.

The commercial mortgage loan shown above is carried at unpaid principal balance, net of unamortized deferred loan origination fees and expenses, and net of an allowance for losses. The Company reviews the performance and credit quality of the commercial mortgage loan on an on-going basis.

Accrued interest receivable related to the loan was \$0.4 million and \$0.3 million at September 30, 2022 and December 31, 2021, respectively, and is included in "Accrued investment income". Revenues were \$1 million for both the three months ended September 30, 2022 and 2021, and \$3 million and \$1 million for the nine months ended September 30, 2022, and 2021, respectively and are included in "Net investment income".

Affiliated Asset Transfers

The Company participates in affiliated asset trades with parent and sister companies. Book and market value differences for trades with a parent and sister are recognized within "Additional paid-in capital" (“APIC”) and "Realized investment gains (losses), net", respectively. The table below shows affiliated asset trades for the nine months ended September 30, 2022 and for the year ended December 31, 2021, excluding those related to the 2021 Variable Annuities Recapture effective July 1, 2021, as described in Note 1 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Affiliate	Date	Transaction	Security Type	Fair Value	Book Value	APIC, Net of Tax Increase/(Decrease)	Realized Investment Gain (Loss)
(in thousands)							
PALAC	June 2021	Purchase	Equities	\$ 40,284	\$ 40,284	\$ 0	\$ 0
Prudential Insurance	September 2021	Purchase	Fixed Maturities	\$ 64,374	\$ 59,642	\$ (3,739)	\$ 0
Prudential Insurance	September 2021	Sale	Fixed Maturities	\$ 37,887	\$ 35,264	\$ 2,073	\$ 0
Hirakata LLC	September 2021	Purchase	Fixed Maturities	\$ 13,944	\$ 13,944	\$ 0	\$ 0
Prudential Retirement Insurance & Annuity Co	September 2021	Purchase	Fixed Maturities	\$ 120,256	\$ 120,256	\$ 0	\$ 0
Prudential Retirement Insurance & Annuity Co	September 2021	Sale	Fixed Maturities	\$ 173,590	\$ 166,427	\$ 0	\$ 7,163
Prudential Insurance	September 2021	Purchase	Commercial Mortgage and Other Loans	\$ 45,358	\$ 42,127	\$ (2,553)	\$ 0
Prudential Insurance	September 2021	Sale	Commercial Mortgage and Other Loans	\$ 22,796	\$ 21,780	\$ 802	\$ 0
Prudential Retirement Insurance & Annuity Co	September 2021	Purchase	Commercial Mortgage and Other Loans	\$ 29,483	\$ 29,483	\$ 0	\$ 0
Prudential Retirement Insurance & Annuity Co	September 2021	Sale	Commercial Mortgage and Other Loans	\$ 51,005	\$ 47,020	\$ 0	\$ 3,985
Prudential Insurance	September 2021	Purchase	Derivatives	\$ 600	\$ 494	\$ (84)	\$ 0
Prudential Insurance	September 2021	Sale	Derivatives	\$ 335	\$ 175	\$ 127	\$ 0
Prudential Retirement Insurance & Annuity Co	September 2021	Purchase	Derivatives	\$ (1,243)	\$ (1,243)	\$ 0	\$ 0
Prudential Retirement Insurance & Annuity Co	September 2021	Sale	Derivatives	\$ 2,846	\$ 770	\$ 0	\$ 2,076
PAR U	November 2021	Purchase	Fixed Maturities	\$ 41,021	\$ 41,021	\$ 0	\$ 0
PALAC	November 2021	Purchase	Derivatives	\$ 1,112	\$ 1,112	\$ 0	\$ 0
PALAC	December 2021	Transfer In	Fixed Maturities	\$ 2,037,320	\$ 2,037,320	\$ 0	\$ 0
PURC	December 2021	Purchase	Fixed Maturities	\$ 48,041	\$ 48,041	\$ 0	\$ 0
PALAC	December 2021	Purchase	Fixed Maturities	\$ 57,087	\$ 57,087	\$ 0	\$ 0

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

PALAC	December 2021	Transfer In	Commercial Mortgage and Other Loans	\$	517,309	\$	517,309	\$	0	\$	0
Prudential Insurance	December 2021	Contributed Capital	Fixed Maturities	\$	166,676	\$	166,676	\$	0	\$	0
Prudential Retirement Insurance & Annuity Co	December 2021	Sale	Derivatives	\$	31,567	\$	0	\$	0	\$	31,567
Prudential Retirement Insurance & Annuity Co	December 2021	Purchase	Derivatives	\$	73,572	\$	73,572	\$	0	\$	0
PALAC	December 2021	Purchase	Derivatives	\$	8,455	\$	8,455	\$	0	\$	0
PALAC	January 2022	Purchase	Fixed Maturities	\$	4,432	\$	4,432	\$	0	\$	0
PALAC	January 2022	Purchase	Derivatives	\$	404	\$	404	\$	0	\$	0
PALAC	February 2022	Purchase	Fixed Maturities	\$	128,909	\$	128,909	\$	0	\$	0
PAR U	April 2022	Purchase	Fixed Maturities	\$	48,970	\$	48,970	\$	0	\$	0
Prudential Insurance	May 2022	Purchase	Fixed Maturities	\$	233,426	\$	241,128	\$	6,085	\$	0
Prudential Insurance	June 2022	Purchase	Fixed Maturities	\$	88,754	\$	81,216	\$	(5,955)	\$	0
Prudential Insurance	June 2022	Transfer In	Fixed Maturities	\$	52,089	\$	45,031	\$	(5,577)	\$	0
Prudential Insurance	June 2022	Transfer Out	Fixed Maturities	\$	48,786	\$	58,984	\$	(8,057)	\$	0
PAR U	June 2022	Purchase	Commercial Mortgage and Other Loans	\$	6,492	\$	6,492	\$	0	\$	0
PAR U	June 2022	Sale	Commercial Mortgage and Other Loans	\$	14,853	\$	15,725	\$	0	\$	(872)
GUL Re	June 2022	Purchase	Commercial Mortgage and Other Loans	\$	13,551	\$	13,551	\$	0	\$	0
GUL Re	June 2022	Sale	Commercial Mortgage and Other Loans	\$	8,692	\$	9,033	\$	0	\$	(341)

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

PURC	June 2022	Purchase	Commercial Mortgage and Other Loans	\$	4,403	\$	4,403	\$	0	\$	0
Prudential Insurance	July 2022	Transfer In	Fixed Maturities	\$	6,319	\$	7,230	\$	719	\$	0
Prudential Arizona Reinsurance Captive Co.	July 2022	Purchase	Fixed Maturities	\$	16,284	\$	16,284	\$	0	\$	0
Prudential Insurance	August 2022	Purchase	Fixed Maturities	\$	155,823	\$	139,712	\$	(12,728)	\$	0
Vantage Casualty Insurance Co	September 2022	Purchase	Fixed Maturities	\$	3,497	\$	3,497	\$	0	\$	0

