

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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report: July 14, 2023
(date of earliest event reported)

Pruco Life Insurance Company
(Exact name of registrant as specified in its charter)

Arizona
(State or other jurisdiction of
incorporation or organization)

033-37587
(Commission File Number)

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

213 Washington Street
Newark, NJ 07102
(Address of principal executive offices and zip code)
(973) 802-6000
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Not Applicable

Trading Symbol
Not Applicable

Name of each exchange on which registered
Not Applicable

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 12b-2 of the Exchange Act.

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. ☐

Item 8.01 - Other Events

Effective January 1, 2023, Pruco Life Insurance Company (the "Company") adopted Accounting Standards Update 2018-12, Financial Services-Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts ("ASU 2018-12"), which provides new authoritative guidance impacting the accounting and disclosure requirements for long-duration insurance and investment contracts issued by the Company. The Company adopted this guidance using the modified retrospective transition method, where permitted, for changes to the liability for future policy benefits and deferred policy acquisition costs and related balances, and using the retrospective transition method, as required, for market risk benefits. The Company applied the guidance as of the transition date of January 1, 2021, and retrospectively adjusted prior period amounts for years 2021 and 2022 to reflect the new guidance.

The Company files herewith, as Exhibit 99.1, updates to the following sections of our Annual Report on Form 10-K for the year ended December 31, 2022 (the "Previously Filed Annual Report") as follows for the adoption of ASU 2018-12:

- Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations,
- Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk,
- Part II, Item 8. Financial Statements and Supplementary Data

In addition to the updates made related to the adoption of ASU 2018-12, the Company also adjusted the 2022 "Statutory net income (loss)" and "Statutory capital and surplus" amounts reported in Note 14 (Note 12 to the audited financial statements included in the Previously Filed Annual Report) Statutory Net Income and Surplus and Dividend Restrictions within Part II, Item 8. Financial Statements and Supplementary Data. This update resulted from adjustments made to the audited statutory financial statements as of December 31, 2022 that were filed subsequent to the filing of the Previously Filed Annual Report.

As this Current Report on Form 8-K is being filed only for the purpose described above, and only affects the Items in the Previously Filed Annual Report specified above, the other information in the Previously Filed Annual Report filed with the Securities Exchange Commission (the "SEC") on March 20th, 2023 remains unchanged. No attempt has been made in this Current Report on Form 8-K to modify or update disclosures in the Previously filed Annual Report, except for the revision of certain financial information as described above.

This Form 8-K and Exhibit 99.1 should be read in conjunction with the Previously Filed Annual Report. For significant developments since the Previously Filed Annual Report, refer to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 and any other filings with the SEC.

Item 9.01 - Financial Statements and Exhibits

(d): The following exhibits are being filed herewith:

<u>Exhibit No.</u>	<u>Description</u>
<u>23.1</u>	Consent of PricewaterhouseCoopers LLP.
<u>99.1</u>	Updates made related to the adoption of ASU 2018-12 to the Company's Annual Report on Form 10-K for the year ended December 31, 2022: – Updated Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Updated Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Updated Part II, Item 8. Financial Statements and Supplementary Data
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).

SIGNATURE

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: /s/ Robert E. Boyle

Name: Robert E. Boyle
Vice President and Chief Financial Officer
(Authorized Signatory and Principal Financial Officer)

Date: July 14, 2023

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-249231, 333-249229, 333-249219, 333-265370, 333-265387 and 333-267462) of Pruco Life Insurance Company of our report dated March 20, 2023, except for the change in the manner in which the Company accounts for long-duration insurance contracts discussed in Note 2 to the consolidated financial statements and the *Adoption of the New Accounting Standard for LDTI* Critical Audit Matter, as to which the date is July 14, 2023, relating to the consolidated financial statements, which appears in this Current Report on Form 8-K.

/s/ PricewaterhouseCoopers LLP

New York, New York
July 14, 2023

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following analysis of our consolidated financial condition and results of operations in conjunction with the "Forward-Looking Statements" and "Risk Factors" in the Company's Annual Report on Form 10-K, and the Consolidated Financial Statements included in this Form 8-K.

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.

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 11 to the Consolidated Financial Statements for more details.

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.

COVID-19

Since the first quarter of 2020, the novel coronavirus ("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 could continue to impact our results of operations in future periods.

Throughout the pandemic, COVID-19 had a significant net negative impact on our underwriting results, reflecting unfavorable mortality and morbidity impacts in our businesses. Beginning with the third quarter of 2022, the Company has embedded COVID-19 considerations within its best estimate assumptions of future expected mortality impacts for its applicable businesses. The ultimate impact on our underwriting results, however, will continue to depend on various factors including: an insured's age; geographic concentration; insured versus uninsured populations among the fatalities; the transmissibility and virulence of the virus, including the potential for further mutation; and the ongoing acceptance and efficacy of the vaccines and other therapeutics.

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.

Industry Trends

Our business is impacted by financial markets, economic conditions, regulatory oversight, and a variety of trends that affect the industries where we compete.

Financial and Economic Environment. Interest rates in the U.S. have experienced a sustained period of historically low levels, followed by a sharp rise in 2022. We expect that a continued level of higher interest rates will benefit our results over time. We continue to monitor current market conditions and the impact to our business from slowing or negative economic growth. In addition, we are subject to financial impacts associated with movements in equity markets and the evolution of the credit cycle as discussed in "Risk Factors" in the Company's Annual Report on Form 10-K.

Demographics. Customer demographics continue to evolve and new opportunities present themselves in different consumer segments such as the millennial and multicultural markets. Consumer expectations and preferences are changing. We believe existing and potential customers are increasingly looking for cost-effective solutions that they can easily understand and access through technology-enabled devices. At the same time, income protection, wealth accumulation and the needs of retiring baby boomers are continuing to shape the insurance industry. A persistent retirement security gap exists in terms of both savings and protection. Despite the ongoing phenomenon of the risk and responsibility of retirement savings shifting from employers to employees, employers are becoming increasingly focused on the financial wellness of their employees.

Regulatory Environment. See "Business—Regulation" in the Company's Annual Report on Form 10-K, for a discussion of regulatory developments that may impact the Company and the associated risks.

Competitive Environment. See "Business" for a discussion of the competitive environment and the basis on which we compete.

Current Market Conditions

Geopolitical risk, rapidly rising interest rates and significant equity market declines, as we saw throughout 2022, among other factors, adversely impact our liquidity and capital positions, cash flows, results of operations, and financial position. Our statutory capital will also be negatively affected by increased reserve requirements due to our annual update of actuarial assumptions and other refinements, particularly in our individual life business, and will be negatively affected by asymmetrical and non-economic statutory accounting impacts from rising rates. As we navigate through the current environment, we may take actions consistent with our risk and capital frameworks, as necessary, to preserve our liquidity and capital positions. For additional information on how these conditions may also impact our income taxes, see Note 12 to the Consolidated Financial Statements.

Impact of Changes in the Interest Rate Environment

As a global financial services company, market interest rates are a key driver of our liquidity and capital positions, cash flows, results of operations and financial position. Changes in interest rates can affect these in several ways, including favorable or adverse impacts to:

- investment-related activity, including: investment income returns, 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;
- customer account values and assets under management, including their impacts on fee-related income;
- insurance reserve levels, including market risk benefits ("MRB"), and market experience true-ups;
- policyholder behavior, including surrender or withdrawal activity; and
- product offerings, design features, crediting rates and sales mix.

See "Current Market Conditions" above, for how rapidly rising interest rates, among other factors, adversely impact the Company's financial results. For additional information regarding interest rate risks, see "Risk Factors—Market Risk" in the Company's Annual Report on Form 10-K.

Accounting Policies & Pronouncements

Application of Critical Accounting Estimates

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

The following sections discuss the accounting policies applied in preparing our financial statements that management believes are most dependent on the application of estimates and assumptions and require management's most difficult, subjective or complex judgments.

Insurance Liabilities

Future Policy Benefits

Future Policy Benefit Reserves, including Unpaid Claims and Claim Adjustment Expenses

We establish reserves for future policy benefits to, or on behalf of, policyholders, using methodologies prescribed by U.S. GAAP. The reserving methodologies used include the following:

- For some long-duration contracts, we utilize a net premium valuation methodology in measuring the liability for future policy benefits. Under this methodology, the Company accrues a liability for future policy benefits when premium revenue is recognized. The liability represents the present value of expected future benefits to be paid to or on behalf of policyholders and related non-level claim settlement expenses less the present value of expected future net premiums (portion of the gross premium required to provide for all benefits and related non-level claim settlement expenses using current best estimate assumptions). A net-to-gross ("NTG") ratio is calculated as the ratio of the present value of expected policy benefits and non-level claim settlement expenses divided by the present value of expected gross premiums. The NTG ratio is applied to gross premiums, as premium revenue is recognized, to determine net premiums that are subtracted from the present value of expected benefits and non-level claim settlement expenses to determine the liability for future policy benefits, which cannot be less than zero. The NTG ratio at the cohort measurement unit level cannot exceed 100%, and if it exceeds 100%, the excess benefit expenses are recorded as a charge to current period earnings. The result of the net premium valuation methodology is that the liability at any point in time represents an accumulation of the portion of premiums received to date expected to fund future benefits (i.e., net premiums received to date), less any benefits and expenses already paid. The liability does not necessarily reflect the full policyholder obligation the Company expects to pay at the conclusion of the contract since a portion of that obligation would be funded by net premiums received in the future and would be recognized in the liability at that time. The insurance cash flow projections are updated quarterly to reflect actual experience and are generally updated annually to reflect changes in best estimate future insurance assumptions using a retrospective unlocking method with the impact recorded through current period earnings. At the time of an experience or best estimate assumption unlocking, a revised NTG ratio is calculated using actual historical cash flow experience and updated, if any, best estimate future cash flow projections, discounted using the locked-in discount rate. The revised NTG ratio is then applied to prior period cashflows to derive a cumulative catch-up adjustment as of the beginning of the quarter. The revised NTG ratio is then used going forward to accrue the reserve, until the next unlocking. The liability is also remeasured each quarter using a current discount rate, based on an upper medium grade fixed-income instrument yield, with the impact recorded through accumulated other comprehensive income. Expense assumptions included in the liability only include claim related expenses and exclude acquisition costs and non-claim related costs such as costs relating to investments, general administration, policy maintenance, product development, market research, and general overhead. For limited-payment contracts, a deferred profit liability ("DPL") is established for the amount of gross premiums received in excess of expected net premiums and is amortized into premium income in relation to the discounted amount of insurance in force for life insurance or expected benefit payments for annuity contracts. The DPL is subject to a retrospective unlocking adjustment consistent with the liability for future policy benefits.

- For certain contract features, such as no-lapse guarantees, a liability is established when associated assessments (which include investment margin on policyholders' account balances in the general account and policy charges for administration, mortality, expense, surrender, and other charges) are recognized. This liability is established using current best estimate assumptions and is based on the ratio of the present value of total expected excess payments (e.g., payments in excess of account value) over the life of the contract divided by the present value of total expected assessments (i.e., benefit ratio). The liability equals the current benefit ratio multiplied by cumulative assessments recognized to date, plus interest, less cumulative excess payments to date. The liability does not necessarily reflect the full policyholder obligation the Company expects to pay at the conclusion of the contract since a portion of that excess payment would be funded by assessments received in the future and would be recognized in the liability at that time. The reserves are subject to adjustments based on annual reviews of assumptions and quarterly adjustments for experience as described below, including market performance. These adjustments reflect the impact on the benefit ratio of using actual historical experience from the issuance date to the balance sheet date plus updated estimates of future experience. The updated benefit ratio is then applied to all prior periods' assessments to derive an adjustment to the reserve recognized through a benefit or charge to current period earnings.
- For universal life type contracts and participating contracts, the Company performs premium deficiency tests using best estimate assumptions, at a minimum, on an annual basis, and on a quarterly basis for business whose profitability is closely tied to equity market performance. If the current net reserves are less than the best estimate liability, the existing net reserves are adjusted by first reducing the associated deferred sales inducements ("DSI") by the amount of the deficiency or to zero through a charge to current period earnings. If the deficiency is more than the DSI for insurance contracts, the net reserves are increased by the excess through a charge to current period earnings. Since investment yields are used as the discount rate, the premium deficiency test is also performed using a discount rate based on the market yield (i.e., assuming what would be the impact if any unrealized gains (losses) were realized as of the testing date). In the event that by using the market yield a deficiency occurs, an adjustment is established for the deficiency and is included in "Accumulated other comprehensive income (loss)" ("AOCI").

Annual assumptions review and quarterly adjustments

The assumptions used in establishing reserves are generally based on the Company's experience, industry experience and/or other factors, as applicable. We update our actuarial assumptions, such as mortality, morbidity, retirement and policyholder behavior assumptions annually unless a material change is observed in an interim period that we feel is indicative of a long-term trend. Generally, we do not expect trends to change significantly in the short-term and, to the extent these trends may change, we expect such changes to be gradual over the long-term.

We perform an annual comprehensive review of the assumptions used for estimating future premiums, benefits, and other cash flows. The Company's assumption updates have been related to mortality, morbidity, lapse, surrender, and other contractholder behavior assumptions, and revisions to expected future rates of returns on investments. The Company generally looks to relevant Company experience as the primary basis for assumptions. If relevant Company experience is not available or does not have sufficient credibility, the Company may look to experience of similar blocks of business, either in the Company or the industry. The impact on our results of operations of changes in these assumptions can be offsetting and we are unable to predict their movement or offsetting impact over time.

The quarterly adjustments for market performance referred to above reflect the impact of changes to our estimate of future rates of returns on investments to reflect actual fund performance and market conditions. A portion of returns on investments for 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 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 life contracts and decrease expected claims to be paid on variable life contracts. The opposite occurs when returns are lower than our expectations.

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 liabilities for future policy benefits for certain of our products, primarily our domestic 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 December 31, 2022, our variable life insurance businesses assume an 8.0% long-term equity expected rate of return and a 5.5% near-term mean reversion equity expected rate of return.

With regard to interest rate assumptions used in evaluating 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 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 additional information regarding discount rates used to establish the liability for future policy benefits, see Note 2 to the Consolidated Financial Statements.

Policyholders' Account Balances

Policyholders' account balances liability represents the contract value that has accrued to the benefit of the policyholder as of the balance sheet date. This liability is primarily associated with the accumulated account deposits, plus interest credited, less policyholder withdrawals and other charges assessed against the account balance, as applicable. The liability also includes provisions for benefits under non-life contingent payout annuities. Policyholders' account balances also include amounts representing the fair value of embedded derivative instruments associated with the index-linked features of certain universal life and annuity products. The changes in the fair value of the embedded derivatives, including changes in non-performance risk ("NPR") are recorded in net income. For additional information regarding the valuation of these embedded derivatives, see Note 5 to the Consolidated Financial Statements.

Market Risk Benefits

Market risk benefit liabilities (or assets) represent contracts or contract features that provide protection to the contract holder and exposes the Company to other than nominal capital market risk. MRBs are primarily related to deferred annuities with guaranteed minimum benefits including guaranteed minimum death benefits ("GMDB"), guaranteed minimum accumulation benefits ("GMAB"), guaranteed minimum withdrawal benefit ("GMWB") and guaranteed minimum income and withdrawal benefits ("GMIWB"). The liability (or asset) for MRBs is estimated using a fair value measurement methodology. The fair value of these MRBs is based on assumptions a market participant would use in valuing market risk benefits. On a quarterly basis, the fair value of these MRBs is calculated as the present value of expected future benefit payments to contract holders less the present value of expected future rider fees attributable to the market risk benefits. The changes in the fair value of market risk benefits are recorded in net income, net of related hedges, in "Change in value of market risk benefits, net of related hedging gains (losses)", except for the portion of the change attributable to changes in the Company's own NPR which is recorded in other comprehensive income ("OCI") for the direct and assumed businesses. However, the change in NPR for the ceded MRB will go through net income. The Company estimates that a hypothetical change to its own credit risk of plus 50 and minus 50 basis points would result in an increase and a decrease to OCI of \$885 million and \$975 million, respectively, and a decrease and an increase to net income of \$95 million and \$105 million, respectively. For additional information regarding the valuation of these MRB features, see Note 10 to the Consolidated Financial Statements.

Sensitivities for Insurance Assets and Liabilities

The following table summarizes the impact that could result on each of the listed financial statement balances from changes in certain key assumptions. The information below is for illustrative purposes and includes only the hypothetical direct impact on December 31, 2022 balances of changes in a single assumption and not changes in any combination of assumptions. Additionally, the illustration of the insurance assumption impacts below reflects a parallel shift in the insurance assumptions; however, these may be non-parallel in practice. Changes in current assumptions could result in impacts to financial statement balances that are in excess of the amounts illustrated. A description of the estimates and assumptions used in the preparation of each of these financial statement balances is provided above. Changes to the insurance cash flow assumptions are reflected in net income through the retrospective unlocking method for traditional long duration, limited-payment and universal life type products.

The impacts presented within this table exclude the impacts of our asset liability management strategy, which seeks to offset the changes in the balances presented within this table and is primarily composed of investments and derivatives. See further below for a discussion of the estimates and assumptions involved with the application of U.S. GAAP accounting policies for these instruments and "Item 7A. Quantitative and Qualitative Disclosures about Market Risk" for hypothetical impacts on related balances as a result of changes in certain significant assumptions.

	December 31, 2022	
	Increase (Decrease) in Net Income due to changes in Future Policy Benefits, Market Risk Benefits(1), and Policyholders' Account Balances, Net of Reinsurance	
	(in millions)	
Hypothetical change in current assumptions:		
Long-term interest rate:		
Increase by 25 basis points	\$	(5)
Decrease by 25 basis points	\$	5
Long-term equity expected rate of return:		
Increase by 50 basis points	\$	(5)
Decrease by 50 basis points	\$	5
Mortality:		
Increase by 1%	\$	95
Decrease by 1%	\$	(85)
Lapse(2)(3):		
Increase by 10%	\$	345
Decrease by 10%	\$	(355)

(1) MRB impact reflects the net impact of MRB assets and liabilities prior to hedging.

(2) The lapse sensitivity shocks applied for the post-level premium period for term products are capped at the level where the rates would equal 100% under an increase lapse scenario. The same capped shock levels are also applied for the decrease lapse scenario.

(3) Assumes the same shock across all products; however, we would not expect lapse rates of different products to move uniformly.

Valuation of Investments, Including Derivatives, Measurement of Allowance for Credit Loss, and the Recognition of Other-than-Temporary Impairments

Our investment portfolio consists of public and private fixed maturity securities, commercial mortgage and other loans, equity securities, other invested assets and derivative financial instruments. Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, financial indices or the values of securities. Derivative financial instruments that are generally used include swaps, futures, forwards and options and may be exchange-traded or contracted in the over-the-counter ("OTC") market. We are also party to financial instruments that contain derivative instruments that are "embedded" in the financial instruments. Management believes the following accounting policies related to investments, including derivatives, are most dependent on the application of estimates and assumptions. Each of these policies is discussed further within other relevant disclosures related to investments and derivatives, as referenced below:

- Valuation of investments, including derivatives;
- Measurement of the allowance for credit losses on fixed maturity securities classified as available-for-sale, commercial mortgage loans, and other loans; and
- Recognition of other-than-temporary impairments ("OTTI") for equity method investments.

We present at fair value in the statements of financial position our debt security investments classified as available-for-sale, investments classified as trading, and certain fixed maturities, equity securities and certain investments within "Other invested assets," such as derivatives. For additional information regarding the key estimates and assumptions surrounding the determination of fair value of fixed maturity and equity securities, as well as derivative instruments, embedded derivatives and other investments, see Note 5 to the Consolidated Financial Statements.