Debt Agreements

The Company is authorized to borrow funds up to \$2.2 billion from affiliates to meet its capital and other funding needs. The following table provides the breakout of the Company's long-term debt to affiliates as of September 30, 2022 and December 31, 2021:

Affiliate	Date Issued	Amount of Notes - September 30, 2022	Amount of Notes - December 31, 2021	Interest Rate	Date of Maturity
(in thousands)					
Prudential Insurance	8/13/2021	\$ 97,445	\$ 99,770	4.39 %	12/15/2023
Prudential Insurance	8/13/2021	29,233	29,931	4.39 %	12/15/2023
Prudential Insurance	8/13/2021	98,338	100,348	3.95 %	6/20/2024
Prudential Insurance	8/13/2021	39,335	40,139	3.95 %	6/20/2024
Prudential Insurance	8/13/2021	49,169	50,174	3.95 %	6/20/2024
Total Loans Payable to Affiliates		<u>\$ 313,520</u>	<u>\$ 320,362</u>		

Effective August 2021, the affiliated long-term debt was transferred to the Company from PALAC based on the market value of \$324 million. The Company recorded a premium of \$24 million which is amortized into earnings over the life of the loans.

The total interest expense to the Company related to affiliated loans and cash collateral with PGF was \$(32) million and \$0.2 million for the three months ended September 30, 2022 and 2021, respectively, and \$(37) million and \$0.2 million for the nine months ended September 30, 2022 and 2021, respectively.

Contributed Capital and Dividends

In March, June and September 2022, the Company received a capital contribution in the amount of \$8 million, \$3 million and \$7 million, respectively, from Prudential Insurance. In January, July and December of 2021, the Company received capital contributions in the amount of \$106 million, \$3,813 million and \$457 million, respectively, from Prudential Insurance. The December 2021 capital contribution includes \$167 million of invested assets related to the Reinsurance Agreement with PALAC.

In June 2021, there was a \$34 million return of capital to Prudential Insurance associated with the financial guarantee related to the sale of Prudential of Taiwan.

In 2021 and through September 2022, the Company did not pay any dividends to Prudential Insurance.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Reinsurance with Affiliates

As discussed in Note 6, the Company participates in reinsurance transactions with certain affiliates.

10. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

The Company has made commitments to fund commercial mortgage loans. As of September 30, 2022 and December 31, 2021, the outstanding balances on these commitments were \$392 million and \$121 million, respectively. These amounts include unfunded commitments that are not unconditionally cancellable. For related credit exposure, there was an allowance for credit losses of \$0.0 million as of both September 30, 2022 and December 31, 2021. There was a change in allowance of \$0.0 million for both the three and nine months ended September 30, 2022 and 2021. The Company also made commitments to purchase or fund investments, mostly private fixed maturities. As of September 30, 2022 and December 31, 2021, \$580 million and \$753 million, respectively, of these commitments were outstanding. These amounts include unfunded commitments that are not unconditionally cancellable. There were no related charges for credit losses for either the three or nine months ended September 30, 2022 or 2021.

Guarantees

In July 2017, the Company formed a joint venture with CT Corp to provide life insurance solutions in Indonesia. The Company owns a 49% interest in the joint venture and has entered into a shareholders agreement with CT Corp that sets out their respective rights and obligations with respect to the joint venture. Among other things, the shareholders agreement obligates the Company and CT Corp to provide capital to the joint venture, as necessary to comply with applicable law or to maintain a specified minimum amount of capital in the joint venture. This obligation is not limited to a maximum amount. The Company does not expect to make any payments on this guarantee and is not carrying any liabilities associated with the guarantee.

Since 2001, the Company entered into an arrangement with Prudential of Taiwan as discussed in Note 6. In June 2021, PIIH completed the sale of Prudential of Taiwan. As a result of the sale, the Company has a financial guarantee to stand ready to perform in an event that both Prudential of Taiwan and the Buyer default and fail to perform their obligations to make payments to the policyholders. The Company has a liability of \$33 million as of September 30, 2022 and had a liability of \$34 million as of December 31, 2021, which represents the fair value of the guarantee and is amortized in revenue over a period which approximates the life of the underlying insurance in force. Since this obligation is not subject to limitations, it is not possible to determine the maximum potential amount due under this guarantee.

Contingent Liabilities

On an ongoing basis, the Company and its regulators review its operations including, but not limited to, sales and other customer interface procedures and practices, and procedures for meeting obligations to its customers and other parties. These reviews may result in the modification or enhancement of processes or the imposition of other action plans, including concerning management oversight, sales and other customer interface procedures and practices, and the timing or computation of payments to customers and other parties. In certain cases, if appropriate, the Company may offer customers or other parties remediation and may incur charges, including the cost of such remediation, administrative costs and regulatory fines.

The Company is subject to the laws and regulations of states and other jurisdictions concerning the identification, reporting and escheatment of unclaimed or abandoned funds, and is subject to audit and examination for compliance with these requirements.

It is possible that the results of operations or the cash flows of the Company in a particular quarterly or annual period could be materially affected as a result of payments in connection with the matters discussed above or other matters depending, in part, upon the results of operations or cash flows for such period. Management believes, however, that ultimate payments in connection with these matters, after consideration of applicable reserves and rights to indemnification, should not have a material adverse effect on the Company's financial position.

PRUCO LIFE INSURANCE COMPANY
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Litigation and Regulatory Matters

The Company is subject to legal and regulatory actions in the ordinary course of its business. Pending legal and regulatory actions include proceedings specific to the Company and proceedings generally applicable to business practices in the industry in which it operates. The Company is subject to class action lawsuits and other litigation involving a variety of issues and allegations involving sales practices, claims payments and procedures, premium charges, policy servicing and breach of fiduciary duty to customers. The Company is also subject to litigation arising out of its general business activities, such as its investments, contracts, leases and labor and employment relationships, including claims of discrimination and harassment, and could be exposed to claims or litigation concerning certain business or process patents. In addition, the Company, along with other participants in the businesses in which it engages, may be subject from time to time to investigations, examinations and inquiries, in some cases industry-wide, concerning issues or matters upon which such regulators have determined to focus. In some of the Company's pending legal and regulatory actions, parties are seeking large and/or indeterminate amounts, including punitive or exemplary damages. The outcome of litigation or a regulatory matter, and the amount or range of potential loss at any particular time, is often inherently uncertain.

The Company establishes accruals for litigation and regulatory matters when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. For litigation and regulatory matters where a loss may be reasonably possible, but not probable, or is probable but not reasonably estimable, no accrual is established, but the matter, if material, is disclosed. The Company estimates that as of September 30, 2022, the aggregate range of reasonably possible losses in excess of accruals established for those litigation and regulatory matters for which such an estimate currently can be made is less than \$100 million. This estimate is not an indication of expected loss, if any, or the Company's maximum possible loss exposure on such matters. The Company reviews relevant information with respect to its litigation and regulatory matters on a quarterly and annual basis and updates its accruals, disclosures and estimates of reasonably possible loss based on such reviews.

The following discussion of litigation and regulatory matters provides an update of those matters discussed in Note 14 to the Company's Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, and should be read in conjunction with the complete descriptions provided in the Form 10-K.

There are no material developments in previously reported matters disclosed as of December 31, 2021.

Summary

The Company's litigation and regulatory matters are subject to many uncertainties, and given their complexity and scope, their outcome cannot be predicted. It is possible that the Company's results of operations or cash flows in a particular quarterly or annual period could be materially affected by an ultimate unfavorable resolution of pending litigation and regulatory matters depending, in part, upon the results of operations or cash flows for such period. In light of the unpredictability of the Company's litigation and regulatory matters, it is also possible that in certain cases an ultimate unfavorable resolution of one or more pending litigation or regulatory matters could have a material adverse effect on the Company's financial statements. Management believes, however, that, based on information currently known to it, the ultimate outcome of all pending litigation and regulatory matters, after consideration of applicable reserves and rights to indemnification, is not likely to have a material adverse effect on the Company's financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") addresses the consolidated financial condition of Pruco Life Insurance Company, or the "Company," as of September 30, 2022, compared with December 31, 2021, and its consolidated results of operations for the three and nine months ended September 30, 2022 and 2021. You should read the following analysis of our consolidated financial condition and results of operations in conjunction with the MD&A, the "Risk Factors" section, and the audited Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, as well as the statements under "Forward-Looking Statements", and the Unaudited Interim Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.

Overview

The Company sells variable annuities, universal life insurance, variable life insurance and term life insurance primarily through affiliated and unaffiliated distributors in the United States. As of December 31, 2020, the Company discontinued the sales of traditional variable annuities with guaranteed living benefit riders.

Effective April 1, 2022, Prudential Financial completed the sale of Prudential Annuities Life Assurance Corporation ("PALAC") to Fortitude Group Holdings, LLC ("Fortitude"). As such, PALAC is no longer an affiliate of Prudential Financial or the Company. Fortitude subsequently renamed the company Fortitude Life Insurance & Annuity Company ("FLIAC").

Effective July 1, 2021, the Company recaptured the risks related to its variable annuity base contracts, along with the living benefit guarantees, that had previously been reinsured to PALAC from April 1, 2016 through June 30, 2021, subsequently renamed FLIAC. The recapture does not impact Pruco Life Insurance Company of New Jersey ("PLNJ"), which will continue to reinsure its new and in force business to The Prudential Insurance Company of America ("Prudential Insurance"). The product risks related to the previously reinsured business that were being managed in PALAC, were transferred to the Company. In addition, the living benefit hedging program related to the previously reinsured living benefit riders are being managed within the Company. This transaction is referred to as the "2021 Variable Annuities Recapture". For more information on this transition, see Note 1 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, for more details.

Effective December 1, 2021, the Company entered into a reinsurance agreement with FLIAC (previously named PALAC) under which the Company assumed all of its variable and fixed indexed annuities and fixed annuities with a guaranteed lifetime withdrawal income feature from FLIAC.

Annually during the second quarter of each year, we perform a comprehensive review of actuarial assumptions. As part of this review, we may update these assumptions and make refinements to our models based upon emerging experience, future expectations and other data, including any observable market data. For additional information, see "Accounting Policies & Pronouncements—Application of Critical Accounting Estimates" below as well as the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

COVID-19

Since the first quarter of 2020, the COVID-19 pandemic has caused extreme stress and disruption in the global economy and financial markets and elevated mortality and morbidity for the global population. The COVID-19 pandemic impacted our results of operations in the current period and is expected to impact our results of operations in future periods. The Company has taken several measures to manage the impacts of this crisis. The actual and expected impacts of these events and other items are included in the following update:

- *Outlook.* COVID-19 may contribute to elevated levels of mortality, resulting in increased life insurance claims.
- *Results of Operations.* See "Results of Operations" for a discussion of results for the third quarter and the first nine months of 2022.
- *Risk Factors.* The COVID-19 pandemic has adversely impacted our results of operations, financial position, investment portfolio, new business opportunities and operations, and these impacts are expected to continue. For additional information on the risks to our business posed by the COVID-19 pandemic, see "Risk Factors" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

- *Business Continuity.* Throughout the COVID-19 pandemic, we have been executing Prudential Financial Inc.'s ("Prudential Financial") and our business continuity protocols to ensure employees are safe and able to serve our customers. This included effectively transitioning the vast majority of employees to remote work arrangements. In March 2022, Prudential Financial's offices were reopened to employees and most of the workforce has adopted a hybrid work arrangement.

We believe we can sustain long-term hybrid or fully remote work arrangements while ensuring that critical business operations are sustained. In addition, we are managing COVID-19 related impacts on third-party provided services, and do not anticipate significant interruption in critical operations.

Impact of Changes in the Interest Rate Environment

As a global financial services company, market interest rates are a key driver of our results of operations and financial condition. Changes in interest rates can affect our results of operations and/or our financial condition in several ways, including favorable or adverse impacts to:

- investment-related activity, including: investment income returns, net interest margins, net investment spread results
- new money rates, mortgage loan prepayments and bond redemptions;
- the valuation of fixed income investments and derivative instruments;
- collateral posting requirements, hedging costs and other risk mitigation activities;
- insurance reserve levels, amortization of deferred policy acquisition costs ("DAC") and market experience true-ups;
- customer account values, including their impact on fee income;
- product offerings, design features, crediting rates and sales mix; and
- policyholder behavior, including surrender or withdrawal activity.

For more information on interest rate risks, see "Risk Factors—Market Risk" included in our Annual Report on Form 10-K for the year ended December 31, 2021.

Revenues and Expenses

The Company earns revenues principally from insurance premiums, mortality and expense fees, asset administration fees from insurance and investment products, and from net investment income on the investment of general account and other funds. The Company receives premiums primarily from the sale of individual life insurance and annuity products. The Company earns mortality and expense fees, and asset administration fees, primarily from the sale and servicing of universal life insurance and separate account products including variable life insurance and variable annuities. The Company's operating expenses principally consist of insurance benefits provided and reserves established for anticipated future insurance benefits, general business expenses, reinsurance premiums, commissions and other costs of selling and servicing the various products sold and interest credited on general account liabilities.