For our investments classified as available-for-sale, the impact of changes in fair value is recorded as an unrealized gain or loss in AOCI, a separate component of equity. For our investments classified as trading and equity securities, the impact of changes in fair value is recorded within "Other income". Our commercial mortgage and other loans are carried primarily at unpaid principal balances, net of unamortized deferred loan origination fees and expenses and unamortized premiums or discounts and a valuation allowance for losses.

In addition, an allowance for credit losses is measured each quarter for available-for-sale fixed maturity securities, commercial mortgage and other loans. For additional information regarding our policies regarding the measurement of credit losses, see Note 2 to the Consolidated Financial Statements.

For equity method investments, the carrying value of these investments is written down or impaired to fair value when a decline in value is considered to be other-than-temporary. For additional information regarding our OTTI policies, see Note 2 to the Consolidated Financial Statements.

Taxes on Income

Our effective tax rate is based on income, non-taxable and non-deductible items, tax credits, statutory tax rates and tax planning opportunities available in the various jurisdictions in which we operate. Inherent in determining our annual tax rate are judgments regarding business plans, planning opportunities and expectations about future outcomes. The Dividend Received Deduction (“DRD”) is a major reason for the difference between the Company’s effective tax rate and the U.S. federal statutory rate. The DRD is an estimate that incorporates the prior and current year information, as well as the current year’s equity market performance. Both the current estimate of the DRD and the DRD in future periods can vary based on factors such as, but not limited to, changes in the amount of dividends received that are eligible for the DRD, changes in the amount of distributions received from underlying fund investments, changes in the account balances of variable life and annuity contracts, and the Company’s taxable income before the DRD.

An increase or decrease in our effective tax rate by one percentage point would have resulted in a decrease or increase in our 2022 “Income tax expense (benefit)” of \$10 million.

The CARES Act. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was enacted into law. One provision of the CARES Act amends the Tax Act of 2017 and allows companies with net operating losses (“NOLs”) originating in 2018, 2019 or 2020 to carry back those losses up to five years. For 2020, the Company recorded an income tax benefit of \$70 million from carrying the 2020 NOL back to tax years that have a 35% tax rate.

Contingencies

A contingency is an existing condition that involves a degree of uncertainty that will ultimately be resolved upon the occurrence of future events. Under U.S. GAAP, accruals for contingencies are required to be established when the future event is probable and its impact can be reasonably estimated, such as in connection with an unresolved legal matter. The initial reserve reflects management’s best estimate of the probable cost of ultimate resolution of the matter and is revised accordingly as facts and circumstances change and, ultimately, when the matter is brought to closure.

Adoption of New Accounting Pronouncements

Effective January 1, 2023, the Company adopted ASU 2018-12, *Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*. Adoption of this ASU impacted, at least to some extent, the accounting and disclosure requirements for all long-duration insurance and investment contracts issued by the Company and had a significant financial impact on the Consolidated Financial Statements and disclosures. See Note 1 for additional information.

As of the January 1, 2021 transition date, the adoption of the standard resulted in a decrease to “Total equity” of \$271 million, primarily 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. As of the January 1, 2023 adoption date, the impact amounted to an increase to “Total equity” of \$673 million. The changes in the impacts from January 1, 2021 to January 1, 2023 primarily reflect the increase in market interest rates during 2021 and 2022. See Note 2 to the 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

2022 to 2021 Annual Comparison

Total assets decreased \$32.3 billion from \$225.7 billion at December 31, 2021 to \$193.4 billion at December 31, 2022. Significant components were:

- Separate account assets decreased \$35.7 billion primarily driven by unfavorable equity market performance, increase in interest rates and net outflows; and
- Reinsurance recoverables decreased by \$3.3 billion driven by \$4.8 billion of assets novated from FLIAC supporting the variable index annuities contracts (see Note 11 to the Consolidated Financial Statements for additional details), partially offset by ceding a portion of the variable life business to Lotus Reinsurance Company Ltd. ("Lotus Re").

Partially offset by:

- Total investments increased \$5.5 billion driven by \$4.7 billion of assets novated from FLIAC supporting the variable index annuities contracts (see Note 11 to the Consolidated Financial Statements for additional details) and due to new sales of general account annuity products, 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.

Total liabilities decreased \$31.1 billion from \$219.5 billion at December 31, 2021 to \$188.4 billion at December 31, 2022. Significant components were:

- Separate account liabilities decreased \$35.7 billion, corresponding to the decrease in Separate account assets, as discussed above; and
- Market risk benefit liabilities decreased \$4.2 billion driven by a decrease in MRB reserves due to widening of the Company's market-perceived NPR spreads and rising interest rates, partially offset by unfavorable equity market performance.

Partially offset by:

- Policyholders' account balances increased \$6.2 billion driven by new sales of general account annuity products.

Total equity decreased \$1.2 billion mainly due to losses in net income and unrealized losses on fixed maturity investments driven by rising interest rates reflected in other comprehensive income (loss), net of tax.

Results of Operations

Income (loss) from Operations before Income Taxes

2022 to 2021 Annual Comparison

Income (loss) from operations before income taxes improved \$883 million from a loss of \$1,870 million in 2021 to a loss of \$987 million in 2022. This includes a favorable comparative net gain of \$42 million from our annual reviews and update of assumptions and other refinements. Excluding the impact of our annual reviews and update of assumptions and other refinements, income increased \$841 million primarily driven by impacts of the Variable Annuities Recapture in the prior year. See Note 1 for more details.

Revenues, Benefits and Expenses

2022 to 2021 Annual Comparison

Revenues increased \$3,758 million from a loss of \$2,110 million in 2021 to a gain of \$1,648 million in 2022. This includes a favorable comparative net increase of \$86 million from our annual reviews and update of assumptions and other refinements, as mentioned above. Excluding the impact of our annual reviews and update of assumptions and other refinements, the increase was \$3,672 million primarily driven by:

- Revenues increased in 2022 driven by the one-time impact of the 2021 Variable Annuities Recapture. See Note 1 for more details;
- Increase in Change in value of market risk benefits, net of related hedging gain (loss), includes favorable impacts from equity markets; and
- Higher Net investment income and 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 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.

Benefits and expenses increased \$2,875 million from an expense of \$(240) million in 2021 to an expense of \$2,635 million in 2022. This includes an unfavorable comparative net increase of \$44 million from our annual reviews of assumptions and other refinements, as mentioned above. Excluding the impact of our annual reviews and update to our assumptions and other refinements, the increase was \$2,831 million primarily driven by:

- Higher Benefits and expenses driven by the 2021 Variable Annuities Recapture and new reinsurance with FLIAC in 2021.

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 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 FLIAC 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 FLIAC, 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. For more information on this transaction, see Note 1 to the Consolidated Financial Statements.

Fixed Annuity Risks and Risk Mitigants. Effective December 1, 2021, the Company entered into a reinsurance agreement with FLIAC 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. For information on our external reinsurance agreements, see Note 11 to the Consolidated Financial Statements.

Indexed Variable Annuity Risks and Risk Mitigants. Effective December 1, 2021, the Company entered into a reinsurance agreement with FLIAC 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 our 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 annuity guarantees. The MRB liability that we hedge consists of expected living and death benefit claims under various market conditions, which are managed using fixed income instruments, derivatives, or a combination thereof. For our Prudential Defined Income variable annuity, we utilize fixed income instruments to meet expected liabilities. For the portion of our ALM strategy executed with derivatives, we enter into a range of exchange-traded and OTC 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. To achieve this, we periodically review and recalibrate the ALM strategy by optimizing the mix of derivatives and fixed income instruments to achieve expected outcomes.

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 MRB liability these assets support. These differences can be primarily attributed to two distinct areas:

- *Different accounting treatment between liabilities and assets supporting those liabilities.* Under U.S. GAAP, changes in the fair value of the derivative instruments and fixed income instruments designated as trading, and MRB, excluding the changes in the Company's NPR spreads, are 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 MRB 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 MRB 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 MRB 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 MRB 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

The differences between income taxes expected at the U.S. federal statutory income tax rate of 21% applicable for 2022, 2021 and 2020, and the reported income tax expense (benefit) are provided in the following table:

	Year Ended December 31,		
	2022	2021	2020
	(\$ in millions)		
Expected federal income tax expense (benefit) at federal statutory rate(1)	\$ (208)	\$ (392)	\$ 14
Non-taxable investment income	(46)	(49)	(47)
Tax credits	(48)	(37)	(28)
Changes in tax law	0	(4)	(70)
Other	6	7	1
Reported income tax expense (benefit)	\$ (296)	\$ (475)	\$ (130)
Effective tax rate(1)	29.9 %	25.4 %	(191.2) %

(1) Amounts for the years ended December 31, 2022 and 2021 were adjusted for the implementation of ASU 2018-12: Targeted Improvements to the Accounting for Long-Duration Contracts.

Effective Tax Rate

The effective tax rate is the ratio of "Income tax expense (benefit)" divided by "Income (loss) from operations before income taxes and equity in earnings of operating joint ventures." Our effective tax rate for fiscal years 2022, 2021 and 2020 was 29.9%, 25.4% and (191.2)%, respectively. For a detailed description of the nature of each significant reconciling item, see Note 12 to the Consolidated Financial Statements.

Unrecognized Tax Benefits

The Company's liability for income taxes includes the liability for unrecognized tax benefits and interest that relate to tax years still subject to review by the Internal Revenue Service or other taxing authorities. The completion of review or the expiration of the Federal statute of limitations for a given audit period could result in an adjustment to the liability for income taxes. The Company had no unrecognized benefit as of December 31, 2022, 2021 and 2020. We do not anticipate any significant changes within the next twelve months to our total unrecognized tax benefits related to tax years for which the statute of limitations has not expired.

Income Tax Expense vs. Income Tax Paid in Cash

Income tax expense recorded under U.S. GAAP routinely differs from the income taxes paid in cash in any given year. Income tax expense recorded under U.S. GAAP is based on income reported in our Consolidated Statements of Operations for the current period and it includes both current and deferred taxes. Income taxes paid during the year include tax installments made for the current year as well as tax payments and refunds related to prior periods.

For additional information regarding income tax related items, see "Business—Regulation" in the Company's Annual Report on Form 10-K and Note 12 to the 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 and our access to the capital markets and the alternative sources of liquidity and capital 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" in the Company's Annual Report on Form 10-K.

Capital

We manage 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

Prudential Financial and the Company use captive reinsurance companies for our individual life business to more effectively manage our reserves and capital on an economic basis and to enable the aggregation and transfer of risks. The captive reinsurance companies assume business from affiliates only. To support the risks they assume, our captives are capitalized to a level we believe is consistent with the "AA" financial strength rating targets of Prudential Financial's insurance subsidiaries. All of the captive reinsurance companies are wholly-owned subsidiaries of Prudential Financial and are located domestically, typically in the state of domicile of the direct writing insurance subsidiary that cedes the majority of business to the captive. In addition to state insurance regulation, the captives are subject to internal policies governing their activities. In the normal course of business, Prudential Financial contributes capital to the captives to support business growth and other needs. Prudential Financial has also entered into support agreements with several of the captives in connection with financing arrangements.

Prudential Financial's life insurance subsidiaries are subject to a regulation entitled "Valuation of Life Insurance Policies Model Regulation," commonly known as "Regulation XXX," and a supporting guideline entitled "The Application of the Valuation of Life Insurance Policies Model Regulation," commonly known as "Guideline AXXX." The regulation and supporting guideline require insurers to establish statutory reserves for term and universal life insurance policies with long-term premium guarantees at a level that exceeds what our actuarial assumptions for this business would otherwise require. Prudential Financial uses captive reinsurance companies to finance the portion of the reserves for this business that we consider to be non-economic as described below under "—Financing Activities—Term and Universal Life Reserve Financing."

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 (e.g., 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, fixed maturities that are not designated as held-to-maturity, and public equity securities. As of December 31, 2022 and 2021, the Company had liquid assets of \$21.7 billion and \$14.5 billion, respectively. The portion of liquid assets comprised cash and cash equivalents and short-term investments was \$2.5 billion and \$1.1 billion as of December 31, 2022 and 2021, respectively. As of December 31, 2022, \$17.2 billion, 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.

Financing Activities

Term and Universal Life Reserve Financing

For business written prior to the implementation of principle-based reserving, Regulation XXX and Guideline AXXX require domestic life insurers to establish statutory reserves for term and universal life insurance policies with long-term premium guarantees that are consistent with the statutory reserves required for other individual life policies with similar guarantees. Many market participants believe that these levels of reserves are excessive relative to the levels reasonably required to maintain solvency for moderately adverse experience. The difference between the statutory reserve and the amount necessary to maintain solvency for moderately adverse experience is considered to be the non-economic portion of the statutory reserve.

The Company uses affiliated captive reinsurance companies 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 December 31, 2022, the affiliated captive reinsurance companies have entered into agreements with external counterparties providing for the issuance of up to an aggregate of \$16,050 million of surplus notes by our affiliated captive reinsurers in return for the receipt of credit-linked notes (“Credit-Linked Note Structures”), of which \$14,070 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. These amounts reflect an increased Credit Link Note Structure expanded in December 2022 for Guideline AXXX reserves, of which \$2,100 million was outstanding as of December 31, 2022. 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. The captive can redeem the principal amount of the outstanding credit-linked notes for cash upon the occurrence of, and in an amount necessary to remedy, a specified liquidity stress event affecting the captive. Under the agreements, the external counterparties have agreed to fund any such payments under the credit-linked notes in return for the receipt of fees. Under certain of the transactions, Prudential Financial has agreed to make capital contributions to the captive to reimburse it for investment losses in excess of specified amounts and/or has agreed to reimburse the external counterparties for any payments made under the credit-linked notes. To date, no such payments under the credit-linked notes have been required. Under these transactions, because valid rights of set-off exist, interest and principal payments on the surplus notes and on the credit-linked notes are settled on a net basis, and the surplus notes are reflected in the Company’s total consolidated borrowings on a net basis.

As of December 31, 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 \$925 million relates to Regulation XXX reserves and approximately \$2,100 million relates to Guideline AXXX reserves. In addition, as of December 31, 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.

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.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

Market risk is defined as the risk of loss from changes in interest rates, equity prices and foreign currency exchange rates resulting from asset/liability mismatches where the change in the value of our liabilities is not offset by the change in value of our assets.

Effective April 1, 2016, the Company reinsured variable annuity base contracts, along with the living benefit guarantees to PALAC, excluding the Pruco life Insurance Company of New Jersey business, which was reinsured to Prudential Insurance, in each case under a coinsurance and modified coinsurance agreement. These reinsurance agreements cover new and in-force business and exclude business reinsured externally. As of December 31, 2020, the Company discontinued the sales of traditional variable annuities with guaranteed living benefit riders which had no impact on these reinsurance agreements. 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 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. The transaction is referred to as the "2021 Variable Annuities Recapture". Effective April 1, 2022, Prudential Financial completed the sale of PALAC to Fortitude Group Holdings, LLC. See Note 1 to the Consolidated Financial Statements for additional information.

Effective December 1, 2021, the Company entered into a reinsurance agreement with FLIAC (formerly PALAC) under which the Company assumed all of its indexed variable annuities. For additional information regarding this agreement, see Note 11 to the Consolidated Financial Statements.

For additional information regarding the potential impacts of interest rate and other market fluctuations, as well as general economic and market conditions on our businesses and profitability, see Item 1A. "Risk Factors" in the Company's Annual Report on Form 10-K. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Current Market Conditions" above, for how rapidly rising interest rates, among other factors, adversely impact the Company's financial results. For additional information regarding our liquidity and capital resources, which may be impacted by changing market risks, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" above.

Market Risk Management

Management of market risk, which we consider to be a combination of both investment risk and market risk exposures, includes the identification and measurement of various forms of risk, the establishment of risk thresholds and the creation of processes intended to maintain risks within these thresholds while optimizing returns on the underlying assets or liabilities. As an indirect wholly-owned subsidiary of Prudential Financial, the Company benefits from the risk management strategies implemented by Prudential Financial.

Our risk management process utilizes a variety of tools and techniques, including:

- Measures of price sensitivity to market changes (e.g., interest rates, equity index prices, foreign exchange);
- Asset/liability management;
- Stress scenario testing;
- Hedging programs and affiliated reinsurance; and
- Risk management governance, including policies, limits and a committee that oversees investment and market risk.

Market Risk Mitigation

Risk mitigation takes three primary forms:

- **Asset/Liability Management:** Managing assets to liability-based measures. For example, investment policies identify target durations for assets based on liability characteristics and asset portfolios are managed to within ranges around them. This mitigates potential unanticipated economic losses from interest rate movements.
- **Hedging:** Using derivatives to offset risk exposures. For example, for our variable annuities, potential living benefit claims resulting from more severe market conditions are hedged using derivative instruments.
- **Management of portfolio concentration risk:** For example, ongoing monitoring and management of key rate, currency and other concentration risks support diversification efforts to mitigate exposure to individual markets and sources of risk.

Market Risk Related to Interest Rates

We perform liability-driven investing and engage in careful asset/liability management. Asset/liability mismatches create the risk that changes in liability values will differ from the changes in the value of the related assets. Additionally, changes in interest rates may impact other items including, but not limited to, the following:

- Net investment spread between the amounts that we are required to pay and the rate of return we are able to earn on investments for certain products supported by general account investments;
- Asset-based fees earned on assets under management or contractholder account values;
- Net exposure to the guarantees provided under certain products; and
- Our capital levels.

In order to mitigate the impact that an unfavorable interest rate environment has on our net interest margins, we employ a proactive asset/liability management program, which includes strategic asset allocation and derivative strategies within a disciplined risk management framework. These strategies seek to match the characteristics of our products, and to approximate the interest rate sensitivity of the assets with the estimated interest rate sensitivity of the product liabilities. Our asset/liability management program also helps manage duration gaps, currency and other risks between assets and liabilities through the use of derivatives. We adjust this dynamic process as products change, as customer behavior changes and as changes in the market environment occur. As a result, our asset/liability management process has permitted us to manage interest rate risk successfully through several market cycles.

We use duration and convexity analyses to measure price sensitivity to interest rate changes. Duration measures the relative sensitivity of the fair value of a financial instrument to changes in interest rates. Convexity measures the rate of change in duration with respect to changes in interest rates. We use asset/liability management and derivative strategies to manage our interest rate exposure by matching the relative sensitivity of asset and liability values to interest rate changes, or by controlling the “duration mismatch” of assets and liability duration targets. In certain markets, capital market limitations that hinder our ability to acquire assets that approximate the duration of some of our liabilities are considered in setting duration targets. We consider risk-based capital and tax implications as well as current market conditions in our asset/liability management strategies.

The Company also mitigates interest rate risk through a market value adjusted (“MVA”) provision on certain of the Company’s annuity products’ fixed investment options. This MVA provision limits interest rate risk by subjecting the contractholder to an MVA when funds are withdrawn or transferred to variable investment options before the end of the guarantee period. In the event of rising interest rates, which generally make the fixed maturity securities underlying the guarantee less valuable, the MVA could be negative. In the event of declining interest rates, which generally make the fixed maturity securities underlying the guarantee more valuable, the MVA could be positive. The resulting increase or decrease in the value of the fixed option, from calculation of the MVA, is designed to offset the decrease or increase in the market value of the securities underlying the guarantee.

We assess the impact of interest rate movements on the value of our financial assets, financial liabilities and derivatives using hypothetical test scenarios that assume either upward or downward 100 basis point parallel shifts in the yield curve from prevailing interest rates, reflecting changes in either credit spreads or the risk-free rate. The following table sets forth the net estimated potential loss in fair value on these financial instruments from a hypothetical 100 basis point upward shift at December 31, 2022 and 2021. This table is presented on a gross basis and excludes offsetting impacts to certain insurance liabilities that are not considered financial liabilities under U.S. GAAP. This scenario results in the greatest net exposure to interest rate risk of the hypothetical scenarios tested at those dates. While the test scenario is for illustrative purposes only and does not reflect our expectations regarding future interest rates or the performance of fixed-income markets, it is a near-term, reasonably possible hypothetical change that illustrates the potential impact of such events. These test scenarios do not measure the changes in value that could result from non-parallel shifts in the yield curve which we would expect to produce different changes in discount rates for different maturities. As a result, the actual loss in fair value from a 100 basis point change in interest rates could be different from that indicated by these calculations. The estimated changes in fair values do not include separate account assets.

	As of December 31, 2022			As of December 31, 2021		
	Notional	Fair Value	Hypothetical Change in Fair Value	Notional	Fair Value	Hypothetical Change in Fair Value
(in millions)						
Financial assets with interest rate risk:						
Fixed maturities(1)		\$ 20,962	\$ (1,077)		\$ 16,581	\$ (1,780)
Policy loans		505	0		1,327	0
Commercial mortgage and other loans		4,602	(96)		2,884	(116)
Derivatives:						
Futures	\$ 3,302	4	148	\$ 9,124	(6)	(117)
Swaps(2)	158,650	(9,986)	(1,774)	148,825	(4,958)	(2,257)
Options(2)	33,556	(975)	245	29,345	(526)	(317)
Forwards	1,469	(11)	0	315	3	(36)
Market risk benefits(3)		(4,551)	2,356		(8,884)	4,683
Indexed universal life contracts		(880)	143		(1,187)	205
Indexed annuity contracts		(2,622)	(457)		(2,110)	(344)
Total embedded derivatives(4)		(8,053)	2,042		(12,181)	4,544
Financial liabilities with interest rate risk(5):						
Policyholders' account balances-investment contracts		4,333	5		3,947	9
Insurance liabilities with interest rate risk:						
Benefit reserves (traditional and limited-payment contracts)(3)						
(6)		7,130	631		8,693	770
Net estimated potential gain			\$ 124			\$ 700

(1) Includes assets classified as "Fixed maturities, available-for-sale, at fair value" and "Fixed maturities, trading, at fair value." Changes in fair value of fixed maturities classified as available-for-sale are included in AOCI.

(2) Balances have been reclassified to conform to the current period presentation.

(3) Amounts adjusted for the implementation of ASU 2018-12: Targeted Improvements to the Accounting for Long-Duration Contracts.

(4) Excludes any offsetting impact of derivative instruments purchased to hedge changes in the embedded derivatives. Amounts reported gross of reinsurance.

(5) Excludes \$51 billion and \$45 billion as of December 31, 2022 and 2021, respectively, of certain insurance reserve and deposit liabilities that are not considered financial liabilities. We believe that the interest rate sensitivities of these insurance liabilities would serve as an offset to the net interest rate risk of the financial assets and financial liabilities, including investment contracts.

(6) Changes in fair value of benefit reserves (traditional and limited-payment contracts) are included in AOCI. 2021 hypothetical change in fair value was estimated based on 2022 assumptions.

Under U.S. GAAP, the fair value of the embedded derivatives for certain features associated with MRBs, indexed universal life, and indexed annuity contracts, reflected in the table above, includes the impact of the market's perception of our NPR. For additional information regarding the key estimates and assumptions used in our determination of fair value, including NPR, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Accounting Policies & Pronouncements—Application of Critical Accounting Estimates—Market Risk Benefits" above.

Market Risk Related to Equity Prices

We have exposure to equity price risk through our investments in equity securities, equity-based derivatives, MRBs and embedded derivatives associated with index-linked crediting features of universal life and annuity contracts. Changes in equity prices may impact other items including, but not limited to, the following:

- Asset-based fees earned on assets under management or contractholder account value; and
- Net exposure to the guarantees provided under certain products.

We manage equity price risk against benchmarks in respective markets. We benchmark our return on equity holdings against a blend of market indices, mainly the S&P 500 and Russell 2000 for U.S. equities. We benchmark foreign equities against the Tokyo Price Index, and the MSCI EAFE, a market index of European, Australian, and Far Eastern equities. We target price sensitivities that approximate those of the benchmark indices. For equity investments within the separate accounts, the investment risk is borne by the separate account contractholder rather than by the Company.

We estimate our equity risk from a hypothetical 10% decline in equity benchmark levels. The following table sets forth the net estimated potential loss in fair value from such a decline as of December 31, 2022 and 2021. While these scenarios are for illustrative purposes only and do not reflect our expectations regarding future performance of equity markets or of our equity portfolio, they do represent near-term, reasonably possible hypothetical changes that illustrate the potential impact of such events. These scenarios consider only the direct impact on fair value of declines in equity benchmark market levels and not changes in asset-based fees recognized as revenue, or changes in assumptions such as market volatility or mortality, utilization or persistency rates in our variable annuity contracts that could also impact the fair value of our living benefit features. In addition, these scenarios do not reflect the impact of basis risk, such as potential differences in the performance of the investment funds underlying the variable annuity products relative to the market indices we use as a basis for developing our hedging strategy. The impact of basis risk could result in larger differences between the change in fair value of the equity-based derivatives and the related living benefit features in comparison to these scenarios. In calculating these amounts, we exclude separate account equity securities.

	December 31, 2022			December 31, 2021		
	Notional	Fair Value	Hypothetical Change in Fair Value	Notional	Fair Value	Hypothetical Change in Fair Value
	(in millions)					
Equity securities		\$ 143	\$ (14)		\$ 111	\$ (11)
Equity-based derivatives(1)	\$ 42,022	(928)	(170)	\$ 39,607	(1,048)	1,062
Market risk benefits(2)		(4,551)	(947)		(8,884)	(1,303)
Indexed universal life contracts		(880)	24		(1,187)	54
Indexed annuity contracts		(2,622)	841		(2,110)	680
Total embedded derivatives(1)(3)		(8,053)	(82)		(12,181)	(569)
Net estimated potential gain (loss)			\$ (266)			\$ 482

(1) The notional amount and fair value of equity-based derivatives and the fair value of embedded derivatives are also reflected in amounts under "Market Risk Related to Interest Rates" above and are not cumulative.

(2) Amounts adjusted for the implementation of ASU 2018-12: Targeted Improvements to the Accounting for Long-Duration Contracts.

(3) Excludes any offsetting impact of derivative instruments purchased to hedge changes in the embedded derivatives. Amounts reported gross of reinsurance.

Market Risk Related to Foreign Currency Exchange Rates

The Company is exposed to foreign currency exchange rate risk in its domestic general account investment portfolios and previously through its operations in Taiwan.

For our domestic general account investment portfolios our foreign currency exchange rate risk arises primarily from investments that are denominated in foreign currencies. We manage this risk by hedging substantially all domestic foreign currency-denominated fixed-income investments into U.S. dollars. We generally do not hedge all of the foreign currency risk of our investments in equity securities of unaffiliated foreign entities.

The Company previously had foreign currency obligations related to its historic operations in Taiwan. Such currency obligations were offset by foreign currency assets from reinsurance agreements the Company entered into when the Company's Taiwanese operation was transferred to an affiliated company, Prudential of Taiwan, in 2001. On June 30, 2021, Prudential of Taiwan was sold to an unaffiliated party which resulted in the removal of the Company's insurance related liabilities and offsetting reinsurance recoverables. For additional information regarding these reinsurance arrangements, see Note 11 to the Consolidated Financial Statements.

Derivatives

We use derivative financial instruments primarily to reduce market risk from changes in interest rates, equity prices and foreign currency exchange rates, including their use to alter interest rate or foreign currency exposures arising from mismatches between assets and liabilities. Our derivatives primarily include swaps, futures, options and forward contracts that are exchange-traded or contracted in the OTC market. For additional information regarding our derivative activities, see Note 4 to the Consolidated Financial Statements.

Market Risk Related to Certain Variable Annuity Products

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 market assumptions, such as equity market returns, interest rates and market volatility, and actuarial assumptions. Certain variable annuity optional living benefit features are accounted for as MRBs and recorded at fair value.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholder of Pruco Life Insurance Company

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Pruco Life Insurance Company and its subsidiary (the "Company") as of December 31, 2022 and 2021, and the related consolidated statements of operations and comprehensive income (loss), of equity and of cash flows for each of the three years in the period ended December 31, 2022, including the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022 in conformity with accounting principles generally accepted in the United States of America.

Changes in Accounting Principles

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for credit losses on certain financial assets reported at amortized cost in 2020 and long-duration insurance contracts in 2023.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Adoption of the New Accounting Standard for Long-Duration Insurance Contracts ("LDTI")

As described above and in Notes 1, 2, and 5 to the consolidated financial statements, the Company adopted the new LDTI standard, effective January 1, 2023, using the modified retrospective transition method for changes to the liability for future policy benefits and deferred acquisition costs (DAC) and related balances, and using the full retrospective transition method for market risk benefits. Management applied the guidance as of the transition date of January 1, 2021 and retrospectively adjusted prior period amounts for the years ended December 31, 2022 and 2021. As of the January 1, 2021 transition date, the adoption of the standard resulted in a decrease to total equity of \$271 million, and a decrease to retained earnings of \$605 million and an increase to accumulated other comprehensive income of \$335 million. The adjustments to retrospectively adjust prior period amounts resulted in a decrease to retained earnings of \$899 million and an increase of \$210 million and an increase to accumulated other comprehensive income of \$1,571 million and an increase of \$49 million as of December 31, 2022 and 2021, respectively, and a decrease to net income of \$1,108 million and an increase of \$815 million for the years ended December 31, 2022 and 2021, respectively. The adjustments as of January 1, 2021 and for the years ended December 31, 2022 and 2021 include the remeasuring of in force contract liabilities using upper-medium grade fixed income instrument yields as reported in future policy benefits, and the market risk benefits. The liability for future policy benefits is determined as the present value of expected future policy benefits and non-level claim settlement expenses less the present value of expected future net premiums. The discount rate assumptions are based on an upper-medium grade fixed income instrument yield, which is updated each quarter with the impact recorded through other comprehensive income. The methodology used in constructing the discount rate curve for this liability is intended to be reflective of the characteristics of the applicable insurance liabilities, maximizing the use of relevant observable information and minimizing the use of unobservable information in determining the discount rate assumptions. The market risk benefits represent contracts or contract features that expose the Company to other than nominal capital market risk, primarily related to deferred annuities with guaranteed minimum benefits. The benefits are accounted for using a fair value measurement framework. The fair value of market risk benefits is calculated as the present value of expected future benefit payments to contractholders less the present value of expected future rider fees attributable to the market risk benefit. The fair value of market risk benefits is based on assumptions a market participant would use in valuing market risk benefits. On a quarterly basis, changes in the fair value of market risk benefits are recorded in net income, net of related hedges, except for the portion of the change attributable to changes in the Company's non-performance risk which is recorded in other comprehensive income. This methodology could result in either a liability or asset balance, given changing capital market conditions and various actuarial assumptions. As there is no observable active market for the transfer of these obligations, the valuations are calculated using internally developed models with option pricing techniques. The models are based on a risk neutral valuation framework and incorporate premiums for risks inherent in valuation techniques, inputs and general uncertainty around the timing and amount of future cash flows. The significant inputs to the valuation models for these market risk benefits include capital market assumptions, such as interest rate levels and volatility assumptions, the Company's market-perceived non-performance risk, as well as actuarially determined assumptions, including contractholder behavior, such as lapse rates, benefit utilization rates, withdrawal rates, and mortality rates (collectively, the significant market risk benefit assumptions). As of December 31, 2022 and 2021, the market risk benefit assets amounted to \$1.39 billion and \$1.79 billion, respectively, and the market risk benefit liabilities amounted to \$5.52 billion and \$9.76 billion, respectively.

The principal considerations for our determination that performing procedures relating to the adoption of the new accounting standard for LDTI is a critical audit matter are (i) the significant judgment by management when adopting the LDTI standard and determining the adjustments as of January 1, 2021 and for the years ended December 31, 2022 and 2021, (ii) a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence related to (a) management's discount rate methodology and development of the discount rate curve used in determining the liability for future policy benefits, and (b) the fair value measurement framework and management's significant market risk benefits assumptions used in determining the fair value of market risk benefits, and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included, among others, (i) evaluating management's process for adopting the LDTI standard and for determining the adjustments as of January 1, 2021 and for the years ended December 31, 2022 and 2021, (ii) testing the relevance and reliability of the external data used by management to develop the discount rate curve, (iii) evaluating whether the discount rate curve and the significant market risk benefits assumptions are accurately reflected in the respective models, (iv) testing the completeness and accuracy of the data used by management to develop and update the significant market risk benefit assumptions, and (v) the use of professionals with specialized skill and knowledge to assist in evaluating, based on the consideration of the Company's historical and actual experience, industry trends, and market conditions, as applicable, (a) the appropriateness of the discount rate methodology and the reasonableness of the discount rate curve, and (b) the appropriateness of the fair value framework and the reasonableness of the significant market risk benefit assumptions used to determine the fair value of market risk benefits.

Valuation of Guaranteed Benefit Features Associated with Certain Life and Annuity Products Included in the Liability for Future Policy Benefits (as accounted for in the original issuance)

As described in Notes 2, 5, 7 and 8 (not presented herein) to the consolidated financial statements (appearing under Item 8 of the Company's 2022 Annual Report on Form 10-K), the Company issues certain life and annuity contracts which contain guaranteed benefit features. Certain of the guarantees associated with variable annuity contracts are accounted for as embedded derivatives and recorded at fair value, with changes in fair value recognized currently in earnings (as accounted for in the original issuance). As disclosed in the original issuance, the fair value of the obligations associated with these guarantees accounted for as embedded derivatives was \$4.5 billion as of December 31, 2022. As there is no observable active market for the transfer of these obligations, the valuations are calculated by management using internally developed models with option pricing techniques. The models are based on a risk neutral valuation framework and incorporate premiums for risks inherent in valuation techniques, inputs, and the general uncertainty around the timing and amount of future cash flows. The significant inputs to the valuation models for these embedded derivatives include capital market assumptions, such as interest rate levels and volatility assumptions, the Company's market-perceived non-performance risk under the contract, as well as actuarially determined assumptions, including mortality rates, lapse rates, benefit utilization rates and withdrawal rates. For certain life insurance and annuity products that include certain other contract features, including guaranteed minimum death benefits ("GMDB") and no-lapse guarantees, additional policyholder liabilities are established when associated assessments are recognized. The liability for no-lapse guarantee features is grouped with GMDB features in Note 8 (not presented herein). As disclosed in the original issuance, the additional liability for these contract features was \$10.0 billion recorded within the liability for future policy benefits as of December 31, 2022. As disclosed by management in the original issuance, this liability is established using current best estimate assumptions, including mortality rates, lapse rates, benefit utilization rates, withdrawal rates, and premium pattern rates, as well as interest rate and equity market return assumptions, and is based on the ratio of the present value of total expected excess payments (i.e., payments in excess of account value) over the life of the contract divided by the present value of total expected assessments (i.e., benefit ratio). The liability equals the current benefit ratio multiplied by cumulative assessments recognized to date, plus interest, less cumulative excess payments to date. As described above and in Note 1, subsequent to the original issuance of the December 31, 2022 consolidated financial statements, the Company adopted the new accounting standard for LDTI on a modified retrospective basis, except for market risk benefits which used a full retrospective basis. As a result of the adoption of this standard, in the reissued financial statements certain guarantees associated with variable annuity contracts are recorded as market risk benefits. The new standard also clarified the definition of assessments used to accrue additional insurance reserves, primarily for no-lapse guarantee features on certain universal life contracts.

The principal considerations for our determination that performing procedures relating to the valuation of guaranteed benefit features associated with certain life and annuity products included in the liability for future policy benefits (as accounted for in the original issuance) is a critical audit matter are (i) the significant judgment by management to determine the valuation model for the benefit features accounted for as embedded derivatives in light of the valuation objective (fair value) given the lack of an observable market for these guarantees and to determine the aforementioned assumptions for the guaranteed benefit features accounted for as embedded derivatives and additional policyholder liabilities, (ii) a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to the model for embedded derivatives recorded at fair value and the aforementioned assumptions used in the valuation of the liabilities for the guaranteed benefit features accounted for as embedded derivatives and additional policyholder liabilities, and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the valuation of guaranteed benefit features associated with certain life and annuity products included in the liability for future policy benefits, including controls over the model for the benefit features accounted for as embedded derivatives and development of the assumptions used in the valuation of the liabilities for the guaranteed benefit features accounted for as embedded derivatives and additional policyholder liabilities. These procedures also included, among others, testing management's process for determining the valuation of guaranteed benefit features associated with certain life and annuity products included in the liability for future policy benefits, which included the involvement of professionals with specialized skill and knowledge to assist in evaluating (i) the appropriateness of management's models and (ii) the reasonableness of the aforementioned assumptions used in the valuation based on industry knowledge and data as well as historical Company data and experience. The procedures also included testing the completeness and accuracy of data used to develop the aforementioned assumptions and testing that the aforementioned assumptions are accurately reflected in the models.

Valuation of the Deferred Acquisition Costs Related to Universal Life and Variable Life Products and Variable Deferred Annuity Products (as accounted for in the original issuance)

As described in Notes 2 and 6 (not presented herein) to the consolidated financial statements (appearing under Item 8 of the Company's 2022 Annual Report on Form 10-K), the Company defers acquisition costs that relate directly to the successful acquisition of new and renewal insurance and annuity business to the extent such costs are deemed recoverable from future profits (as accounted for in the original issuance). As disclosed in the original issuance, a significant portion of the \$6.6 billion of deferred policy acquisition costs ("DAC") as of December 31, 2022 are associated with certain universal life and variable life products and variable deferred annuity products. DAC related to universal life and variable life products and variable deferred annuity products is generally amortized over the expected life of the contracts in proportion to gross profits arising principally from investment margins, mortality and expense margins, and surrender charges. These margins are updated periodically based on historical and anticipated future experience. Gross profits also include impacts from the embedded derivatives associated with certain of the optional living benefit features of variable annuity contracts. The DAC balance is regularly adjusted with a corresponding charge or credit to current period earnings for the impact of actual gross profits and changes in management's projections of estimated future gross profits. DAC is subject to periodic recoverability testing. As described above and in Note 1 and 2, subsequent to the original issuance of the December 31, 2022 consolidated financial statements, the Company adopted the new accounting standard for LDTI on a modified retrospective basis, except for market risk benefits which used a full retrospective basis. As a result of the adoption of this standard, in the reissued financial statements DAC is amortized on a constant level basis over the expected term of the contract.

The principal considerations for our determination that performing procedures relating to the valuation of DAC related to universal life and variable life products and variable deferred annuity products (as accounted for in the original issuance) is a critical audit matter are (i) the significant judgment by management to determine the assumptions used in the projection of gross profits used to amortize DAC related to mortality rates, lapse rates, benefit utilization rates, withdrawal rates, and premium pattern rates, as well as interest rate and equity market return assumptions (collectively, the "significant assumptions"), (ii) a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to the significant assumptions, and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the valuation of DAC related to universal life and variable life products and variable deferred annuity products, including controls over the development of the significant assumptions. These procedures also included, among others, testing management's process for determining the valuation of DAC related to universal life and variable life products and variable deferred annuity products, which included the involvement of professionals with specialized skill and knowledge to assist in evaluating (i) the appropriateness of management's models and (ii) the reasonableness of the significant assumptions used in the valuation based on industry knowledge and data as well as historical Company data and experience. The procedures also included testing the completeness and accuracy of data used to develop the assumptions and testing that the assumptions are accurately reflected in the models.