Accounting Policies & Pronouncements

Application of Critical Accounting Estimates

The preparation of financial statements in conformity with U.S. GAAP requires the application of accounting policies that often involve a significant degree of judgment. Management, on an ongoing basis, reviews estimates and assumptions used in the preparation of financial statements. If management determines that modifications in assumptions and estimates are appropriate given current facts and circumstances, the Company's results of operations and financial position as reported in the Unaudited Interim Consolidated Financial Statements could change significantly.

Management believes the accounting policies relating to the following areas are most dependent on the application of estimates and assumptions and require management's most difficult, subjective, or complex judgments:

- DAC and other costs, including deferred sales inducements ("DSI");
- Policyholder liabilities;
- Valuation of investments, including derivatives, measurement of allowance for credit losses, and recognition of other-than-temporary impairments;
- Reinsurance recoverables;
- Taxes on income; and
- Reserves for contingencies, including reserves for losses in connection with unresolved legal matters.

Market Performance - Equity and Interest Rate Assumptions

DAC and other costs associated with the variable and universal life policies and the variable and fixed annuity contracts are generally amortized over the expected lives of these policies in proportion to total gross profits. Total gross profits include both actual gross profits and estimates of gross profits for future periods. The quarterly adjustments for market performance reflect the impact of changes to our estimate of total gross profits to reflect actual fund performance and market conditions. A significant portion of gross profits for our variable annuity contracts and, to a lesser degree, our variable life contracts are dependent upon the total rate of return on assets held in separate account investment options. This rate of return influences the fees we earn on variable annuity and variable life contracts, costs we incur associated with the guaranteed minimum death and guaranteed minimum income benefit features related to our variable annuity contracts and expected claims to be paid on variable life contracts, as well as other sources of profit. Returns that are higher than our expectations for a given period produce higher than expected account balances, which increase the future fees we expect to earn on variable annuity and variable life contracts and decrease the future costs we expect to incur associated with the guaranteed minimum death and guaranteed minimum income benefit features related to our variable annuity contracts and expected claims to be paid on variable life contracts. The opposite occurs when returns are lower than our expectations. The changes in future expected gross profits are used to recognize a cumulative adjustment to all prior periods' amortization.

Furthermore, the calculation of the estimated liability for future policy benefits related to certain insurance products includes an estimate of associated revenues and expenses that are dependent on both historical market performance as well as estimates of market performance in the future. Similar to DAC and other costs described above, these liabilities are subject to quarterly adjustments for experience including market performance, in addition to annual adjustments resulting from our annual reviews of assumptions.

The weighted average rate of return assumptions used in developing estimated market returns consider many factors specific to each product type, including asset durations, asset allocations and other factors. With regard to equity market assumptions, the near-term future rate of return assumption used in evaluating DAC, other costs and liabilities for future policy benefits for certain of our products, primarily our domestic variable annuity and variable life insurance products, is generally updated each quarter and is derived using a reversion to the mean approach, a common industry practice. Under this approach, we consider historical equity returns and adjust projected equity returns over an initial future period of five years (the "near-term") so that equity returns converge to the long-term expected rate of return. If the near-term projected future rate of return is greater than our near-term maximum future rate of return of 15.0%, we use our maximum future rate of return. If the near-term projected future rate of return is lower than our near-term minimum future rate of return of 0%, we use our minimum future rate of return. As of September 30, 2022, our variable annuities and variable life insurance businesses assume an 8.0% long-term equity expected rate of return and a 8.3% near-term mean reversion equity expected rate of return.

With regard to interest rate assumptions used in evaluating DAC, DSI and liabilities for future policy benefits for certain of our products, we generally update the long-term and near-term future rates used to project fixed income returns annually and quarterly, respectively. As a result of our 2022 annual reviews and update of assumptions and other refinements, we kept our long-term expectation of the 10-year U.S. Treasury rate unchanged and continue to grade to a rate of 3.25% over ten years. As part of our quarterly market experience updates, we update our near-term projections of interest rates to reflect changes in current rates.

For further discussion of impacts that could result from changes in certain key assumptions, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Accounting Policies and Pronouncements—Application of Critical Accounting Estimates” in our Annual Report on Form 10-K for the year ended December 31, 2021.

Future Adoption of New Accounting Pronouncements

ASU 2018-12, *Financial Services - Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*, was issued by the Financial Accounting Standards Board (“FASB”) on August 15, 2018, and was amended by ASU 2019-09, *Financial Services - Insurance (Topic 944): Effective Date*, issued in October 2019, and ASU 2020-11, *Financial Services-Insurance (Topic 944): Effective Date and Early Application*, issued in November 2020. The Company will adopt ASU 2018-12 effective January 1, 2023 using the modified retrospective transition method where permitted, and apply the guidance as of January 1, 2021 (and record transition adjustments as of January 1, 2021) in the 2023 financial statements.

ASU 2018-12 will impact, at least to some extent, the accounting and disclosure requirements for all long-duration insurance and investment contracts issued by the Company. The Company expects the standard to have a significant financial impact on the Consolidated Financial Statements and will significantly increase disclosures. As of the January 1, 2021 transition date, the Company estimates that the implementation of the standard will result in approximately a \$700 million decrease to \$100 million increase to “Total equity”, largely from remeasuring in force contract liabilities using upper-medium grade fixed income instrument yields as of the transition date and from other changes in reserves. In addition to the impacts to the balance sheet, the Company also expects an impact to the pattern of earnings emergence following the transition date. See Note 2 to the Unaudited Interim Consolidated Financial Statements. for a more detailed discussion of ASU 2018-12, as well as other accounting pronouncements issued but not yet adopted and newly adopted accounting pronouncements.

Changes in Financial Position

Total assets decreased \$38.4 billion from \$221.7 billion at December 31, 2021 to \$183.3 billion at September 30, 2022. Significant components were:

- Separate account assets decreased \$39.3 billion primarily driven by unfavorable equity performance, increase in interest rates and net outflows; and
- Reinsurance recoverables decreased by \$3.2 billion driven by \$4.3 billion of assets novated from FLIAC supporting the variable index annuities contracts (see Note 6 for additional details), partially offset by ceding a portion of the variable life business to Lotus Reinsurance Company Ltd. (“Lotus Re”).

Partially offset by:

- Invested assets increased \$2.5 billion driven by \$4.1 billion of assets novated from FLIAC supporting the variable index annuities contracts (see Note 6 for additional details), partially offset by mark to market losses on investments primarily due to rising interest rates and an \$0.8 billion decrease in policy loans from ceding a portion of the variable life business to Lotus Re; and
- Cash and cash equivalents increased \$1.5 billion primarily due to collateral funding requirements and \$0.2 billion driven by assets novated from FLIAC supporting the variable index annuities contracts (see Note 6 for additional details).

Total liabilities decreased \$36.6 billion from \$215.7 billion at December 31, 2021 to \$179.1 billion at September 30, 2022. Significant components were:

- Separate account liabilities decreased \$39.3 billion, corresponding to the decrease in Separate account assets, as discussed above; and
- Future policy benefits decreased \$5.0 billion driven by a decrease in reserves related to our variable annuity living benefit guarantees due to widening non-performance risk (“NPR”) spreads and rising interest rates, partially offset by unfavorable equity market performance.

Partially offset by:

- Policyholder account balances increased \$5.3 billion driven by incremental indexed product sales; and
- Other liabilities increased \$1.0 billion driven by the deferred reinsurance gain from ceding a portion of the variable life business to Lotus Re, partially offset by a decrease to cost of reinsurance liabilities.

Total equity decreased \$1.8 billion from \$6.0 billion at December 31, 2021 to \$4.2 billion at September 30, 2022 mainly due to unrealized losses on investments driven by rising interest rates reflected in Accumulated other comprehensive income (loss).

Results of Operations

Income (loss) from Operations before Income Taxes

Three Months Comparison

Income (loss) from operations before income taxes increased \$3,273 million from a loss of \$3,196 million for the three months ended September 30, 2021 to income of \$77 million for the three months ended September 30, 2022 primarily driven by the impacts of the Variable Annuities Recapture in the prior year. See Note 1 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, for more details.

Nine Months Comparison

Income (loss) from operations before income taxes increased \$3,717 million from a loss of \$3,164 million for the nine months ended September 30, 2021 to a gain of \$553 million for the nine months ended September 30, 2022. This includes a favorable comparative net gain of \$342 million from our annual reviews and update of assumptions and other refinements. Excluding the comparative impact of our annual reviews and update of assumptions and other refinements, income (loss) from operations increased \$3,375 million primarily driven by:

- Impacts of the Variable Annuities Recapture in the prior year, see Note 1 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, for more details.

Partially offset by:

- Fees paid to Prudential Insurance for the recapture of the yearly renewable term ("YRT") reinsurance for most of the Company's variable life insurance policies and by ceding a portion of the variable life business to Lotus Re.

The following table provides the net impact to the Unaudited Interim Statements of Operations, which is primarily driven by the changes in the U.S. GAAP embedded derivative liability and hedge positions under the Asset Liability Management ("ALM") strategy, and the related amortization of DAC and other costs.

	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
	(in millions)(1)	
U.S. GAAP embedded derivative and hedging positions		
Change in value of U.S. GAAP liability, pre-NPR(2)	\$ 894	\$ 2,257
Change in the NPR adjustment	(213)	1,389
Change in fair value of hedge assets, excluding capital hedges(3)	(739)	(2,884)
Change in fair value of capital hedges(4)	149	769
Other	(276)	(984)
Realized investment gains (losses), net, and related adjustments	(185)	547
Market experience updates(5)	(36)	(156)
Charges related to realized investments gains (losses), net	19	(217)
Net impact from changes in the U.S. GAAP embedded derivative and hedge positions, after the impact of NPR, DAC and other costs(6)	\$ (202)	\$ 174

(1) Positive amount represents income; negative amount represents a loss.

(2) Represents the change in the liability (excluding NPR) for our variable annuities which is measured utilizing a valuation methodology that is required under U.S. GAAP. This liability includes such items as risk margins which are required by U.S. GAAP but not included in our best estimate of the liability.

(3) Represents the changes in fair value of the derivatives utilized to hedge potential claims associated with our variable annuity living benefit guarantees.

(4) Represents the changes in fair value of equity derivatives of the capital hedge program intended to protect a portion of the overall capital position of our business against exposure to the equity markets.

(5) Represents the immediate impacts in current period results from changes in current market conditions on estimates of profitability.

(6) Excludes amounts from the changes in unrealized gains and losses from fixed income instruments recorded in OCI (versus net income) of (\$19) million and (\$252) million for the three and nine months ended September 30, 2022, respectively.

For the three months ended September 30, 2022, the loss of \$202 million was primarily driven by an unfavorable impact related to the change in the fair value of hedge assets and an unfavorable impact from the NPR adjustment, partially offset by a favorable impact related to the portion of our U.S. GAAP liability before NPR, that are excluded from hedge target, driven by rising interest rates.

For the nine months ended September 30, 2022, the gain of \$174 million was primarily driven by a favorable impact from the NPR adjustment and from a favorable impact related to the portions of our U.S. GAAP liability before NPR, that are excluded from hedge target, driven by rising interest rates, partially offset by an unfavorable impact related to the change in the fair value of hedge assets.

Revenues, Benefits and Expenses

Three Months Comparison

Revenues increased \$4,657 million from \$(4,015) million for the three months ended September 30, 2021 to \$642 million for the three months ended September 30, 2022 primarily driven by:

- An unfavorable impact in 2021 due to the 2021 Variable Annuities Recapture. See Note 1 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, for more details; and
- Lower policy charges and fee income is driven by the variable annuity recapture.

Benefits and expenses increased \$1,384 million from \$(819) million for the three months ended September 30, 2021 to \$565 million for the three months ended September 30, 2022 primarily driven by:

- Higher General, administrative and other expenses primarily driven by the prior year unwind of ceded deferred acquisition costs, partially offset by ceding allowance paid, as part of the 2021 Variable Annuities Recapture.

Nine Months Comparison

Revenues increased \$6,361 million from \$(3,389) million for the nine months ended September 30, 2021 to \$2,972 million for the nine months ended September 30, 2022. This includes a favorable comparative increase of \$523 million from our annual reviews and update of assumptions and other refinements as noted above. Excluding the comparative impact of our annual reviews and update of assumptions and other refinements, revenues increased \$5,839 million primarily driven by:

- An unfavorable impact in 2021 due to the 2021 Variable Annuities Recapture. See Note 1 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, for more details; and
- Higher policy charges and fee income is driven by the variable annuity recapture, partially offset by the fee paid to Prudential Insurance for the recapture of the YRT reinsurance for most of the Company's variable life insurance policies and by ceding a portion of the variable life business to Lotus Re.

Benefits and expenses increased \$2,644 million from \$(225) million for the nine months ended September 30, 2021 to \$2,419 million for the nine months ended September 30, 2022. This includes an unfavorable comparative increase of \$181 million from our annual reviews and update of assumptions and other refinements as noted above. Excluding the comparative impact of our annual reviews and update of assumptions and other refinements, benefits and expenses increased \$2,463 million primarily driven by:

- Higher General, administrative and other expenses primarily driven by the prior year unwind of ceded deferred acquisition costs, partially offset by ceding allowance paid, as part of the 2021 Variable Annuities Recapture.