/s/ PricewaterhouseCoopers LLP

New York, New York

March 20, 2023, except for the change in the manner in which the Company accounts for long-duration insurance contracts discussed in Note 2 to the consolidated financial statements and the *Adoption of the New Accounting Standard for LDTI* Critical Audit Matter, as to which the date is July 14, 2023.

We have served as the Company's auditor since 1996.

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

	December 31, 2022	December 31, 2021
ASSETS		
Fixed maturities, available-for-sale, at fair value (allowance for credit losses: 2022 – \$4,769; 2021 – \$4,149) (amortized cost: 2022 – \$21,311,087; 2021 – \$12,737,749)	\$ 19,025,401	\$ 13,278,166
Fixed maturities, trading, at fair value (amortized cost: 2022 – \$2,682,022; 2021 – \$3,319,660)	1,936,159	3,302,392
Equity securities, at fair value (cost: 2022 – \$148,179; 2021 – \$106,174)	143,072	111,267
Policy loans	505,367	1,327,485
Short-term investments	124,491	182,437
Commercial mortgage and other loans (net of \$20,263 and \$5,951 allowance for credit losses at December 31, 2022 and December 31, 2021, respectively)	4,928,680	2,832,560
Other invested assets (includes \$116,110 and \$348,004 of assets measured at fair value at December 31, 2022 and 2021, respectively)	1,088,613	1,209,925
Total investments	27,751,783	22,244,232
Cash and cash equivalents	2,397,627	918,931
Deferred policy acquisition costs(1)	6,930,425	7,029,308
Accrued investment income	219,635	160,027
Reinsurance recoverables(1)	37,096,562	40,444,196
Receivables from parent and affiliates	224,921	278,131
Deferred sales inducements(1)	381,504	414,619
Income tax assets(1)	1,694,751	1,247,860
Market risk benefit assets(1)	1,393,237	1,786,565
Other assets(1)	1,331,427	1,381,829
Separate account assets	114,051,246	149,797,828
TOTAL ASSETS	\$ 193,473,118	\$ 225,703,526
LIABILITIES AND EQUITY		
LIABILITIES		
Policyholders' account balances(1)	\$ 41,912,536	\$ 35,730,680
Future policy benefits(1)	20,829,033	21,510,749
Market risk benefit liabilities(1)	5,521,601	9,764,443
Cash collateral for loaned securities	86,750	3,004
Short-term debt to affiliates	126,250	0
Long-term debt to affiliates	185,563	320,362
Payables to parent and affiliates	2,126,571	31,775
Other liabilities(1)	3,597,373	2,330,689
Separate account liabilities	114,051,246	149,797,828
Total liabilities	188,436,923	219,489,530
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 16)		
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	6,037,914	6,042,491
Retained earnings / (accumulated deficit)(1)	(994,154)	(227,449)
Accumulated other comprehensive income (loss)(1)	(10,065)	396,454
Total equity	5,036,195	6,213,996
TOTAL LIABILITIES AND EQUITY	\$ 193,473,118	\$ 225,703,526

(1) Amounts adjusted for the implementation of Accounting Standards Update ("ASU") 2018-12: Targeted Improvements to the Accounting for Long-Duration Contracts.

See Notes to Consolidated Financial Statements

PRUCO LIFE INSURANCE COMPANY
Consolidated Statements of Operations and Comprehensive Income (Loss)
Years Ended December 31, 2022, 2021, and 2020 (in thousands)

	2022	2021	2020
REVENUES			
Premiums(1)	\$ 265,208	\$ 184,458	\$ 92,176
Policy charges and fee income(1)	1,230,601	1,300,095	624,320
Net investment income	884,001	550,235	367,350
Asset administration fees	284,182	202,177	19,138
Other income (loss)(1)	(651,469)	262,420	83,256
Realized investment gains (losses), net(1)	336,382	(386,894)	(62,976)
Change in value of market risk benefits, net of related hedging gain (loss)(1)	(700,581)	(4,222,530)	0
TOTAL REVENUES	1,648,324	(2,110,039)	1,123,264
BENEFITS AND EXPENSES			
Policyholders' benefits(1)	458,373	82,710	298,149
Change in estimates of liability for future policy benefits(1)	55,099	27,008	0
Interest credited to policyholders' account balances(1)	445,215	(151,389)	233,375
Amortization of deferred policy acquisition costs(1)	520,276	325,595	140,562
General, administrative and other expenses(1)	1,156,464	(523,774)	383,043
TOTAL BENEFITS AND EXPENSES	2,635,427	(239,850)	1,055,129
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURE	(987,103)	(1,870,189)	68,135
Income tax expense (benefit)(1)	(295,535)	(474,786)	(130,248)
INCOME (LOSS) FROM OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURE	(691,568)	(1,395,403)	198,383
Equity in earnings of operating joint venture, net of taxes	(75,137)	702	(1,686)
NET INCOME (LOSS)	\$ (766,705)	\$ (1,394,701)	\$ 196,697
Other comprehensive income (loss), before tax:			
Foreign currency translation adjustments	(9,337)	(3,891)	599
Net unrealized investment gains (losses)(1)	(2,254,037)	(210,486)	334,893
Interest rate remeasurement of future policy benefits(1)	310,353	37,274	0
Gain (loss) from changes in non-performance risk on market risk benefits(1)	1,440,305	(435,232)	0
Total	(512,716)	(612,335)	335,492
Less: Income tax expense (benefit) related to other comprehensive income (loss)(1)	(106,197)	(128,241)	70,806
Other comprehensive income (loss), net of taxes	(406,519)	(484,094)	264,686
Comprehensive income (loss)	\$ (1,173,224)	\$ (1,878,795)	\$ 461,383

(1) Amounts for the years ended December 31, 2022 and 2021 were adjusted for the implementation of ASU 2018-12: Targeted Improvements to the Accounting for Long-Duration Contracts.

See Notes to Consolidated Financial Statements

PRUCO LIFE INSURANCE COMPANY
Consolidated Statements of Equity
Years Ended December 31, 2022, 2021 and 2020 (in thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, December 31, 2019	\$ 2,500	\$ 1,153,632	\$ 1,577,453	\$ 281,442	\$ 3,015,027
Cumulative effect of adoption of accounting changes(1)			(1,752)		(1,752)
Contributed capital		575,000			575,000
Contributed (distributed) capital-parent/child asset transfers		(1,942)			(1,942)
Comprehensive income (loss):					
Net income (loss)			196,697		196,697
Other comprehensive income (loss), net of tax				264,686	264,686
Total comprehensive income (loss)					461,383
Balance, December 31, 2020	2,500	1,726,690	1,772,398	546,128	4,047,716
Cumulative effect of adoption of ASU 2018-12			(605,146)	334,420	(270,726)
Contributed capital		4,342,215			4,342,215
Contributed (distributed) capital-parent/child asset transfers		(26,414)			(26,414)
Comprehensive income (loss):					
Net income (loss)			(1,394,701)		(1,394,701)
Other comprehensive income (loss), net of tax				(484,094)	(484,094)
Total comprehensive income (loss)					(1,878,795)
Balance, December 31, 2021(2)	2,500	6,042,491	(227,449)	396,454	6,213,996
Contributed capital		17,861			17,861
Contributed (distributed) capital-parent/child asset transfers		(22,438)			(22,438)
Comprehensive income (loss):					
Net income (loss)			(766,705)		(766,705)
Other comprehensive income (loss), net of tax				(406,519)	(406,519)
Total comprehensive income (loss)					(1,173,224)
Balance, December 31, 2022(2)	<u>\$ 2,500</u>	<u>\$ 6,037,914</u>	<u>\$ (994,154)</u>	<u>\$ (10,065)</u>	<u>\$ 5,036,195</u>

(1) Includes the impact from the adoption of ASU 2016-13. See Note 2.

(2) Amounts adjusted for the implementation of ASU 2018-12: Targeted Improvements to the Accounting for Long-Duration Contracts.

See Notes to Consolidated Financial Statements

PRUCO LIFE INSURANCE COMPANY
Consolidated Statements of Cash Flows
Years Ended December 31, 2022, 2021 and 2020 (in thousands)

	2022	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)(1)	\$ (766,705)	\$ (1,394,701)	\$ 196,697
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Policy charges and fee income(1)	131,936	165,675	(81,850)
Interest credited to policyholders' account balances(1)	445,215	(151,389)	233,375
Realized investment (gains) losses, net(1)	(336,382)	386,894	62,976
Change in value of market risk benefits, net of related hedging (gains) losses(1)	700,581	4,222,530	0
Change in:			
Future policy benefits and other insurance liabilities(1)	3,743,780	1,831,520	2,658,195
Reinsurance recoverables(1)	(2,254,290)	(1,134,683)	(2,440,532)
Accrued investment income	(58,762)	(66,414)	(4,165)
Net payables to/receivables from parent and affiliates	80,370	(16,904)	(145,743)
Deferred policy acquisition costs(1)	(442,303)	(4,067,946)	(617,907)
Income taxes(1)	(334,769)	(842,107)	(142,196)
Derivatives, net	(651,654)	(1,193,004)	10,969
Other, net(1)(2)	1,567,947	1,376,588	(108,941)
Cash flows from (used in) operating activities	1,824,964	(883,941)	(379,122)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from the sale/maturity/prepayment of:			
Fixed maturities, available-for-sale	1,688,079	1,251,269	385,245
Fixed maturities, trading	907,941	914,662	0
Equity securities	242,292	100,151	5,043
Policy loans	169,723	172,932	174,208
Ceded policy loans	(112,164)	(13,387)	(12,863)
Short-term investments	632,069	221,645	371,508
Commercial mortgage and other loans	196,672	280,103	123,124
Other invested assets	60,349	302,692	16,280
Payments for the purchase/origination of:			
Fixed maturities, available-for-sale	(7,009,578)	(2,504,582)	(1,269,808)
Fixed maturities, trading	(425,267)	(117,247)	(13,418)
Equity securities	(281,684)	(98,122)	(99,871)
Policy loans	(144,764)	(122,297)	(137,133)
Ceded policy loans	71,402	12,161	20,053
Short-term investments	(558,161)	(317,593)	(421,495)
Commercial mortgage and other loans	(1,076,351)	(565,222)	(165,398)
Other invested assets	(166,345)	(148,842)	(74,231)
Notes receivable from parent and affiliates, net	771	(54,026)	905
Derivatives, net	(366,805)	(3,234)	(4,048)
Other, net	57,687	(10,392)	2,290
Cash flows from (used in) investing activities	(6,114,134)	(699,329)	(1,099,609)

	2022	2021	2020
CASH FLOWS FROM FINANCING ACTIVITIES:			
Policyholders' account deposits	9,996,128	5,690,619	4,775,163
Ceded policyholders' account deposits	(1,216,195)	(1,149,254)	(3,479,973)
Policyholders' account withdrawals	(3,727,579)	(3,927,948)	(3,291,806)
Ceded policyholders' account withdrawals	638,392	326,680	2,709,182
Net change in securities sold under agreement to repurchase and cash collateral for loaned securities	83,762	287	(4,804)
Contributed capital	0	776,657	575,000
Contributed (distributed) capital - parent/child asset transfers	(11,478)	(6,148)	(2,458)
Net change in financing arrangements (maturities 90 days or less)	584	0	(2,845)
Proceeds from the issuance of debt (maturities longer than 90 days)	0	323,839	0
Drafts outstanding	63,579	43,741	40,514
Other, net	(59,327)	(3,251)	24,538
Cash flows from (used in) financing activities	5,767,866	2,075,222	1,342,511
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,478,696	491,952	(136,220)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	918,931	426,979	563,199
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,397,627	\$ 918,931	\$ 426,979
SUPPLEMENTAL CASH FLOW INFORMATION			
Income taxes paid (refund)	\$ 39,201	\$ 391,015	\$ 11,948
Interest paid	\$ 7,863	\$ 6,341	\$ 2,783

(1) Amounts for the years ended December 31, 2022 and 2021 were adjusted for the implementation of ASU 2018-12: Targeted Improvements to the Accounting for Long-Duration Contracts.

(2) Prior periods have been reclassified to conform to the current period presentation.

Significant Non-Cash Transactions

"Cash flows from (used in) operating activities" for the year ended December 31, 2022 excludes certain non-cash activities in the amount of \$531 million related to the Company entering into an affiliated reinsurance agreement with Lotus Reinsurance Company Ltd. ("Lotus Re") on January 1, 2022 and \$4,656 million related to the indexed variable annuities novated to the Company in connection with the reinsurance agreement with Fortitude Life Insurance & Annuity Company ("FLIAC"). See Note 11 for more details regarding these transactions. The Company also received \$18 million of non-cash assets from its parent, The Prudential Insurance Company of America. See Note 15 for additional information.

Cash Flows from Investing and Financing Activities for the year ended December 31, 2021 excludes certain non-cash activities related to the following transactions:

Effective July 1, 2021, Pruco Life Insurance Company recaptured 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. See Note 1 for additional information.

Effective December 1, 2021, the Pruco Life Insurance Company assumed certain variable and fixed annuities from Prudential Annuities Life Assurance Corporation, which resulted in \$2.6 billion of investment transfers and \$0.2 billion of dividend payment in securities. See Note 1 for additional information.

There were no significant non-cash transactions for the year ended December 31, 2020.

See Notes to Consolidated Financial Statements

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

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".

The day 1 impact of the Variable Annuities Recapture resulted in the following significant non-cash transactions:

- The increase in total investments includes non-cash activities of \$8.3 billion related to the recapture transaction.
- The Company incurred a loss related to ceding commissions of \$2 billion.
- The increase in Additional paid-in capital includes non-cash activities of \$3.4 billion in invested assets related to capital contributions from Prudential Insurance

Affiliated Asset Transfers

Affiliate	Period	Transaction	Security Type	Fair Value	Book Value	APIC/ Retained Earnings Increase/(Decrease)	Realized Investment Gain/(Loss), Net	Derivative Gain/(Loss)
(in millions)								
PALAC	July 1, 2021	Purchase	Derivatives, Fixed Maturities, Equity Securities, Commercial Mortgages and JV/LP Investments	\$ 4,908	\$ 4,908	\$ 0	\$ 0	0
Prudential Insurance	July 1, 2021	Contributed Capital	Fixed Maturities	\$ 3,420	\$ 3,420	\$ 3,420	\$ 0	0

As part of the recapture transaction, the Company received invested assets of \$6.8 billion, net of \$2 billion ceding commissions as consideration from PALAC, which is equivalent to the amount of statutory reserve credit taken as of June 30, 2021. The Company released a reinsurance recoverable of \$11.6 billion.

The Company derecognized its ceded Deferred Acquisition Costs ("DAC") and Deferred Sales Inducements ("DSI") balances as of June 30, 2021. The company also recognized a net deferred reinsurance loss from the original transaction of \$0.2 billion. As a result of the recapture transaction, the Company recognized a pre-tax loss of \$2.9 billion immediately.

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

There was a \$3.8 billion capital contribution from Prudential Insurance, which includes \$3.4 billion in invested assets and \$0.4 billion in cash.

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. As a result, the Company recognized a deferred reinsurance loss of \$238 million. As of December 31, 2021, the reinsurance recoverable from the reinsurance of indexed variable annuities was \$7.2 billion, and the Policyholders' account balances resulting from the reinsurance of variable and fixed indexed annuities and fixed annuities with a guaranteed lifetime withdrawal income benefit was \$9.8 billion. See Note 11 for additional information regarding this reinsurance arrangement.

Basis of Presentation

On January 1, 2023, the Company adopted ASU 2018-12, *Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*, which provided new authoritative guidance impacting the accounting and disclosure requirements for long-duration insurance and investment contracts issued by the Company. See “Adoption of ASU 2018-12” below for additional information regarding this adoption, including the impacts to the Company’s 2022 and 2021 financial statements from implementing the new accounting standard as well as the transition impacts recorded as of January 1, 2021. See Note 2 for additional details regarding the key policy changes effected by this ASU and updated accounting policies resulting from the adoption of this ASU for the years ended December 31, 2022 and 2021 presented in the Consolidated Financial Statements.

The Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”). Intercompany balances and transactions have been eliminated.

Adoption of ASU 2018-12

In August 2018, the FASB issued ASU 2018-12, *Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts* which provides new authoritative guidance impacting the accounting and disclosure requirements for long-duration insurance and investment contracts issued by the Company. The Company adopted this guidance, effective January 1, 2023, using the modified retrospective transition method, where permitted, for changes to the liability for future policy benefits and DAC and related balances, and using the retrospective transition method, as required, for market risk benefits. The Company applied the guidance as of the transition date of January 1, 2021 and retrospectively adjusted prior period amounts for the years ended December 31, 2022 and 2021 for financial statements to reflect the new guidance. The Company has not retrospectively adjusted its financial statements for the year ended December 31, 2020 to reflect the adoption of ASU 2018-12, consistent with the Division of Corporation Finance’s Financial Reporting Manual Section 11410.1.

As of December 31, 2022 and 2021, the impact of adoption is primarily from remeasuring in force contract liabilities using upper-medium grade fixed income instrument yields as reported in future policy benefits, other changes in reserves, and market risk benefits.

The following tables present amounts as previously reported in 2022, the effect upon those amounts from the adoption of the new guidance under ASU 2018-12, and the adjusted amounts that are reflected in the Consolidated Financial Statements included herein.