Risks and Risk Mitigants

Variable Annuity Risks and Risk Mitigants:

The primary risk exposures of our variable annuity contracts relate to actual deviations from, or changes to, the assumptions used in the original pricing of these products, including capital markets assumptions such as equity market returns, interest rates and market volatility, along with actuarial assumptions such as contractholder mortality, the timing and amount of annuitization and withdrawals, and contract lapses. For these risk exposures, achievement of our expected returns is subject to the risk that actual experience will differ from the assumptions used in the original pricing of these products. Prudential Financial manages our exposure to certain risks driven by fluctuations in capital markets primarily through a combination of Product Design Features and an Asset Liability Management Strategy ("ALM"), as discussed below. The Company also manages these risk exposures through external reinsurance for certain of our variable annuity products.

Effective July 1, 2021, the Company recaptured the risks related to its variable annuity base contracts, along with the living benefit guarantees, that had previously been reinsured to PALAC from April 1, 2016 through June 30, 2021, subsequently renamed FLIAC. The recapture does not impact PLNJ, which will continue to reinsure its new and in force business to Prudential Insurance. The product risks related to the previously reinsured business that were being managed in PALAC, were transferred to the Company. In addition, the living benefit hedging program related to the previously reinsured living benefit riders will be managed within the Company. For more information on this transaction, see Note 1 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, for more details.

Fixed Annuity Risks and Risk Mitigants. Effective December 1, 2021, the Company entered into a reinsurance agreement with FLIAC (previously named PALAC) under which the Company assumed all of its fixed indexed annuities and fixed annuities with a guaranteed lifetime withdrawal income feature from FLIAC. The primary risk exposure of these fixed annuity products relates to investment risks we bear for providing customers a minimum guaranteed interest rate or an index-linked interest rate required to be credited to the customer's account value, which include interest rate fluctuations and/or sustained periods of low interest rates, and credit risk related to the underlying investments. We manage these risk exposures primarily through our investment strategies and product design features, which include credit rate resetting subject to the minimum guaranteed interest rate, as well as surrender charges applied during the early years of the contract that help to provide protection for premature withdrawals. In addition, a portion of our fixed annuity products has a market value adjustment provision that affords protection of lapse in the case of rising interest rates. We also manage these risk exposures through external reinsurance for certain of our fixed annuity products.

Indexed Variable Annuity Risks and Risk Mitigants. Effective December 1, 2021, the Company entered into a reinsurance agreement with FLIAC (previously named PALAC) under which the Company assumed all of its indexed variable annuities from FLIAC. The primary risk exposure of these indexed variable annuity products relates to the investment risks we bear in order to credit to the customer's account balance the required crediting rate based on the performance of the elected indices at the end of each term. We manage this risk primarily through our investment strategies including derivatives and product design features, which include credit rate resetting subject to contractual minimums as well as surrender charges applied during the early years of the contract that help to provide protection for premature withdrawals. In addition, our indexed variable annuity strategies have an interim value provision that provides protection from lapse in the case of rising interest rates.

Product Design Features:

A portion of the variable annuity contracts that we offer include an asset transfer feature. This feature is implemented at the contract level, and transfers assets between certain variable investment sub-accounts selected by the annuity contractholder and, depending on the benefit feature, a fixed-rate account in the general account or a bond fund sub-account within the separate account. The objective of the asset transfer feature is to reduce our exposure to equity market risk and market volatility. The asset transfer feature associated with currently-sold highest daily living benefit products uses a designated bond fund sub-account within the separate account. The transfers are based on a static mathematical formula used with the particular benefit which considers a number of factors, including, but not limited to, the impact of investment performance on the contractholder's total account value. Other product design features we utilize include, among others, asset allocation restrictions, minimum issuance age requirements and certain limitations on the amount of contractholder purchase payments, as well as a required minimum allocation to our general account for certain of our products. We continue to introduce products that diversify our risk profile and have incorporated provisions in product design allowing frequent revisions of key pricing elements for certain of our products. In addition, there is diversity in our fee arrangements, as certain fees are primarily based on the benefit guarantee amount, the contractholder account value and/or premiums, which helps preserve certain revenue streams when market fluctuations cause account values to decline.

Asset Liability Management Strategy (including fixed income instruments and derivatives):

We employ an ALM strategy that utilizes a combination of both traditional fixed income instruments and derivatives to meet expected liabilities associated with our variable annuity living benefit guarantees. The economic liability we manage with this ALM strategy consists of expected living benefit claims under less severe market conditions, which are managed using fixed income instruments, derivatives, or a combination thereof, and potential living benefit claims resulting from more severe market conditions, which are hedged using derivative instruments. For the portion of our ALM strategy executed with derivatives, we enter into a range of exchange-traded and over-the-counter equity, interest rate and credit derivatives, including, but not limited to: equity and treasury futures; total return, credit default and interest rate swaps; and options, including equity options, swaptions, and floors and caps. The intent of this strategy is to more efficiently manage the capital and liquidity associated with these products while continuing to mitigate fluctuations in net income due to movements in capital markets.

The valuation of the economic liability we seek to defray excludes certain items that are included within the U.S. GAAP liability, such as NPR in order to maximize protection irrespective of the possibility of our own default, as well as risk margins (required by U.S. GAAP but different from our best estimate) and valuation methodology differences. The following table provides a reconciliation between the liability reported under U.S. GAAP and the economic liability we manage through our ALM strategy, net of reinsurance recoverables, as of the period indicated:

	As of September 30, 2022	
	(in millions)	
U.S. GAAP Liability, including NPR	\$	4,470
NPR Adjustment		3,436
Subtotal		7,906
Adjustments including risk margins and valuation methodology differences		(2,635)
Economic liability managed by ALM strategy	\$	5,271

As of September 30, 2022, the fair value of our fixed income instruments and derivative assets exceed our economic liability.

Under our ALM strategy, we expect differences in the U.S. GAAP net income impact between the changes in value of the fixed income instruments (either designated as available-for-sale or designated as trading) and derivatives as compared to the changes in the embedded derivative liability these assets support. These differences can be primarily attributed to three distinct areas:

- *Different valuation methodologies in measuring the liability we intend to cover with fixed income instruments and derivatives versus the liability reported under U.S. GAAP.* The valuation methodology utilized in estimating the economic liability we intend to defray with fixed income instruments (either designated as available-for-sale or designated as trading) and derivatives is different from that required to be utilized to measure the liability under U.S. GAAP. Additionally, the valuation of the economic liability excludes certain items that are included within the U.S. GAAP liability, such as NPR in order to maximize protection irrespective of the possibility of our own default and risk margins (required by U.S. GAAP but different from our best estimate).
- *Different accounting treatment between liabilities and assets supporting those liabilities.* Under U.S. GAAP, changes in value of the embedded derivative liability, derivative instruments and fixed income instruments designated as trading immediately reflected in net income, while changes in the fair value of fixed income instruments that are designated as available-for-sale are recorded as unrealized gains (losses) in other comprehensive income.
- *General hedge results.* For the derivative portion of the ALM strategy, the net hedging impact (the extent to which the changes in value of the hedging instruments offset the change in value of the portion of the economic liability we are hedging) may be impacted by a number of factors, including: cash flow timing differences between our hedging instruments and the corresponding portion of the economic liability we are hedging, basis differences attributable to actual underlying contractholder funds to be hedged versus hedgeable indices, rebalancing costs related to dynamic rebalancing of hedging instruments as markets move, certain elements of the economic liability that may not be hedged (including certain actuarial assumptions), and implied and realized market volatility on the hedge positions relative to the portion of the economic liability we seek to hedge.