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

Consolidated Statements of Financial Position:

IMPACTED LINES ONLY	December 31, 2022		
	As Previously Reported	Effect of Change	As Currently Reported
	(in thousands)		
Deferred policy acquisition costs	\$ 6,616,097	\$ 314,328	\$ 6,930,425
Reinsurance recoverables	34,561,825	2,534,737	37,096,562
Deferred sales inducements	275,574	105,930	381,504
Income tax assets	1,873,740	(178,989)	1,694,751
Market risk benefit assets	0	1,393,237	1,393,237
Other assets	1,327,393	4,034	1,331,427
TOTAL ASSETS	\$ 189,299,841	\$ 4,173,277	\$ 193,473,118
Policyholders' account balances	\$ 41,748,241	\$ 164,295	\$ 41,912,536
Future policy benefits	23,204,533	(2,375,500)	20,829,033
Market risk benefit liabilities	0	5,521,601	5,521,601
Other liabilities	3,407,156	190,217	3,597,373
Total liabilities	184,936,310	3,500,613	188,436,923
Retained earnings / (accumulated deficit)	(95,583)	(898,571)	(994,154)
Accumulated other comprehensive income (loss)	(1,581,300)	1,571,235	(10,065)
Total equity	4,363,531	672,664	5,036,195
TOTAL LIABILITIES AND EQUITY	\$ 189,299,841	\$ 4,173,277	\$ 193,473,118

IMPACTED LINES ONLY	December 31, 2021		
	As Previously Reported	Effect of Change	As Currently Reported
	(in thousands)		
Deferred policy acquisition costs	\$ 6,830,972	\$ 198,336	\$ 7,029,308
Reinsurance recoverables	38,598,767	1,845,429	40,444,196
Deferred sales inducements	374,649	39,970	414,619
Income tax assets	1,316,879	(69,019)	1,247,860
Market risk benefit assets	0	1,786,565	1,786,565
Other assets	1,140,948	240,881	1,381,829
TOTAL ASSETS	\$ 221,661,364	\$ 4,042,162	\$ 225,703,526
Policyholders' account balances	\$ 35,361,795	\$ 368,885	\$ 35,730,680
Future policy benefits	27,927,029	(6,416,280)	21,510,749
Market risk benefit liabilities	0	9,764,443	9,764,443
Other liabilities	2,264,477	66,212	2,330,689
Total liabilities	215,706,270	3,783,260	219,489,530
Retained earnings / (accumulated deficit)	(437,332)	209,883	(227,449)
Accumulated other comprehensive income (loss)	347,435	49,019	396,454
Total equity	5,955,094	258,902	6,213,996
TOTAL LIABILITIES AND EQUITY	\$ 221,661,364	\$ 4,042,162	\$ 225,703,526

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

Consolidated Statements of Operations and Comprehensive Income (Loss):

IMPACTED LINES ONLY	Year Ended, December 31, 2022		
	As Previously Reported	Effect of Change	As Currently Reported
	(in thousands)		
REVENUES			
Premiums	\$ 274,783	\$ (9,575)	\$ 265,208
Policy charges and fee income	1,731,957	(501,356)	1,230,601
Other income (loss)	(661,860)	10,391	(651,469)
Realized investment gains (losses), net	1,041,435	(705,053)	336,382
Change in value of market risk benefits, net of related hedging gain (loss)	0	(700,581)	(700,581)
TOTAL REVENUES	3,554,498	(1,906,174)	1,648,324
BENEFITS AND EXPENSES			
Policyholders' benefits	609,392	(151,019)	458,373
Change in estimates of liability for future policy benefits	0	55,099	55,099
Interest credited to policyholders' account balances	517,488	(72,273)	445,215
Amortization of deferred policy acquisition costs	857,385	(337,109)	520,276
General, administrative and other expenses	1,154,229	2,235	1,156,464
TOTAL BENEFITS AND EXPENSES	3,138,494	(503,067)	2,635,427
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURE	416,004	(1,403,107)	(987,103)
Income tax expense (benefit)	(882)	(294,653)	(295,535)
INCOME (LOSS) FROM OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURE	416,886	(1,108,454)	(691,568)
NET INCOME (LOSS)	\$ 341,749	\$ (1,108,454)	\$ (766,705)
Other comprehensive income (loss), before tax:			
Net unrealized investment gains (losses)	(2,430,238)	176,201	(2,254,037)
Interest rate remeasurement of future policy benefits	0	310,353	310,353
Gain (loss) from changes in non-performance risk on market risk benefits	0	1,440,305	1,440,305
Total	(2,439,575)	1,926,859	(512,716)
Less: Income tax expense (benefit) related to other comprehensive income (loss)	(510,840)	404,643	(106,197)
Other comprehensive income (loss), net of taxes	(1,928,735)	1,522,216	(406,519)
Comprehensive income (loss)	\$ (1,586,986)	\$ 413,762	\$ (1,173,224)

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

IMPACTED LINES ONLY	Year Ended December 31, 2021		
	As Previously Reported	Effect of Change	As Currently Reported
	(in thousands)		
REVENUES			
Premiums	\$ 203,676	\$ (19,218)	\$ 184,458
Policy charges and fee income	1,529,757	(229,662)	1,300,095
Other income (loss)	267,208	(4,788)	262,420
Realized investment gains (losses), net	(5,295,406)	4,908,512	(386,894)
Change in value of market risk benefits, net of related hedging gain (loss)	0	(4,222,530)	(4,222,530)
TOTAL REVENUES	(2,542,353)	432,314	(2,110,039)
BENEFITS AND EXPENSES			
Policyholders' benefits	655,910	(573,200)	82,710
Change in estimates of liability for future policy benefits	0	27,008	27,008
Interest credited to policyholders' account balances	(114,585)	(36,804)	(151,389)
Amortization of deferred policy acquisition costs	342,118	(16,523)	325,595
General, administrative and other expenses	(523,925)	151	(523,774)
TOTAL BENEFITS AND EXPENSES	359,518	(599,368)	(239,850)
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURE	(2,901,871)	1,031,682	(1,870,189)
Income tax expense (benefit)	(691,439)	216,653	(474,786)
INCOME (LOSS) FROM OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURE	(2,210,432)	815,029	(1,395,403)
NET INCOME (LOSS)	\$ (2,209,730)	\$ 815,029	\$ (1,394,701)
Other comprehensive income (loss), before tax:			
Net unrealized investment gains (losses)	(247,176)	36,690	(210,486)
Interest rate remeasurement of future policy benefits	0	37,274	37,274
Gain (loss) from changes in non-performance risk on market risk benefits	0	(435,232)	(435,232)
Total	(251,067)	(361,268)	(612,335)
Less: Income tax expense (benefit) related to other comprehensive income (loss)	(52,374)	(75,867)	(128,241)
Other comprehensive income (loss), net of taxes	(198,693)	(285,401)	(484,094)
Comprehensive income (loss)	\$ (2,408,423)	\$ 529,628	\$ (1,878,795)

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

Consolidated Statements of Cash Flows:

IMPACTED LINES ONLY	Year Ended December 31, 2022		
	As Previously Reported	Effect of Change	As Currently Reported
	(in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 341,749	\$ (1,108,454)	\$ (766,705)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Policy charges and fee income	(78,754)	210,690	131,936
Interest credited to policyholders' account balances	517,488	(72,273)	445,215
Realized investment (gains) losses, net	(1,041,435)	705,053	(336,382)
Change in value of market risk benefits, net of related hedging (gains) losses	0	700,581	700,581
Change in:			
Future policy benefits and other insurance liabilities	2,407,887	1,335,893	3,743,780
Reinsurance recoverables	(1,181,692)	(1,072,598)	(2,254,290)
Deferred policy acquisition costs	(105,194)	(337,109)	(442,303)
Income taxes	(40,095)	(294,674)	(334,769)
Other, net(1)	1,635,056	(67,109)	1,567,947
Cash flows from (used in) operating activities	\$ 1,824,964	\$ 0	\$ 1,824,964

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

IMPACTED LINES ONLY	Year Ended December 31, 2021					
	As Previously Reported		Effect of Change	As Currently Reported		
	(in thousands)					
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income (loss)	\$	(2,209,730)	\$	815,029	\$	(1,394,701)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:						
Policy charges and fee income		(21,763)		187,438		165,675
Interest credited to policyholders' account balances		(114,585)		(36,804)		(151,389)
Realized investment (gains) losses, net		5,295,406		(4,908,512)		386,894
Change in value of market risk benefits, net of related hedging (gains) losses		0		4,222,530		4,222,530
Change in:						
Future policy benefits and other insurance liabilities		2,080,967		(249,447)		1,831,520
Reinsurance recoverables		(1,304,306)		169,623		(1,134,683)
Deferred policy acquisition costs		(3,926,121)		(141,825)		(4,067,946)
Income taxes		(1,082,459)		240,352		(842,107)
Other, net(1)		1,674,972		(298,384)		1,376,588
Cash flows from (used in) operating activities	\$	(883,941)	\$	0	\$	(883,941)

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

The following tables detail the January 1, 2021 transition adjustments by providing a rollforward of the ending reported balances as of December 31, 2020 to the opening balances as of January 1, 2021 for retained earnings, accumulated other comprehensive income ("AOCI") and the impacted insurance-related balances.

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

	January 1, 2021
	Retained Earnings
	(in thousands)
Balance after-tax, prior to transition	\$ 1,772,398
Reclassification of market risk benefits non-performance risk to accumulated other comprehensive income(1)	(722,837)
Updates to certain universal life contract liabilities(2)	(116,120)
Other(3)	72,950
Total pre-tax adjustments	(766,007)
Tax impacts	160,861
Balance after-tax, after transition	\$ 1,167,252

- (1) Reflects the cumulative impact of changes in the fair value of market risk benefits ("MRB") non-performance risk ("NPR") from the date of contract issuance to January 1, 2021. These amounts were previously recorded in retained earnings but are now reflected in AOCI under the new guidance.
- (2) Reflects the impact on additional insurance reserves ("AIR") and other related balances primarily related to the no-lapse guarantee features on certain universal life contracts. For additional information, see Note 2.
- (3) Primarily reflects the reassessment of deferred reinsurance gains ("DRG") and losses ("DRL").

	January 1, 2021
	Accumulated Other Comprehensive Income
	(in thousands)
Balance after-tax, prior to transition	\$ 546,128
Interest rate remeasurement of future policy benefits	(196,526)
Reclassification of market risk benefits non-performance risk to accumulated other comprehensive income(1)	722,837
Unwinding amounts related to unrealized investment gains and losses(2)	(102,042)
Change in operating joint ventures	(753)
Total pre-tax adjustments	423,516
Tax impacts	(89,096)
Balance after-tax, after transition	\$ 880,548

- (1) Reflects the cumulative impact of changes in NPR on the fair value of market risk benefits from the date of contract issuance to January 1, 2021. These amounts were previously recorded in retained earnings but are now reflected in AOCI under the new guidance.
- (2) Primarily reflects amounts related to DAC and other balances as unrealized investment gains or losses no longer impact the amortization pattern of such balances under the new guidance. Also includes the impacts from updates to reserves and other related balances for certain universal life contracts. For additional information, see Note 2.

	January 1, 2021		
	Deferred Policy Acquisition Costs		
	Term Life	Variable/Universal Life	Total
	(in thousands)		
Balance prior to transition	\$ 462,098	\$ 1,971,838	\$ 2,433,936
Unwinding amounts related to unrealized investment gains and losses	0	74,702	74,702
Other(1)	1	(15,557)	(15,556)
Balance after transition	\$ 462,099	\$ 2,030,983	\$ 2,493,082

- (1) Represents miscellaneous model refinements.

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

	January 1, 2021			
	Deferred Reinsurance Losses(1)			
	Variable Annuities	Term Life	Variable/Universal Life	Total
	(in thousands)			
Balance prior to transition	\$ 118,579	\$ 87,932	\$ 27,167	\$ 233,678
Unwinding amounts related to unrealized investment gains and losses	14,804	0	0	14,804
Effect of change in reserve basis to market risk benefits	141,032	0	0	141,032
Effect of change in SOP 03-1 reserve basis	0	0	(27,167)	(27,167)
Balance after transition	\$ 274,415	\$ 87,932	\$ 0	\$ 362,347

(1) Deferred reinsurance losses are included in "Other assets."

	January 1, 2021	
	Deferred Reinsurance Gains(1)	
	Variable/Universal Life	
	(in thousands)	
Balance prior to transition	\$	134,213
Effect of change in SOP 03-1 reserve basis		40,046
Balance after transition	\$	174,259

(1) Deferred reinsurance gains are included in "Other liabilities."

	January 1, 2021			
	Benefit Reserves(1)			
	Term Life	Life Insurance - Taiwan	Other(2)	Total
	(in thousands)			
Balance prior to transition	\$ 6,674,490	\$ 1,592,329	\$ 219,744	\$ 8,486,563
Changes in cash flow assumptions and other activity	(259)	43,233	(7,283)	35,691
Balance after transition, at original discount rate	6,674,231	1,635,562	212,461	8,522,254
Cumulative changes in discount rate assumptions	2,432,010	3,316,991	27,818	5,776,819
Balance after transition, at current discount rate	9,106,241	4,952,553	240,279	14,299,073
Less: Reinsurance recoverable	8,536,200	4,952,553	239,874	13,728,627
Balance after transition, net of reinsurance recoverable	\$ 570,041	\$ 0	\$ 405	\$ 570,446

(1) Benefit reserves, excluding amounts for reinsurance recoverable, are included in "Future policy benefits". For additional information on the liability for future policy benefits, see Note 8.

(2) Other includes fixed annuities and retirement products.

	January 1, 2021		
	Deferred Profit Liability(1)		
	Life Insurance - Taiwan	Other(2)	Total
	(in thousands)		
Balance prior to transition	\$ 49,127	\$ 1,689	\$ 50,816
Changes in benefit reserves	(6,671)	8,521	1,850
Balance after transition	42,456	10,210	52,666
Less: Reinsurance recoverable	42,456	10,210	52,666
Balance after transition, net of reinsurance recoverable	\$ 0	\$ 0	\$ 0

(1) Deferred profit liability ("DPL"), excluding amounts for reinsurance recoverable, is included in "Future policy benefits". For additional information regarding the liability for future policy benefits, see Note 8.

(2) Other includes fixed annuities and retirement products.

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

	January 1, 2021		
	Additional Insurance Reserves(1)		
	Variable/Universal Life	Variable Annuities	Total
	(in thousands)		
Balance prior to transition	\$ 9,363,585	\$ 588,311	\$ 9,951,896
Unwinding amounts related to unrealized investment gains and losses	(1,426,811)	(53,889)	(1,480,700)
Balance prior to transition, excluding amounts related to unrealized investment gains and losses	7,936,774	534,422	8,471,196
Reclassification of future policy benefits additional insurance reserves to market risk benefits	0	(534,422)	(534,422)
Updates to certain universal life contract liabilities(2)	1,771,341	0	1,771,341
Balance after transition, excluding amounts related to unrealized investment gains and losses	9,708,115	0	9,708,115
Amounts related to unrealized investment gains and losses after transition	1,169,972	0	1,169,972
Balance after transition	10,878,087	0	10,878,087
Less: Reinsurance recoverable	10,685,150	0	10,685,150
Balance after transition, net of reinsurance recoverable	\$ 192,937	\$ 0	\$ 192,937

(1) AIR, excluding amounts for reinsurance recoverable, are included in "Future policy benefits". For additional information regarding the liability for future policy benefits, see Note 8.

(2) For additional information regarding updates to reserves and other related balances for certain universal life contracts, see Note 2.

	January 1, 2021	
	Unearned Revenue Reserves(1)	
	Variable/Universal Life	
	(in thousands)	
Balance prior to transition	\$	1,377,669
Unwinding amounts related to unrealized investment gains and losses and other activity		367,599
Balance after transition		1,745,268
Less: Reinsurance recoverable		751,517
Balance after transition, net of reinsurance recoverable	\$	993,751

(1) Unearned revenue reserves ("URR") are included in "Policyholders' account balances". For additional information regarding the liability for policyholders' account balances, see Note 9.

	January 1, 2021	
	Market Risk Benefits(1)	
	Variable Annuities	
	(in thousands)	
Liability for guaranteed benefits recorded at fair value, prior to transition	\$	13,227,814
Additional insurance reserves to be reclassified to market risk benefits, prior to transition, excluding amounts related to unrealized investment gains and losses		534,422
Total liability prior to transition		13,762,236
Change in reserve basis to market risk benefits framework		(184,693)
Market risk benefits after transition, at current non-performance risk value		13,577,543
Less: Reinsured market risk benefits		13,589,575
Market risk benefits after transition, net of reinsurance		(12,032)
Market risk benefits after transition, at contract inception non-performance risk value		14,300,380
Cumulative change in non-performance risk		722,837
Market risk benefits after transition, at current non-performance risk value	\$	13,577,543

(1) For additional information regarding market risk benefits, see Note 10.

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

	January 1, 2021
	Cost of Reinsurance(1)
	Variable/Universal Life
	(in thousands)
Balance prior to transition	\$ 602,294
Unwinding amounts related to unrealized investment gains and losses	(246,899)
Balance prior to transition, excluding amounts related to unrealized investment gains and losses	355,395
Impact from updates to certain universal life contract liabilities(2)	81,920
Balance after transition, excluding amounts related to unrealized investment gains and losses	437,315
Amounts related to unrealized investment gains and losses after transition	191,098
Balance after transition	\$ 628,413

(1) Cost of reinsurance is included in "Other liabilities".

(2) For additional information regarding updates to reserves and other related balances for certain universal life contracts, see Note 2.

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.

The most significant estimates include those used in determining future policy benefits; 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; market risk benefits; the valuation of investments including derivatives, the measurement of allowance for credit losses, and the recognition of other-than-temporary impairments; reinsurance recoverables; any 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. 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

In 2022, the Company recorded out of period adjustments resulting in an aggregate net benefit of \$27 million to "Income (loss) from operations before income taxes and equity in earnings of operating joint venture". These adjustments relate to reserves for certain universal and variable life products and certain portions of variable life and annuities reinsurance activity.

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.

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

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

Adoption of ASU 2018-12

Effective January 1, 2023, the Company adopted ASU 2018-12, *Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*. Adoption of this ASU impacted, at least to some extent, the accounting and disclosure requirements for all long-duration insurance and investment contracts issued by the Company and had a significant financial impact on the Consolidated Financial Statements and disclosures. See Note 1 for additional information.

As of the January 1, 2021 transition date, the adoption of the standard resulted in a decrease to “Total equity” of \$271 million, primarily 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. As of the January 1, 2023 adoption date, the impact amounted to an increase to “Total equity” of \$673 million. The changes in the impacts from January 1, 2021 to January 1, 2023 primarily reflect the increase in market interest rates during 2021 and 2022.

Outlined below are: (1) key accounting policy changes effected by the ASU; (2) updated accounting policies for the periods ended December 31, 2022 and 2021 presented in the Consolidated Financial Statements; (3) accounting policies not impacted by the adoption of ASU 2018-12; and (4) prior accounting policies no longer applicable with the adoption of ASU 2018-12.

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

(1) Key Accounting Policy Changes

Area of Change	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-payment 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.	Effective January 1, 2023 using the modified retrospective transition method, which includes a cumulative effect adjustment to the balance sheet as of January 1, 2021 (the “transition date”). Under this method, the amendments to contracts in force were applied as of January 1, 2021 on the basis of their existing carrying amounts, adjusted for the removal of any related amounts in AOCI	The impact upon transition reflects the impact on in force contract liabilities in instances where expected net premiums exceeded expected gross premiums at an issue-year cohort level as a result of updating to current best estimate cash flow assumptions as of the transition date. As a result of the modified retrospective transition method, the vast majority of the impact of updating cash flow assumptions to best estimates as of the transition date will be reflected in the pattern of earnings in subsequent periods. See Note 1 for additional information regarding the effect on the financial statements. Adoption of the standard also resulted in additional required disclosures. See Note 8 for additional information.
<i>Discount rate assumption used to measure the liability for future policy benefits for non-participating traditional and limited-payment insurance products</i>	Requires discount rate assumptions to be based on an upper-medium grade fixed income instrument yields, 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, the guidance for the liability for future policy benefits was adopted effective January 1, 2023 using the modified retrospective transition method, which includes a cumulative effect adjustment to the balance sheet as of January 1, 2021. Under this method, for balance sheet remeasurement purposes, the liability for future policy benefits is remeasured using discount rates as of January 1, 2021 with the impact recorded as a cumulative effect adjustment to AOCI.	Adoption of the ASU resulted in a significant impact to AOCI as a result of remeasuring in force contract liabilities using current upper-medium grade fixed income instrument yields. This adjustment largely reflects the difference between discount rates locked-in at contract inception versus current discount rates. See Note 1 for additional information regarding the effect on the financial statements. Adoption of the standard also resulted in additional required disclosures. See Note 8 for additional information.

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

Area of Change	Description	Method of adoption	Effect on the financial statements or other significant matters
<i>Amortization of deferred acquisition costs and other balances</i>	Requires DAC and other balances, such as URR and DSI, to be amortized on a constant level basis over the expected term of the related contract, independent of expected profitability.	Effective January 1, 2023 using the modified retrospective transition method, which includes a cumulative effect adjustment to the balance sheet as of January 1, 2021. Under this method, the amendments to contracts in force were applied as of January 1, 2021 on the basis of their existing carrying amounts, adjusted for the removal of any related amounts in AOCI.	Adoption of the ASU did not have a significant impact on DAC and other balances upon transition, other than the impact of the removal of any related amounts in AOCI. See Note 1 for additional information regarding the effect on the financial statements. Adoption of the standard also resulted in additional required disclosures. See Note 6 for additional information.
<i>Market Risk Benefits</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 Consolidated Statements of Financial Position. Changes in the fair value of market risk benefits are recorded in net income, except for the portion attributable to changes in an entity's NPR, which is recognized in OCI. 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.	Effective January 1, 2023 using the retrospective transition method, which includes a cumulative effect adjustment to the balance sheet as of January 1, 2021.	Adoption of the ASU resulted in an adjustment to retained earnings for the difference between the fair value and carrying value of benefits not measured at fair value prior to the adoption of the ASU (e.g., guaranteed minimum death benefits on variable annuities) and a reclass of the cumulative effect of changes in NPR from retained earnings to AOCI. See Note 1 for additional information regarding the effect on the financial statements. Adoption of the standard also resulted in additional required disclosures. See Note 10 for additional information.

In addition to the significant key accounting changes noted above, ASU 2018-12 also clarified the definition of assessments used to accrue additional insurance reserves and other related balances, primarily for no-lapse guarantee features on certain universal life contracts. Application of the new guidance changed the pattern of reserve recognition for these guarantees and resulted in an increase to the net contract liabilities related to these products at transition. See Note 1 for additional information regarding the effect on the financial statements.

ASU 2022-05, *Financial Services – Insurance (Topic 944) Transition for Sold Contracts* was issued on December 15, 2022, to amend the transition guidance in ASU 2018-12, *Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*. The amendment allows an insurance entity to make an accounting policy election to not apply ASU 2018-12 to contracts or legal entities sold or disposed of before the effective date, and in which the insurance entity has no significant continuing involvement with the derecognized contracts. An insurance entity is permitted to apply the policy election on a transaction by transaction basis to each sale or disposal transaction. An insurance entity is required to disclose whether it has chosen to apply this accounting policy election and provide a qualitative description of the sale or disposal transactions to which the accounting policy election is applied. The Company did not apply this accounting policy election.

(2) Updated Accounting Policies

This section includes the updated accounting policies resulting from the adoption of ASU 2018-12 which are applicable to the periods ended December 31, 2022 and 2021 presented in the Consolidated Financial Statements.

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

ASSETS

Deferred policy acquisition costs represents costs directly related to the successful acquisition of new and renewal insurance and annuity business. Such DAC primarily includes commissions, costs of policy issuance and underwriting, and certain other expenses that are directly related to successfully acquired contracts. In each reporting period, previously capitalized DAC is amortized and included in “Amortization of deferred policy acquisition costs”, and the carrying amount of DAC is not subject to recoverability testing upon adoption of the ASU.

DAC is amortized on a constant-level basis at a grouped contract level over the expected life of the underlying insurance contracts. Contracts are grouped consistent with the groupings used to estimate the liability for future policy benefits (or other related balances) for the corresponding contracts. Since contracts within a grouping may be of different sizes, contracts within a group are weighted to achieve appropriate amortization and to ensure that DAC is derecognized when a policy is no longer in force. The constant-level basis used to weight contracts within a grouping and amortize DAC is generally defined as follows:

- *Life insurance contracts* – DAC associated with life insurance contracts is generally amortized in proportion to the initial face amount of life insurance in force. This is applicable to traditional and universal life insurance.
- *Payout annuity contracts* – DAC associated with payout annuity contracts is amortized in proportion to annual benefit payments.
- *Deferred annuity contracts* – DAC associated with fixed and variable deferred annuity contracts is amortized in proportion to deposits.

For single premium immediate annuities without life contingencies, acquisition expenses are deferred and amortized over the expected life of the contracts using the interest method.

Current period DAC amortization reflects the impact of changes in actual insurance in force during the period and changes in future assumptions effected as of the end of the quarter, where applicable. The Company typically updates actuarial assumptions annually in the second quarter, (see "Annual Assumptions Review" below), unless a material change is observed in an interim period that is indicative of a long-term trend. Generally, the Company does not expect trends to change significantly in the short-term and, to the extent these trends may change, the Company expects such changes to be gradual over the long-term.

Assumptions used for DAC are consistent with those used in estimating the liability for future policy benefits (or any other related balance) for the corresponding contract. Determining the level of aggregation and actuarial assumptions used in projecting in force terminations requires judgment. Internal criteria are developed to determine the level of aggregation by considering both qualitative and quantitative materiality thresholds. The assumptions used in projecting in force terminations are mortality, mortality improvement, and lapse assumptions. These assumptions are generally based on the Company's experience, industry experience and/or other factors, as applicable. For variable deferred annuity contracts, lapse rates are adjusted at the contract level based on the in-the-moneyness of the living benefits 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 are also generally assumed to be lower for the period where surrender charges apply.

For some products, policyholders can elect to modify product benefits, features, rights or coverages by exchanging a contract for a new contract or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. These transactions are known as internal replacements. If policyholders surrender traditional life insurance policies in exchange for life insurance policies that do not have fixed and guaranteed terms, the Company immediately charges to expense the remaining unamortized DAC on the surrendered policies. For other internal replacement transactions, except those that involve the addition of a non-integrated contract feature that does not change the existing base contract, the unamortized DAC is immediately charged to expense if the terms of the new policies are not substantially similar to those of the former policies. If the new terms are substantially similar to those of the earlier policies, the DAC is retained with respect to the new policies and amortized over the expected life of the new policies. See Note 6 for additional information regarding DAC.

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

Reinsurance recoverables include corresponding receivables associated with reinsurance arrangements with affiliates and third party reinsurers, and are reported on the Consolidated Statements of Financial Position net of the CECL allowance. Reinsurance recoverables also include assumed modified coinsurance arrangements which generally reflect the value of the invested assets retained by the cedant and the associated asset returns. Modified coinsurance recoverables contain an embedded derivative (bifurcated and accounted for separately from the host contract) that is presented together with the derivative embedded in the modified coinsurance payables as one compound derivative. For additional information about these arrangements see Note 11.

The CECL allowance considers the credit quality of the reinsurance counterparty and is generally determined based on the probability of default and loss given default assumptions, after considering any applicable collateral arrangements. The CECL allowance does not apply to reinsurance recoverables with affiliated counterparties under common control. Additions to or releases of the allowance are reported in “Policyholders’ benefits.” Prior to the adoption of this standard, an allowance for credit losses for reinsurance recoverables was established only when it was deemed probable that a reinsurer may fail to make payments to us in a timely manner. Reinsurance premiums, commissions, expense reimbursements, benefits and reserves related to reinsured long-duration contracts under coinsurance arrangements are accounted for over the life of the underlying reinsured contracts using assumptions consistent with those used to account for the underlying contracts. For reinsurance of in force blocks of non-participating traditional and limited-payment contracts, the current value of the direct liability as of inception of the reinsurance agreement is used to calculate the reinsurance recoverable and cost of reinsurance such that there is no immediate other comprehensive income or loss from recognition of the reinsurance recoverable at inception. Consistent with the direct liability, the reinsurance recoverable for non-participating traditional and limited-payment contracts is remeasured each period using current single A rates with the effect on the liability resulting from such updates recorded in “Interest rate remeasurement of future policy benefits” in OCI.

Coinsurance arrangements contrast with the Company’s yearly renewable term arrangements, where only mortality risk is transferred to the reinsurer and premiums are paid to the reinsurer to reinsure that risk. The mortality risk that is reinsured under yearly renewable term arrangements represents the difference between the stated death benefits in the underlying reinsured contracts and the corresponding reserves or account value carried by the Company on those same contracts. The premiums paid to the reinsurer are based upon negotiated amounts, not on the actual premiums paid by the underlying contract holders to the Company. As yearly renewable term arrangements are usually entered into by the Company with the expectation that the contracts will be in force for the lives of the underlying policies, they are considered to be long-duration reinsurance contracts. The cost of reinsurance for universal life products is generally recognized based on the gross assessments of the underlying direct policies. The cost of reinsurance for term insurance products is generally recognized in proportion to direct premiums over the life of the underlying policies.

Market risk benefits in an asset position are presented separately from market risk benefits in a liability position. See “*Market risk benefits*” below.

Other assets consists primarily of deposit assets related to a reinsurance agreement entered into with a third-party reinsurer during 2021 using deposit accounting under U.S. GAAP, see Note 11 for additional information. Included in these deposit assets are amounts representing fair value of embedded derivative instruments associated with the index-linked features of certain annuity products. For additional information regarding the valuation of these embedded derivatives, see Note 5. Also included are premiums due, deferred loss on reinsurance which is amortized over the expected life of the reinsured contracts on a constant-level basis, receivables resulting from sales of securities that had not yet settled at the balance sheet date, prepaid tax expenses, and the Company’s investments in operating joint ventures. Investments in operating joint ventures are generally accounted for under the equity method. The carrying value of these investments is written down, or impaired, to fair value when a decline in value is considered to be other-than-temporary.

Deferred Sales Inducements are amounts that are credited to a policyholders’ account balance primarily as an inducement to purchase fixed and/or variable deferred annuity contracts. The Company defers sales inducements and amortizes them over the expected life of the policy using the same methodology, factors and assumptions used to amortize DAC. The Company records amortization of DSI in “Interest credited to policyholders’ account balances.” Unlike DAC, DSI are considered contractual cash flows and, as a result, are subject to periodic recoverability testing. See Note 6 for additional information regarding DSI.

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

Separate account assets represents segregated funds that are invested for certain policyholders, and other customers. The assets consist primarily of equity securities, fixed maturities, real estate-related investments, real estate mortgage loans, short-term investments and derivative instruments and are reported at fair value. The assets of each account are legally segregated and are not subject to claims that arise out of any other business of the Company. 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. The investment income and realized investment gains or losses from separate account assets generally accrue to the policyholders and are not included in the Company's results of operations. Mortality, policy administration and surrender charges assessed against the accounts are included in "Policy charges and fee income". Asset administration fees charged to the accounts are included in "Asset administration fees". Seed money that the Company invests in separate accounts is reported in the appropriate general account asset line. Investment income and realized investment gains or losses from seed money invested in separate accounts accrue to the Company and are included in the Company's results of operations. See Note 7 for additional information regarding separate account arrangements with contractual guarantees. See also "Separate account liabilities" below.

LIABILITIES

Future policy benefits is primarily comprised of the present value of expected future payments to or on behalf of policyholders, where the timing and amount of payment depends on policyholder mortality or morbidity, less the present value of expected future net premiums (where net premiums are gross premiums multiplied by the Net-To-Gross ("NTG") ratio discussed below). The liability for future policy benefits is accrued over time as premium revenue is recognized. See Note 8 for additional information regarding future policy benefits.

The reserving methodology used for non-participating traditional and limited-payment contracts include the following:

- **Cash Flow Assumptions.** In measuring the liability for future policy benefits, the net premium valuation methodology is utilized. Under this methodology, a liability for future policy benefits is established using current best estimate insurance assumptions and interest rate assumptions locked-in at contract issuance date. The NTG ratio is calculated as the ratio of the present value of expected policy benefits and non-level claim settlement expenses divided by the present value of expected gross premiums. The NTG ratio is applied to gross premiums, as premium revenue is recognized, to determine net premiums. The liability is then determined as the present value of expected future policy benefits and non-level claim settlement expenses less the present value of expected future net premiums. For purposes of liability measurement, contracts are grouped into cohorts based primarily on issue year and major product line.

The NTG ratio is generally updated quarterly for actual experience and annually for future cash flow assumption updates during the Company's annual assumptions review process in the second quarter of each year unless a material change is observed in an interim period that is indicative of a long-term trend (see "*Annual Assumptions Review*" below), and with the exception of claim settlement expense assumptions which the Company has made an entity-wide election to lock-in as of contract issuance. The NTG ratio is subject to a retrospective unlocking method whereby the Company updates its best estimate of cash flows expected over the life of the cohort using actual historical experience and updated future cash flow assumptions. These updated cash flows are used to calculate the revised NTG ratio, which is used to derive an updated liability for future policy benefits as of the beginning of the current reporting period, discounted at the original contract issuance discount rate. The updated liability for future policy benefit amount as of the beginning of the quarter is then compared to the carrying amount of the liability as of that same date, before the updates for actual experience or future cash flow assumptions, to determine the current period change in liability estimate. This current period change in the liability is the liability remeasurement gain or loss that is recorded through current period earnings in "Change in estimates of liability for future policy benefits." In subsequent periods, the revised NTG ratio is used to measure the liability for future policy benefits, subject to future revisions.

If a cohort is in a loss position where the liability for future policy benefits plus the present value of expected future gross premiums are determined to be insufficient to provide for expected future policy benefits and non-level claim settlement expenses, the NTG ratio is capped at 100%. In these instances, all changes in expected benefits resulting from both actual experience deviations and changes in future assumptions are reflected immediately. While the liability for future policy benefits cannot be less than zero (i.e., a contra-liability) at the cohort level and thus the balance is floored at zero (i.e., "flooring"), the NTG ratio may be negative. This would be the case whereby conditions have improved such that the present value of future net premiums plus the existing liability for future policy benefits as of the valuation date exceed the present value of expected future policy benefits and non-level claim settlement expenses. In this case, the negative NTG ratio would be applied going forward to gross premiums received, effectively amortizing the gain into income and reducing the liability over time.

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

In addition, for limited-payment contracts, the liability for future policy benefits also includes a Deferred Profit Liability representing gross premiums received in excess of net premiums and is generally recognized in revenue in a constant relationship with insurance in force for life contracts or with the amount of expected future benefit payments for annuity contracts. The DPL is subject to a retrospective unlocking adjustment consistent with the liability for future policy benefits discussed above. The DPL cannot be less than zero (i.e., a contra-liability) at the cohort level and thus the balance is floored at zero (i.e., “flooring”).

For contracts issued prior to January 1, 2021, the modified retrospective transition method was used to transition to ASU 2018-12. Under this method, the transition date of January 1, 2021 serves as the new issue date of the contracts in force for purposes of retrospectively unlocking the NTG ratio and DPL as described above.

- *Discount Rate Assumption.* The locked-in discount rate is generally based on expected investment returns at contract inception for contracts issued prior to January 1, 2021 and the upper medium grade fixed income corporate instrument yield (i.e., global single A) at contract inception for contracts issued after January 1, 2021. The discount rate in effect at contract inception is locked-in for the calculation of the NTG ratio and accretion of interest cost on the liability through net income. However, for balance sheet remeasurement purposes, the discount rate is updated using the current single A rate at each reporting period, with the effect on the liability resulting from such update recorded in “Interest rate remeasurement of future policy benefits” in OCI.

The methodology used in constructing the single A discount rate curve for discounting cash flows used to calculate the liability for future policy benefits is intended to be reflective of the characteristics of the applicable insurance liabilities. The single A discount rate curve is developed by reference to upper medium grade (low credit risk) fixed income instrument yields that reflect the duration characteristics of the applicable insurance liabilities. The single A discount curve for the United States and foreign economies, such as Japan, with observable corporate A spreads, is developed using government bond rates, plus globally equivalent public corporate A spreads in the observable periods. The definition of upper medium grade is based on Moody’s definition which includes the spectrum of A (i.e., A- to A+). The rate used in foreign operations (with the exception of certain emerging markets, as discussed below) is based on the equivalent of a single A rate from a global rating agency for corporate bonds issued in the same currency and country in which the insurance contract is written. Liquidity is considered in defining the observable period and linear extrapolation is performed to the Company’s ultimate long-term economic assumptions. See “Annual Assumptions Review” below for further discussion regarding the Company’s long-term economic assumption setting process.

The Company’s liability for future policy benefits also includes net liabilities for guaranteed benefits related to certain long-duration life contracts, such as no-lapse guarantee contract features (AIR liability), for which a liability is established when associated assessments are recognized (which include investment margin on policyholders’ account balances in the general account and all policy charges including charges for administration, mortality, expense, surrender, and other charges). This liability is established using current best estimate assumptions and is based on the ratio of the present value of total expected excess payments (i.e., payments in excess of account value) over the life of the contract divided by the present value of total expected assessments (i.e., benefit ratio).

For universal life type contracts and participating contracts, the Company performs premium deficiency tests using best estimate assumptions as of the testing date. If the liabilities determined based on these best estimate assumptions are greater than the net reserves (i.e., GAAP reserves including URR, net of reinsurance and any DSI asset), the existing net reserves are adjusted by first reducing these assets by the amount of the deficiency or to zero through a charge to current period earnings. If the deficiency is more than these asset balances for insurance contracts, the net reserves are increased by the excess through a charge to current period earnings included in “policyholders’ benefits”. Since investment yields are used as the discount rate, the premium deficiency test is also performed using a discount rate based on the market yield (i.e., assuming what would be the impact if any unrealized gains (losses) were realized as of the testing date). In the event that by using the market yield a deficiency occurs, an adjustment is established for the deficiency and is included in AOCL.

In certain instances, for universal life type contracts and participating contracts, the policyholder liability for a particular line of business may not be deficient in the aggregate to trigger loss recognition, but the pattern of earnings may be such that profits are expected to be recognized in earlier years followed by losses in later years. In these situations, accounting standards require that an additional liability (Profits Followed by Losses or “PFL” liability) be recognized by an amount necessary to sufficiently offset the losses that would be recognized in later years. To date, the Company has not recorded a PFL liability on any such contracts.

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

The Company's liability for future policy benefits also includes a liability for unpaid claims and claim adjustment expenses. The Company does not establish claim liabilities until a loss has been incurred. However, unpaid claims and claim adjustment expenses include estimates of claims that the Company believes have been incurred but have not yet been reported as of the balance sheet date.

Policyholders' account balances liability represents the contract value that has accrued to the benefit of the policyholder as of the balance sheet date. This liability is primarily associated with the accumulated account deposits, plus interest credited, less policyholder withdrawals and other charges assessed against the account balance, as applicable. These policyholders' account balances also include provision for benefits under non-life contingent payout annuities and certain unearned revenues. The unearned revenue liability represents policy charges for services to be provided in future periods. The charges are deferred as incurred and are generally amortized over the expected life of the contract using the same methodology, factors, and assumption used to amortize DAC. See Note 9 for additional information regarding policyholders' account balances. Policyholders' account balances also include amounts representing the fair value of embedded derivative instruments associated with the index-linked feature of certain universal life and annuity products. For additional information regarding the valuation of these embedded derivatives, see Note 5.

Market risk benefit liabilities (or *assets*) represents contracts or contract features that provide protection to the contractholder and exposes the Company to other than nominal capital market risk, primarily related to deferred annuities with guaranteed minimum benefits associated with annuities products including guaranteed minimum death benefits ("GMDB"), guaranteed minimum income benefits ("GMIB"), guaranteed minimum accumulation benefits ("GMAB"), guaranteed minimum withdrawal benefits ("GMWB") and guaranteed minimum income and withdrawal benefits ("GMIWB"). The benefits are accounted for using a fair value measurement framework. If a contract contains multiple market risk benefits, the benefits are bundled together and accounted for as a single compound market risk benefit. Market risk benefits in an asset position are presented separately from those in a liability position as there is no legal right of offset between contracts. The fair value of market risk benefits is calculated as the present value of expected future benefit payments to contractholders less the present value of expected future rider fees attributable to the market risk benefit. The fair value of market risk benefits is based on assumptions a market participant would use in valuing market risk benefits. For additional information regarding the valuation of market risk benefits, see Note 5. On a quarterly basis, changes in the fair value of market risk benefits are recorded in net income, net of related hedges, in "Change in value of market risk benefits, net of related hedging gains (losses)", except for the portion of the change attributable to changes in the Company's NPR which is recorded in OCI. See Note 10 for additional information regarding market risk benefits.

Other liabilities consists primarily of reinsurance payables associated with reinsurance arrangements that correspond to reinsurance receivables included above in "Reinsurance recoverables". Also included is a funds withheld liability for assets retained under a reinsurance agreement that corresponds to the deposit assets above in "Other assets". For additional information about these arrangements see Note 11. Additionally other liabilities includes accrued expenses, technical overdrafts, payables resulting from purchases of securities that had not yet settled at the balance sheet date and deferred gain on reinsurance. The amortization method for deferred gain on reinsurance is amortized over the expected life of the reinsured contracts on a constant-level basis. Other liabilities may also include derivative instruments for which fair values are determined as described below under "Derivative Financial Instruments".