Capital Hedge Program:

We employ a capital hedge program within the Company to protect a portion of the overall capital position of the variable annuities business against its exposure to the equity markets. The capital hedge program is conducted using equity derivatives which include equity call and put options, total return swaps and futures contracts.

Income Taxes

For information regarding income taxes, see Note 7 to the Unaudited Interim Consolidated Financial Statements.

Liquidity and Capital Resources

Overview

Liquidity refers to the ability to generate sufficient cash resources to meet the payment obligations of the Company. Capital refers to the long-term financial resources available to support the operations of our business, fund business growth, and provide a cushion to withstand adverse circumstances. Our ability to generate and maintain sufficient liquidity and capital depends on the profitability of our business, general economic conditions, our ability to borrow from affiliates and our access to the capital markets through affiliates as described herein.

Effective and prudent liquidity and capital management is a priority across the organization. Management monitors the liquidity of the Company on a daily basis and projects borrowing and capital needs over a multi-year time horizon. We use a Risk Appetite Framework ("RAF") to ensure that all risks taken by the Company align with our capacity and willingness to take those risks. The RAF provides a dynamic assessment of capital and liquidity stress impacts, including scenarios similar to, and more severe than, those occurring due to COVID-19, and is intended to ensure that sufficient resources are available to absorb those impacts. We believe that our capital and liquidity resources are sufficient to satisfy the capital and liquidity requirements of the Company.

Our businesses are subject to comprehensive regulation and supervision by domestic and international regulators. These regulations currently include requirements (many of which are the subject of ongoing rule-making) relating to capital and liquidity management. For information on these regulatory initiatives and their potential impact on us, see "Business—Regulation" and "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2021.

Capital

We manage the Company to regulatory capital levels consistent with our "AA" ratings targets. We utilize the risk-based capital ("RBC") ratio as a primary measure of capital adequacy. RBC is calculated based on statutory financial statements and risk formulas consistent with the practices of the National Association of Insurance Commissioners ("NAIC"). RBC considers, among other things, risks related to the type and quality of the invested assets, insurance-related risks associated with an insurer's products and liabilities, interest rate risks and general business risks. RBC ratio calculations are intended to assist insurance regulators in measuring an insurer's solvency and ability to pay future claims. The reporting of RBC measures is not intended for the purpose of ranking any insurance company or for use in connection with any marketing, advertising or promotional activities, but is available to the public. The Company's capital levels substantially exceed the minimum level required by applicable insurance regulations. Our regulatory capital levels may be affected in the future by changes to the applicable regulations, proposals for which are currently under consideration by both domestic and international insurance regulators.

The regulatory capital level of the Company can be materially impacted by interest rate and equity market fluctuations, changes in the values of derivatives, the level of impairments recorded, and credit quality migration of the investment portfolio, among other items. In addition, the reinsurance of business or the recapture of business subject to reinsurance arrangements due to defaults by, or credit quality migration affecting, the reinsurers or for other reasons could negatively impact regulatory capital levels. The Company's regulatory capital level is also affected by statutory accounting rules, which are subject to change by each applicable insurance regulator.

Captive Reinsurance Companies:

See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital—Affiliated Captive Reinsurance Companies" included in our Annual Report on Form 10-K for the year ended December 31, 2021, for a discussion of our use of captive reinsurance companies.

Liquidity

Our liquidity is managed to ensure stable, reliable and cost-effective sources of cash flows to meet all of our obligations. Liquidity is provided by a variety of sources, as described more fully below, including portfolios of liquid assets. Our investment portfolios are integral to the overall liquidity of the Company. We use a projection process for cash flows from operations to ensure sufficient liquidity to meet projected cash outflows, including claims. The impact of Prudential Funding, LLC's ("Prudential Funding"), a wholly-owned subsidiary of Prudential Insurance, financing capacity on liquidity (as described below) is considered in the internal liquidity measures of the Company.

Liquidity is measured against internally-developed benchmarks that take into account the characteristics of both the asset portfolio and the liabilities that they support. We consider attributes of the various categories of liquid assets (for example, type of asset and credit quality) in calculating internal liquidity measures to evaluate our liquidity under various stress scenarios, including company-specific and market-wide events. We continue to believe that cash generated by ongoing operations and the liquidity profile of our assets provide sufficient liquidity under reasonably foreseeable stress scenarios.

The principal sources of the Company's liquidity are premiums and certain annuity considerations, investment and fee income, investment maturities, sales of investments and internal borrowings. The principal uses of that liquidity include benefits, claims, and payments to policyholders and contractholders in connection with surrenders, withdrawals and net policy loan activity. Other uses of liquidity include commissions, general and administrative expenses, purchases of investments, the payment of dividends and returns of capital to the parent company, hedging and reinsurance activity and payments in connection with financing activities.

In managing liquidity, we consider the risk of policyholder and contractholder withdrawals of funds earlier than our assumptions when selecting assets to support these contractual obligations. We use surrender charges and other contract provisions to mitigate the extent, timing and profitability impact of withdrawals of funds by customers.

Liquid Assets

Liquid assets include cash and cash equivalents, short-term investments, U.S. Treasury fixed maturities, and fixed maturities that are not designated as held-to-maturity and public equity securities. As of September 30, 2022 and December 31, 2021, the Company had liquid assets of \$21,203 million and \$17,793 million, respectively. The portion of liquid assets comprised of cash and cash equivalents and short-term investments was \$2,872 million and \$1,101 million as of September 30, 2022 and December 31, 2021, respectively. As of September 30, 2022, \$14,751 million, or 90%, of the fixed maturity investments in the Company's general account portfolios, were rated high or highest quality based on NAIC or equivalent rating.

Prudential Funding, LLC

Prudential Financial and Prudential Funding borrow funds in the capital markets primarily through the direct issuance of commercial paper. The borrowings serve as an additional source of financing to meet our working capital needs. Prudential Funding operates under a support agreement with Prudential Insurance whereby Prudential Insurance has agreed to maintain Prudential Funding's positive tangible net worth at all times.

Hedging activities associated with living benefit guarantees

The hedging portion of our risk management strategy associated with our living benefit guarantees is being managed within the Company. For the portion of the risk management strategy executed through hedging, we enter into a range of exchange-traded, cleared and other OTC equity and interest rate derivatives in order to hedge certain living benefit guarantees accounted for as embedded derivatives against changes in certain capital market risks above a designated threshold. The portion of the risk management strategy comprising the hedging portion requires access to liquidity to meet the Company's payment obligations relating to these derivatives, such as payments for periodic settlements, purchases, maturities and terminations. These liquidity needs can vary materially due to, among other items, changes in interest rates, equity markets, mortality and policyholder behavior.

The hedging portion of the risk management strategy may also result in derivative-related collateral postings to (when we are in a net pay position) or from (when we are in a net receive position) counterparties. The net collateral position depends on changes in interest rates and equity markets related to the amount of the exposures hedged. Depending on market conditions, the collateral posting requirements can result in material liquidity needs when we are in a net pay position.

Term and Universal Life Reserve Financing

The Company uses affiliated captive reinsurance subsidiaries to finance the portion of the statutory reserves required to be held under Regulation XXX and Guideline AXXX that is considered to be non-economic. The financing arrangements involve the reinsurance of term and universal life business to our affiliated captive reinsurers and the issuance of surplus notes by those affiliated captives that are treated as capital for statutory purposes. These surplus notes are subordinated to policyholder obligations, and the payment of principal and interest on the surplus notes can only be made with prior insurance regulatory approval.

As of September 30, 2022, the affiliated captive reinsurance companies have entered into agreements with external counterparties providing for the issuance of up to an aggregate of \$14,600 million of surplus notes by our affiliated captive reinsurers in return for the receipt of credit-linked notes (“Credit-Linked Note Structures”), of which \$12,896 million of surplus notes was outstanding, compared to an aggregate issuance capacity of \$14,600 million, of which \$12,721 million was outstanding as of December 31, 2021. Under the agreements, the affiliated captive receives in exchange for the surplus notes one or more credit-linked notes issued by a special-purpose affiliate of the Company with an aggregate principal amount equal to the surplus notes outstanding. The affiliated captive holds the credit-linked notes as assets supporting Regulation XXX or Guideline AXXX non-economic reserves, as applicable. For more information on our Credit-Linked Note Structures, see “Management’s Discussion and Analysis of Financial Condition and Results of Operation—Liquidity and Capital Resources—Financing Activities” in the Annual Report on Form 10-K for the year ended December 31, 2021.

As of September 30, 2022, our affiliated captive reinsurance companies had outstanding an aggregate of \$3,025 million of debt issued for the purpose of financing Regulation XXX and Guideline AXXX non-economic reserves, of which approximately \$1,125 million relates to Regulation XXX reserves and approximately \$1,900 million relates to Guideline AXXX reserves. In addition, as of September 30, 2022, for purposes of financing Guideline AXXX reserves, one of our affiliated captives had approximately \$3,982 million of surplus notes outstanding that were issued to affiliates.

The Company has introduced updated versions of its individual life products in conjunction with the requirement to adopt principle-based reserving by January 1, 2020. These updated products are currently priced to support the principle-based statutory reserve level without the need for reserve financing.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of fluctuations in the value of financial instruments as a result of absolute or relative changes in interest rates, foreign currency exchange rates, equity prices or commodity prices. To varying degrees, our products and services, and the investment activities supporting them, generate exposure to market risk. The market risk incurred, and our strategies for managing this risk, vary by product. As of September 30, 2022, there have been no material changes in our exposure to market risk from December 31, 2021, a description of which may be found in our Annual Report on Form 10-K, for the year ended December 31, 2021, Item 7A, “Quantitative and Qualitative Disclosures about Market Risk,” filed with the Securities and Exchange Commission. See Item 1A, “Risk Factors” included in the Annual Report on Form 10-K for the year ended December 31, 2021, for a discussion of how difficult conditions in the financial markets and the economy generally may materially adversely affect our business and results of our operations.

Item 4. Controls and Procedures

In order to ensure that the information we must disclose in our filings with the SEC is recorded, processed, summarized, and reported on a timely basis, the Company’s management, including our Chief Executive Officer and Chief Financial Officer, have reviewed and evaluated the effectiveness of our disclosure controls and procedures, as defined in Securities Exchange Act of 1934, as amended (“Exchange Act”) Rule 15d-15(e), as of September 30, 2022. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2022, our disclosure controls and procedures were effective. No change in our internal control over financial reporting, as defined in Exchange Act Rule 15d-15(f), occurred during the quarter ended September 30, 2022, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

See Note 10 to the Unaudited Interim Consolidated Financial Statements under “—Litigation and Regulatory Matters” for a description of certain pending litigation and regulatory matters affecting us, and certain risks to our business presented by such matters, which is incorporated herein by reference.

Item 1A. Risk Factors

You should carefully consider the risks described under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2021. These risks could materially affect our business, results of operations or financial condition or cause our actual results to differ materially from those expected or those expressed in any forward-looking statements made by, or on behalf of, the Company. These risks are not exclusive, and additional risks to which we are subject include, but are not limited to, the factors mentioned under “Forward-Looking Statements” and the risks of our businesses described elsewhere in this Quarterly Report on Form 10-Q.

Item 6. Exhibits

EXHIBIT INDEX

- [31.1 Section 302 Certification of the Chief Executive Officer](#)
- [31.2 Section 302 Certification of the Chief Financial Officer](#)
- [32.1 Section 906 Certification of the Chief Executive Officer](#)
- [32.2 Section 906 Certification of the Chief Financial Officer](#)
- 101.INS - XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
- 101.SCH - XBRL Taxonomy Extension Schema Document.
- 101.CAL - XBRL Taxonomy Extension Calculation Linkbase Document
- 101.LAB - XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE - XBRL Taxonomy Extension Presentation Linkbase Document
- 101.DEF - XBRL Taxonomy Extension Definition Linkbase Document
- 104.Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Pruco Life Insurance Company

By:	<u>/s/ Robert E. Boyle</u>
Name:	Robert E. Boyle Vice President and Chief Financial Officer (Authorized Signatory and Principal Financial Officer)

Date: November 10, 2022

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

I, Dylan J. Tyson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pruco Life Insurance Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2022

/s/ Dylan J. Tyson

Dylan J. Tyson

President and Chief Executive Officer

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER

I, Robert E. Boyle, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pruco Life Insurance Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2022

/s/ Robert E. Boyle

Robert E. Boyle
Vice President and Chief Financial Officer

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

Pursuant to 18 U.S.C. § 1350, I, Dylan J. Tyson, President and Chief Executive Officer of Pruco Life Insurance Company (the “Company”), hereby certify that the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2022 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 10, 2022

/s/ Dylan J. Tyson

Dylan J. Tyson

President and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER

Pursuant to 18 U.S.C. § 1350, I, Robert E. Boyle, Vice President and Chief Financial Officer of Pruco Life Insurance Company (the “Company”), hereby certify that the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2022 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 10, 2022

/s/ Robert E. Boyle

Robert E. Boyle
Vice President and Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.