Separate account liabilities primarily represents the contractholders' account balance in separate account assets and to a lesser extent borrowings of the separate account, and will be equal and offsetting to total separate account assets. See also "*Separate account assets*" above.

REVENUES AND BENEFITS AND EXPENSES

Insurance Revenue and Expense Recognition

Premiums from individual life products, other than universal and variable life contracts, are recognized when due. When premiums are due over a significantly shorter period than the period over which benefits are provided, any gross premium in excess of the net premium (i.e., the portion of the gross premium required to provide for all expected future benefits and expenses) is generally deferred and recognized into revenue in a constant relationship to insurance in force. Benefits are recorded as an expense when they are incurred. A liability for future policy benefits is recorded when premiums are recognized using the net level premium valuation methodology.

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

Premiums from single premium immediate annuities with life contingencies are recognized when due. When premiums are due over a significantly shorter period than the period over which benefits are provided, any gross premium in excess of the net premium is generally deferred and recognized into revenue based on expected future benefit payments. Benefits are recorded as an expense when they are incurred. A liability for future policy benefits is recorded when premiums are recognized using the net level premium valuation methodology.

Certain individual annuity contracts provide the contractholder a guarantee that the benefit received upon death or annuitization will be no less than a minimum prescribed amount. These benefits are generally accounted for as market risk benefits (see “*Market risk benefits*” above).

Amounts received as payment for universal or variable individual life contracts, deferred fixed or variable annuities and other contracts without life contingencies are reported as deposits to “Policyholders’ account balances” and/or “Separate account liabilities.” Revenues from these contracts are reflected in “Policy charges and fee income” consisting primarily of fees assessed during the period against the policyholders’ account balances for mortality and other benefit charges, policy administration charges and surrender charges. In addition to fees, the Company earns investment income from the investment of deposits in the Company’s general account portfolio. Fees assessed that represent compensation to the Company for services to be provided in future periods and certain other fees are generally deferred and amortized into revenue over the life of the related contracts using the same methodology, factors, and assumption used to amortize DAC as described above. Benefits and expenses for these products include claims in excess of related account balances, expenses of contract administration, interest credited to policyholders’ account balances and amortization of DAC and DSI.

Policyholders’ account balances also includes amounts representing the fair value of embedded derivative instruments associated with the index-linked features of certain universal life and annuity products where changes in the value of the embedded derivatives are recorded through “Realized investment gains (losses), net”. For additional information regarding the valuation of these embedded derivatives, see Note 5.

Annual Assumptions Review

Annually, the Company performs a comprehensive review of the assumptions set for purposes of estimating future premiums, benefits, and other cash flows. The assumptions are based on the Company’s best estimates of future rates of mortality, morbidity, lapse, surrender, annuitization, expenses and other items. The Company generally looks to relevant Company experience as the primary basis for assumptions. If relevant Company experience is not available or does not have sufficient credibility, the Company may look to experience of similar blocks of business, either in the Company or the industry. Mortality rate assumptions are generally based on Company experience, sometimes blending Company experience with an industry table where the Company experience alone is not credible. The Company sets mortality assumptions that vary by major type of business, with different assumptions for life insurance, annuities, and retirement products. Within type of business, rates vary by age and gender. The Company applies an adjustment for future mortality improvement, consistent with observed long-term trends of population mortality over time. Lapse and surrender assumptions are based on Company and industry experience, where available. The Company sets rates that vary by product type, taking into account features specific to the product.

The Company also performs a comprehensive review of the long-term interest rate assumptions and equity return assumptions that impact reserve calculations. The Company generally utilizes relevant economic outlook information and industry survey as the primary basis for assumptions.

(3) Accounting policies not impacted by the adoption of ASU 2018-12

ASSETS

Fixed maturities, available-for-sale, at fair value (“AFS debt securities”) includes bonds, notes and redeemable preferred stock that are carried at fair value. See Note 5 for additional information regarding the determination of fair value. The purchased cost of fixed maturities is adjusted for amortization of premiums and accretion of discounts to maturity or, if applicable, call date.

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

AFS debt securities, where fair value is below amortized cost, are reviewed quarterly to determine whether the amortized cost basis of the security is recoverable. For mortgage-backed and asset-backed AFS debt securities, a credit impairment will be recognized in earnings as an allowance for credit losses and reported in "Realized investment gains (losses), net," to the extent the amortized cost exceeds the net present value of projected future cash flows (the "net present value") for the security. However, the credit impairment recorded cannot exceed the difference between the amortized cost and fair value of the respective security. The net present value used to measure a credit impairment is calculated by discounting the Company's best estimate of projected future cash flows at the effective interest rate implicit in the AFS debt security at the date of acquisition. Once the Company has deemed all or a portion of the amortized cost uncollectible, the allowance is removed from the balance sheet by writing down the amortized cost basis of the AFS debt security. Any amount of an AFS debt security's change in fair value not recorded as an allowance for credit losses will be recorded in Other Comprehensive Income (loss) ("OCI").

For all other AFS debt securities, qualitative factors are first considered including, but not limited to, the extent of the decline and the reasons for the decline in value (e.g., credit events, currency or interest-rate related, including general credit spread widening), and the financial condition of the issuer. If analysis of these qualitative factors results in the security needing to be impaired, a credit impairment will be recognized and measured using the same process for mortgage-backed and asset-backed AFS debt securities.

When an AFS debt security's fair value is below amortized cost and the Company has the intent to sell the AFS debt security, or it is more likely than not the Company will be required to sell the AFS debt security before its anticipated recovery, the amortized cost basis of the AFS debt security is written down to fair value and any previously recognized allowance is reversed. The write-down is reported in "Realized investment gains (losses), net."

Interest income, including amortization of premium and accretion of discount, are included in "Net investment income" under the effective yield method. Prepayment premiums are also included in "Net investment income."

For high credit quality mortgage-backed and asset-backed AFS debt securities (those rated AA or above), the amortized cost and effective yield of the securities are adjusted as necessary to reflect historical prepayment experience and changes in estimated future prepayments. The adjustments to amortized cost are recorded as a charge or credit to "Net investment income" in accordance with the retrospective method.

For mortgage-backed and asset-backed AFS debt securities rated below AA, the effective yield is adjusted prospectively for any changes in the estimated timing and amount of cash flows unless the investment is purchased with credit deterioration or an allowance is currently recorded for the respective security. If an investment is impaired, any changes in the estimated timing and amount of cash flows will be recorded as the credit impairment, as opposed to a yield adjustment. If the asset is purchased with credit deterioration (or previously impaired) the effective yield will be adjusted if there are favorable changes in cash flows subsequent to the allowance being reduced to zero.

For mortgage-backed and asset-backed AFS debt securities, cash flow estimates consider the payment terms of the underlying assets backing a particular security, including interest rate and prepayment assumptions based on data from widely accepted third-party data sources or internal estimates. In addition to interest rate and prepayment assumptions, cash flow estimates also include other assumptions regarding the underlying collateral including default rates and recoveries, which vary based on the asset type and geographic location, as well as the vintage year of the security. These assumptions can significantly impact income recognition, unrealized gains and loss recorded in OCI, and the amount of impairment recognized in earnings. The payment priority of the respective security is also considered. For all other AFS debt securities, cash flow estimates are driven by assumptions regarding probability of default and estimates regarding timing and amount of recoveries associated with a default. The Company has developed these estimates using information based on its historical experience as well as using market observable data, such as industry analyst reports and forecasts, sector credit ratings and other data relevant to the collectability of a security, such as the general payment terms of the security and the security's position within the capital structure of the issuer.

Fixed maturities, trading, at fair value ("Trading debt securities") includes debt securities that are carried at fair value. See Note 5 for additional information regarding the determination of fair value. Realized and unrealized gains and losses for these investments are reported in "Other income (loss)," and interest income from these investments is reported in "Net investment income".

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

Equity securities, at fair value consists of common stock and mutual fund shares carried at fair value. Realized and unrealized gains and losses on these investments are reported in “Other income (loss),” and dividend income is reported in “Net investment income” on the ex-dividend date.

Policy loans represents funds loaned to policyholders up to the cash surrender value of the associated insurance policies and are carried at the unpaid principal balances due to the Company from the policyholders. Interest income on policy loans is recognized in “Net investment income” at the contract interest rate when earned. Policy loans are fully collateralized by the cash surrender value of the associated insurance policies.

Short-term investments primarily consists of highly liquid debt instruments with a maturity of twelve months or less and greater than three months when purchased. These investments are generally carried at fair value or amortized cost that approximates fair value and include certain money market investments, funds managed similar to regulated money market funds, short-term debt securities issued by government sponsored entities and other highly liquid debt instruments.

Commercial mortgage and other loans consist of commercial mortgage loans and agricultural property loans. Commercial mortgage and other loans held for investment are generally carried at unpaid principal balance, net of unamortized deferred loan origination fees and expenses and net of any current expected credit loss (“CECL”) allowance. Certain off-balance sheet credit exposures (e.g., indemnification of serviced mortgage loans, and certain unfunded mortgage loan commitments where the Company cannot unconditionally cancel the commitment) are also subject to a CECL allowance. See Note 16 for additional information.

Commercial mortgage and other loans acquired, including those related to the acquisition of a business, are recorded at fair value when purchased, reflecting any premiums or discounts to unpaid principal balances. Interest income, and the amortization of the related premiums or discounts, are included in “Net investment income” under the effective yield method. Prepayment fees are also included in “Net investment income.”

Effective January 1, 2020, the Company adopted ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and related ASUs, using a modified retrospective method for certain financial assets carried at amortized cost and certain off-balance sheet exposures. Adoption of these ASUs requires an entity to estimate lifetime credit losses for certain financial assets carried at amortized cost and certain off-balance sheet exposures based on relevant information about past events, current conditions, and reasonable and supportable forecasts that may affect the collectability of reported amounts. The most significant impact is from modifications made to the Company’s process for measuring credit losses for its commercial mortgage and other loans classified as held for investment. The impact of the standard resulted in a cumulative effect adjustment to opening retained earnings in the amount of \$1.8 million, primarily related to commercial mortgage and other loans. The impact of adoption is not material to the following financial statement line items: deferred policy acquisition costs; reinsurance recoverables; income taxes receivable; future policy benefits; policyholders’ account balances; and other liabilities. The prospective adoption of the portions of the standard related to fixed maturities, available-for-sale resulted in no impact to opening retained earnings.

The CECL allowance represents the Company’s best estimate of expected credit losses over the remaining life of the assets or off-balance sheet credit exposures. The determination of the allowance considers historical credit loss experience, current conditions, and reasonable and supportable forecasts. Prior to the adoption of ASU 2016-13, the allowance was based upon credit losses that were probable of occurring for recognized loans, not an estimate of credit losses that may occur over the remaining life of the asset.

The allowance is calculated separately for commercial mortgage loans, agricultural mortgage loans, other collateralized and uncollateralized loans. For commercial mortgage and agricultural mortgage loans, the allowance is calculated using an internally developed CECL model that pools together loans that share similar risk characteristics. Similar risk characteristics used to create the pools include, but are not limited to, vintage, maturity, credit rating, and collateral type.

Key inputs to the CECL model include unpaid principal balances, internal credit ratings, annual expected loss factors, average lives of the loans adjusted for prepayment considerations, current and historical interest rate assumptions, and other factors influencing the Company’s view of the current stage of the economic cycle and future economic conditions. Subjective considerations include a review of whether historical loss experience is representative of current market conditions and the Company’s view of the credit cycle. Model assumptions and factors are reviewed and updated as appropriate. Information about certain key inputs is detailed below.

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

Key factors in determining the internal credit ratings for commercial mortgage and agricultural mortgage loans include loan-to-value and debt-service-coverage ratios. Other factors include amortization, loan term, and estimated market value growth rate and volatility for the property type and region. The loan-to-value ratio compares the carrying amount of the loan to the fair value of the underlying property or properties collateralizing the loan, and is commonly expressed as a percentage. Loan-to-value ratios greater than 100% indicate that the carrying amount of the loan exceeds the collateral value. A loan-to-value ratio less than 100% indicates an excess of collateral value over the carrying amount of the loan. The debt service coverage ratio is a property's net operating income as a percentage of its debt service payments. Debt service coverage ratios less than 1.0 indicates that property operations do not generate enough income to cover the loan's current debt payments. A debt service coverage ratio greater than 1.0 indicates an excess of net operating income over the debt service payments. The values utilized in calculating these ratios are developed as part of the Company's periodic review of the commercial mortgage loan and agricultural property loan portfolios, which includes an internal appraisal of the underlying collateral value. The Company's periodic review also includes a quality re-rating process, whereby the internal quality rating originally assigned at underwriting is updated based on current loan, property and market information using a proprietary quality rating system. See Note 3 for additional information related to the loan-to-value ratios and debt service coverage ratios related to the Company's commercial mortgage and agricultural loan portfolios.

Annual expected loss rates are based on historical default and loss experience factors. Using average lives, the annual expected loss rates are converted into life-of-loan loss expectations.

When individual loans no longer have the credit risk characteristics of the commercial or agricultural mortgage loan pools, they are removed from the pools and are evaluated individually for an allowance. The allowance is determined based on the outstanding loan balance less the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

The CECL allowance on commercial mortgage and other loans can increase or decrease from period to period based on the factors noted above. The change in allowance is reported in "Realized investment gains (losses), net." As it relates to unfunded commitments that are in scope of this guidance, the CECL allowance is reported in "Other liabilities," and the change in the allowance is reported in "Realized investment gains (losses), net."

The CECL allowance for other collateralized and uncollateralized loans (e.g., corporate loans) carried at amortized cost is determined based on probability of default and loss given default assumptions by sector, credit quality and average lives of the loans. Additions to or releases of the allowance are reported in "Realized investment gains (losses), net."

Once the Company has deemed a portion of the amortized cost to be uncollectible, the uncollectible portion of allowance is removed from the balance sheet by writing down the amortized cost basis of the loan. The carrying amount of the loan is not adjusted for subsequent recoveries in value.

Interest received on loans that are past due is either applied against the principal or reported as net investment income based on the Company's assessment as to the collectability of the principal. The Company defines "past due" as principal or interest not collected at least 30 days past the scheduled contractual due date. See Note 3 for additional information about the Company's past due loans.

The Company discontinues accruing interest on loans after the loans become 90 days delinquent as to principal or interest payments, or earlier when the Company has doubts about collectability. When the Company discontinues accruing interest on a loan, any accrued but uncollectible interest on the loan and other loans backed by the same collateral, if any, is charged against interest income in the same period. Generally, a loan is restored to accrual status only after all delinquent interest and principal are brought current and, in the case of loans where the payment of interest has been interrupted for a substantial period, or the loan has been modified, a regular payment performance has been established.

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

Commercial mortgage and other loans are occasionally restructured in a troubled debt restructuring (“TDR”). These restructurings generally include one or more of the following: full or partial payoffs outside of the original contract terms; changes to interest rates; extensions of maturity; or additions or modifications to covenants. Additionally, the Company may accept assets in full or partial satisfaction of the debt as part of a TDR. When restructurings occur, they are evaluated individually to determine whether the restructuring or modification constitutes a TDR as defined by authoritative accounting guidance. If the borrower is experiencing financial difficulty and the Company has granted a concession, the restructuring, including those that involve a partial payoff or the receipt of assets in full satisfaction of the debt is deemed to be a TDR. When there is a reasonable expectation that the Company will execute a TDR, all effects of the potential restructuring are considered for the estimation of the CECL allowance.

When a loan is modified in a TDR, the CECL allowance of the loan is remeasured using the modified terms and the loan’s original effective yield, and the allowance is adjusted accordingly. The loan will be evaluated to determine whether the loan no longer has similar credit risk characteristics of the commercial or agricultural mortgage loan pools and need to be evaluated for an allowance on an individual basis. Subsequent to the modification, income is recognized prospectively based on the modified terms of the loan.

In a TDR where the Company receives assets in full satisfaction of the debt, any CECL allowance is reversed and a direct write-down of the loan is recorded for the amount of the allowance, and any additional loss, net of recoveries, or any gain is recorded for the difference between the fair value of the assets received and the recorded investment in the loan. When assets are received in partial settlement, the same process is followed, and the remaining loan is evaluated prospectively for credit impairment based on the CECL allowance process noted above.

Other invested assets consist of the Company’s non-coupon investments in limited partnerships and limited liability companies (“LPs/LLCs”), other than operating joint ventures, as well as derivative assets. LPs/LLCs interests are accounted for using either the equity method of accounting, or at fair value. The Company’s income from investments in LPs/LLCs accounted for using the equity method, other than the Company’s investments in operating joint ventures, is included in “Net investment income”. The carrying value of these investments is written down, or impaired, to fair value when a decline in value is considered to be other-than-temporary. In applying the equity method (including assessment for OTTI), the Company uses financial information provided by the investee, generally on a one to three-month lag. For the investments reported at fair value with changes in fair value reported in current earnings, the associated realized and unrealized gains and losses are reported in “Other income (loss)”.

Realized investment gains (losses) are computed using the specific identification method. Realized investment gains and losses are generated from numerous sources, including the sales of fixed maturity securities, investments in joint ventures and limited partnerships and other types of investments, as well as changes to the allowance for credit losses recognized in earnings. Realized investment gains and losses also reflect fair value changes on commercial mortgage loans carried at fair value, and fair value changes on embedded derivatives and free-standing derivatives that do not qualify for hedge accounting treatment. See “Derivative Financial Instruments” below for additional information regarding the accounting for derivatives.

Cash and cash equivalents includes cash on hand, amounts due from banks, certain money market investments, funds managed similar to regulated money market funds, other debt instruments with maturities of three months or less when purchased, other than cash equivalents that are included in “Fixed maturities, available-for-sale, at fair value,” and receivables related to securities purchased under agreements to resell (see also “Securities sold under agreements to purchase” below.) The Company also engages in overnight borrowing and lending of funds with Prudential Financial and affiliates which are considered cash and cash equivalents. These assets are generally carried at fair value or amortized cost which approximates fair value.

Accrued investment income primarily includes accruals of interest and dividend income from investments that have been earned but not yet received.

Income tax assets primarily represents the net deferred tax asset and the Company’s estimated taxes receivable for the current year and open audit years.

The Company is a member of the federal income tax return of Prudential Financial and primarily files separate company state and local tax returns. Pursuant to the tax allocation arrangement with Prudential Financial, total federal income tax expense is determined on a separate company basis. Members record tax benefits to the extent tax losses or tax credits are recognized in the consolidated federal tax provision.

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

Items required by tax regulations to be included in the tax return may differ from the items reflected in the financial statements. As a result, the effective tax rate reflected in the financial statements may be different than the actual rate applied on the tax return. Some of these differences are permanent such as expenses that are not deductible in the Company's tax return, and some differences are temporary, reversing over time, such as valuation of insurance reserves. Temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in future years for which the Company has already recorded the tax benefit in the Company's Consolidated Statements of Operations. Deferred tax liabilities generally represent tax expense recognized in the Company's financial statements for which payment has been deferred, or expenditures for which the Company has already taken a deduction in the Company's tax return but have not yet been recognized in the Company's financial statements.

Deferred income taxes are recognized, based on enacted rates, when assets and liabilities have different values for financial statement and tax reporting purposes. The application of U.S. GAAP requires the Company to evaluate the recoverability of the Company's deferred tax assets and establish a valuation allowance if necessary to reduce the Company's deferred tax assets to an amount that is more likely than not expected to be realized. Considerable judgment is required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. See Note 12 for a discussion of factors considered when evaluating the need for a valuation allowance.

U.S. GAAP prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that a company has taken or expects to take on tax returns. The application of this guidance is a two-step process. First, the Company determines whether it is more likely than not, based on the technical merits, that the tax position will be sustained upon examination. If a tax position does not meet the more likely than not recognition threshold, the benefit of that position is not recognized in the financial statements. The second step is measurement. The Company measures the tax position as the largest amount of benefit that is greater than 50 percent likely to be realized upon ultimate resolution with a taxing authority that has full knowledge of all relevant information. This measurement considers the amounts and probabilities of the outcomes that could be realized upon ultimate settlement using the facts, circumstances, and information available at the reporting date.

The Company's liability for income taxes includes a liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by the Internal Revenue Service ("IRS") or other taxing jurisdictions. Audit periods remain open for review until the statute of limitations has passed. Generally, for tax years which produce net operating losses, capital losses or tax credit carryforwards ("tax attributes"), the statute of limitations does not close, to the extent of these tax attributes, until the expiration of the statute of limitations for the tax year in which they are fully utilized. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the liability for income taxes. The Company classifies all interest and penalties related to tax uncertainties as income tax expense. See Note 12 for additional information regarding income taxes.

LIABILITIES

Cash collateral for loaned securities represents liabilities to return cash proceeds from security lending transactions. Securities lending transactions are used primarily to earn spread income or to facilitate trading activity. As part of securities lending transactions, the Company transfers U.S. and foreign debt and equity securities, as well as U.S. government and government agency securities, and receives cash as collateral. Cash proceeds from securities lending transactions are primarily used to earn spread income, and are typically invested in cash equivalents, short-term investments or fixed maturities. Securities lending transactions are treated as financing arrangements and are recorded at the amount of cash received. The Company obtains collateral in an amount equal to 102% and 105% of the fair value of the domestic and foreign securities, respectively. The Company monitors the market value of the securities loaned on a daily basis with additional collateral obtained as necessary. Substantially all of the Company's securities lending transactions are with large brokerage firms and large banks. Income and expenses associated with securities lending transactions used to earn spread income are reported as "Net investment income".

Securities sold under agreements to repurchase represents liabilities associated with securities repurchase agreements that are used primarily to earn spread income. As part of securities repurchase agreements, the Company transfers U.S. government and government agency securities to a third-party, and receives cash as collateral. For securities repurchase agreements, the cash received is typically invested in cash equivalents, short-term investments or fixed maturities. Receivables associated with securities purchased under agreements to resell are generally reflected as cash equivalents. As part of securities resale agreements, the Company invests cash and receives as collateral U.S. government securities or other debt securities.

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

Securities repurchase and resale agreements that satisfy certain criteria are treated as secured borrowing or secured lending arrangements. These agreements are carried at the amounts at which the securities will be subsequently resold or reacquired, as specified in the respective transactions. For securities purchased under agreements to resell, the Company's policy is to take possession or control of the securities either directly or through a third-party custodian. These securities are valued daily, and additional securities or cash collateral is received, or returned, when appropriate to protect against credit exposure. Securities to be resold are the same, or substantially the same, as the securities received. The majority of these transactions are with large brokerage firms and large banks. For securities sold under agreements to repurchase, the market value of the securities to be repurchased is monitored, and additional collateral is obtained where appropriate, to protect against credit exposure. The Company obtains collateral in an amount at least equal to 95% of the fair value of the securities sold. Securities to be repurchased are the same, or substantially the same, as those sold. The majority of these transactions are with highly rated money market funds. Income and expenses related to these transactions executed within the insurance companies used to earn spread income are reported as "Net investment income."

Short-term and long-term debt liabilities are primarily carried at an amount equal to unpaid principal balance, net of unamortized discount or premium and debt issuance costs. Original-issue discount or premium and debt-issue costs are recognized as a component of interest expense over the period the debt is expected to be outstanding, using the interest method of amortization. Interest expense is generally presented within "General, administrative and other expenses" in the Company's Consolidated Statements of Operations. Short-term debt is debt coming due in the next twelve months, including that portion of debt otherwise classified as long-term. The short-term debt caption may exclude short-term debt items for which the Company has the intent and ability to refinance on a long-term basis in the near term. See Note 15 for additional information regarding short-term and long-term debt.

Commitments and contingent liabilities are accrued if it is probable that a liability has been incurred and an amount is reasonably estimable. Management evaluates whether there are incremental legal or other costs directly associated with the ultimate resolution of the matter that are reasonably estimable and, if so, they are included in the accrual. These accruals are generally reported in "Other liabilities".

REVENUES, BENEFITS AND EXPENSES

Asset administration fees primarily include asset administration fee income received on contractholders' account balances invested in The Prudential Series Funds, which are a portfolio of mutual fund investments related to the Company's separate account products. Also, the Company receives fee income calculated on contractholder separate account balances invested in the Advanced Series Trust ("AST") (see Note 15). In addition, the Company receives fees from contractholders' account balances invested in funds managed by companies other than affiliates of Prudential Insurance. Asset administration fees are recognized as income when earned.

Other income (loss) includes realized and unrealized gains or losses from investments reported as "Fixed maturities, trading, at fair value", "Equity securities, at fair value", and "Other invested assets" that are measured at fair value.

Realized investment gains (losses), net includes realized gains or losses from sales and maturities of investments, changes to the allowance for credit losses, other impairments, fair value changes on mortgage loans where the fair value option has been elected, releases of Other Comprehensive Income and derivative gains or losses. The derivative gains or losses include the impact of maturities, terminations and changes in fair value of the derivative instruments, including embedded derivatives, and other hedging instruments.

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

OTHER ACCOUNTING POLICIES

Derivative Financial Instruments

Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, financial indices, values of securities or commodities, credit spreads, market volatility, expected returns, and liquidity. Values can also be affected by changes in estimates and assumptions, including those related to counterparty behavior and NPR used in valuation models. Derivative financial instruments generally used by the Company include swaps, futures, forwards and options and may be exchange-traded or contracted in the over-the-counter (“OTC”) market. Certain of the Company’s OTC derivatives are cleared and settled through central clearing counterparties, while others are bilateral contracts between two counterparties. Derivative positions are carried at fair value, generally by obtaining quoted market prices or through the use of valuation models.

Derivatives are used to manage the interest rate and currency characteristics of assets or liabilities. Additionally, derivatives may be used to reduce exposure to interest rate, credit, foreign currency and equity risks associated with assets held or expected to be purchased or sold, and liabilities incurred or expected to be incurred. As discussed in detail below and in Note 4, all realized and unrealized changes in fair value of derivatives are recorded in current earnings, with the exception of cash flow hedges. Cash flows from derivatives are reported in the operating, investing or financing activities sections in the Consolidated Statements of Cash Flows based on the nature and purpose of the derivative.

Derivatives are recorded either as assets, within “Other invested assets”, or as liabilities, within “Payables to parent and affiliates”, except for embedded derivatives which are recorded with the associated host contract. The Company nets the fair value of all derivative financial instruments with counterparties for which a master netting arrangement has been executed.

The Company designates derivatives as either (1) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (“cash flow” hedge); or (2) a derivative that does not qualify for hedge accounting.

To qualify for hedge accounting treatment, a derivative must be highly effective in mitigating the designated risk of the hedged item. Effectiveness of the hedge is formally assessed at inception and throughout the life of the hedging relationship.

The Company formally documents at inception all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions.

When a derivative is designated as a cash flow hedge and is determined to be highly effective, changes in its fair value are recorded in AOCI until earnings are affected by the variability of cash flows being hedged (e.g., when periodic settlements on a variable-rate asset or liability are recorded in earnings). At that time, the related portion of deferred gains or losses on the derivative instrument is reclassified and reported in the Consolidated Statements of Operations line item associated with the hedged item.

If it is determined that a derivative no longer qualifies as an effective cash flow hedge or management removes the hedge designation, the derivative will continue to be carried on the balance sheet at its fair value, with changes in fair value recognized currently in “Realized investment gains (losses), net”. The component of AOCI related to discontinued cash flow hedges is reclassified to the Consolidated Statements of Operations line associated with the hedged cash flows consistent with the earnings impact of the original hedged cash flows.

When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, or because it is probable that the forecasted transaction will not occur by the end of the specified time period, the derivative will continue to be carried on the balance sheet at its fair value, with changes in fair value recognized currently in “Realized investment gains (losses), net”. Any asset or liability that was recorded pursuant to recognition of the firm commitment is removed from the balance sheet and recognized currently in “Realized investment gains (losses), net”. Gains and losses that were in AOCI pursuant to the hedge of a forecasted transaction are recognized immediately in “Realized investment gains (losses), net”.

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

If a derivative does not qualify for hedge accounting, all changes in its fair value, including net receipts and payments, are included in “Realized investment gains (losses), net” without considering changes in the fair value of the economically associated assets or liabilities.

The Company is a party to financial instruments that contain derivative instruments that are “embedded” in the financial instruments. At inception, the Company assesses whether the economic characteristics of the embedded instrument are clearly and closely related to the economic characteristics of the remaining component of the financial instrument (i.e., the host contract) and whether a separate instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that (1) the embedded instrument possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, and (2) a separate instrument with the same terms would qualify as a derivative instrument, the embedded instrument qualifies as an embedded derivative that is separated from the host contract, carried at fair value, and changes in its fair value are included in “Realized investment gains (losses), net.” For certain financial instruments that contain an embedded derivative that otherwise would need to be bifurcated and reported at fair value, the Company may elect to carry the entire instrument at fair value and report it within “Other invested assets”, or as liabilities, within “Payables to parent and affiliates” or “Other liabilities”.

The Company sells variable annuity contracts that include optional living benefit features that may be treated from an accounting perspective as embedded derivatives. Effective April 1, 2016, the Company reinsured the variable annuity base contracts, along with the living benefit guarantees, to PALAC, excluding the PLNJ business, which was reinsured to Prudential Insurance, in each case under a coinsurance and modified coinsurance agreement. 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. See Note 11 for additional information. The embedded derivatives related to the living benefit features and the related reinsurance agreements are carried at fair value and included in “Future policy benefits” and “Reinsurance recoverables”. Additionally, changes in the fair value are determined using valuation models as described in Note 5 and are recorded in “Realized investment gains (losses), net”.

(4) *Prior accounting policies no longer applicable with the adoption of ASU 2018-12*

ASSETS

Deferred policy acquisition costs represent costs directly related to the successful acquisition of new and renewal insurance and annuity business that have been deferred to the extent such costs are deemed recoverable from future profits. Such DAC primarily includes commissions, costs of policy issuance and underwriting, and certain other expenses that are directly related to successfully acquired contracts. In each reporting period, capitalized DAC is amortized to “Amortization of DAC,” net of the accrual of imputed interest on DAC balances. DAC is subject to periodic recoverability testing. DAC, for applicable products, is adjusted for the impact of unrealized gains or losses on investments as if these gains or losses had been realized, with corresponding credits or charges included in AOCI.

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

DAC related to universal and variable life products and fixed and variable deferred annuity products are generally deferred and amortized over the expected life of the contracts in proportion to gross profits arising principally from investment margins, mortality and expense margins, and surrender charges, based on historical and anticipated future experience, which is updated periodically. The Company uses a reversion to the mean approach for equities to derive future equity return assumptions; however, if the projected equity return calculated using this approach is greater than the maximum equity return assumption, the maximum equity return is utilized and if the projected equity return is negative, the return is floored at 0%. Gross profits also include impacts from the embedded derivatives associated with certain of the optional living benefit features of variable annuity contracts, and index-linked crediting features of certain universal life and annuity contracts and related hedging activities. In calculating gross profits, profits and losses related to contracts issued by the Company that are reported in affiliated legal entities other than the Company as a result of, for example, reinsurance agreements with those affiliated entities are also included. The Company is an indirect subsidiary of Prudential Financial, a United States SEC registrant, and has extensive transactions and relationships with other subsidiaries of Prudential Financial, including reinsurance agreements, as described in Note 11. Incorporating all product-related profits and losses in gross profits, including those that are reported in affiliated legal entities, produces a DAC amortization pattern representative of the total economics of the products. Total gross profits include both actual gross profits and estimates of gross profits for future periods. The Company regularly evaluates and adjusts DAC balances with a corresponding charge or credit to current period earnings, representing a cumulative adjustment to all prior periods' amortization, for the impact of actual gross profits and changes in the Company's projections of estimated future gross profits. Adjustments to DAC balances result from: (i) the annual review of assumptions that reflect the comprehensive review of the assumptions used in estimating gross profits for future periods; (ii) quarterly adjustments for current period experience (also referred to as "experience true-up" adjustments) that reflect the impact of differences between actual gross profits for a given period and the previously estimated expected gross profits for that period; and (iii) quarterly adjustments for market performance (also referred to as "experience unlocking") that reflect the impact of changes to the Company's estimate of total gross profits to reflect actual fund performance and market conditions.

For some products, policyholders can elect to modify product benefits, features, rights or coverages by exchanging a contract for a new contract or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. These transactions are known as internal replacements. If policyholders surrender traditional life insurance policies in exchange for life insurance policies that do not have fixed and guaranteed terms, the Company immediately charges to expense the remaining unamortized DAC on the surrendered policies. For other internal replacement transactions, except those that involve the addition of a nonintegrated contract feature that does not change the existing base contract, the unamortized DAC is immediately charged to expense if the terms of the new policies are not substantially similar to those of the former policies. If the new terms are substantially similar to those of the earlier policies, the DAC is retained with respect to the new policies and amortized over the expected life of the new policies. See Note 6 for additional information regarding DAC.

Reinsurance recoverables include corresponding receivables associated with reinsurance arrangements with affiliates and third party reinsurers, and are reported on the Consolidated Statements of Financial Position net of the CECL allowance. Reinsurance recoverables also include assumed modified coinsurance arrangements which generally reflect the value of the invested assets retained by the cedant and the associated asset returns. Modified coinsurance recoverables contain an embedded derivative (bifurcated and accounted for separately from the host contract) that is presented together with the derivative embedded in the modified coinsurance payables as one compound derivative. The CECL allowance considers the credit quality of the reinsurance counterparty and is generally determined based on the probability of default and loss given default assumptions, after considering any applicable collateral arrangements. The CECL allowance does not apply to reinsurance recoverables with affiliated counterparties under common control. Additions to or releases of the allowance are reported in "Policyholders' benefits." Prior to the adoption of this standard, an allowance for credit losses for reinsurance recoverables was established only when it was deemed probable that a reinsurer may fail to make payments to us in a timely manner. For additional information about these arrangements see Note 11.

Deferred sales inducements represents various types of sales inducements to contractholders related to fixed and variable deferred annuity contracts. The Company defers sales inducements and amortizes them over the expected life of the policy using the same methodology and assumptions used to amortize DAC. Sales inducement balances are subject to periodic recoverability testing. The Company records amortization of DSI in "Interest credited to policyholders' account balances." DSI for applicable products is adjusted for the impact of unrealized gains or losses on investments as if these gains or losses had been realized, with corresponding credits or charges included in AOCI. See Note 6 for additional information regarding sales inducements.

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

Other assets consists primarily of deposit assets related to a reinsurance agreement entered into with a third-party reinsurer during 2021 using deposit accounting under U.S. GAAP, see Note 11 for additional information. Included in these deposit assets are amounts representing fair value of embedded derivative instruments associated with the index-linked features of certain annuity products. For additional information regarding the valuation of these embedded derivatives, see Note 5. Also included are premiums due, deferred loss on reinsurance with affiliates, receivables resulting from sales of securities that had not yet settled at the balance sheet date, prepaid tax expenses, and the Company's investments in operating joint ventures. Investments in operating joint ventures are generally accounted for under the equity method. The carrying value of these investments is written down, or impaired, to fair value when a decline in value is considered to be other-than-temporary.

Separate account assets represents segregated funds that are invested for certain contractholders and other customers. The assets consist primarily of equity securities, fixed maturities, and real estate-related investments and are reported at fair value. The assets of each account are legally segregated and are not subject to claims that arise out of any other business of the Company. Investment risks associated with market value changes are borne by the contractholders, except to the extent of minimum guarantees made by the Company with respect to certain accounts. The investment income and realized investment gains or losses from separate account assets generally accrue to the contractholders and are not included in the Company's consolidated results of operations. Mortality, policy administration and surrender charges assessed against the accounts are included in "Policy charges and fee income". Asset administration fees charged to the accounts are included in "Asset administration fees". See Note 7 for additional information regarding separate account arrangements with contractual guarantees. See also "Separate account liabilities" below.

LIABILITIES

Future policy benefits represents liabilities related to certain long-duration life and annuity contracts, which are discussed more fully in Note 8. These liabilities represent reserves for the guaranteed minimum death and optional living benefit features on our variable annuity products and no-lapse guarantees for our variable and universal life products. The optional living benefits are primarily accounted for as embedded derivatives, with fair values calculated as the present value of future expected benefit payments to customers less the present value of assessed rider fees attributable to the embedded derivative feature. For additional information regarding the valuation of these optional living benefit features, see Note 5.

The Company's liability for future policy benefits also includes reserves based on the present value of estimated future payments to or on behalf of policyholders related to contracts that have fixed and guaranteed terms, where the timing and amount of payment depends on policyholder mortality and maintenance expenses less the present value of future net premiums. Expected mortality is generally based on Company experience, industry data, and/or other factors. Interest rate assumptions are based on factors such as market conditions and expected investment returns. Although mortality and interest rate assumptions are "locked-in" upon the issuance of new insurance or annuity business with fixed and guaranteed terms, significant changes in experience or assumptions may require the Company to provide for expected future losses on a product by recognizing a premium deficiency. A premium deficiency exists when the liability for future policy benefits plus the present value of expected future gross premiums are determined to be insufficient to provide for expected future policy benefits and expenses. If a premium deficiency is recognized, the assumptions without a provision for the risk of adverse deviation as of the premium deficiency test date are locked-in and used in subsequent valuations. The net reserves continue to be subject to premium deficiency testing. Any adjustments to future policy benefit reserves related to net unrealized gains on securities classified as available-for-sale are included in AOCI. See Note 8 for additional information regarding future policy benefits.

Policyholders' account balances represents the contract value that has accrued to the benefit of the policyholder as of the balance sheet date. This liability is primarily associated with the accumulated account deposits, plus interest credited, less policyholder withdrawals and other charges assessed against the account balance, as applicable. These policyholders' account balances also include provision for benefits under non-life contingent payout annuities. See Note 9 for additional information regarding policyholders' account balances. Policyholders' account balances also include amounts representing the fair value of embedded derivative instruments associated with the index-linked features of certain annuity and universal life products. For additional information regarding the valuation of these embedded derivatives, see Note 5.

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

Other liabilities consists primarily of reinsurance payables associated with reinsurance arrangements with affiliates that correspond to reinsurance receivables included above in "Reinsurance recoverables". Also included is a funds withheld liability for assets retained under a reinsurance agreement that corresponds to the deposit assets above in "Other assets". For additional information about these arrangements see Note 11. Additionally other liabilities includes accrued expenses, technical overdrafts, deferred gain on reinsurance, and payables resulting from purchases of securities that had not yet settled at the balance sheet date. Other liabilities may also include derivative instruments for which fair values are determined as described below under "Derivative Financial Instruments".

Separate account liabilities primarily represents the contractholders' account balances in separate account assets and to a lesser extent borrowings of the separate account, and will be equal and offsetting to total separate account assets. See also "Separate account assets" above.

REVENUES, BENEFITS AND EXPENSES

Insurance Revenue and Expense Recognition

Premiums from individual life products, other than universal and variable life contracts, are recognized when due. Benefits are recorded as an expense when they are incurred. A liability for future policy benefits is recorded when premiums are recognized using the net level premium valuation methodology.

Premiums from single premium immediate annuities with life contingencies are recognized when due. When premiums are due over a significantly shorter period than the period over which benefits are provided, any gross premium in excess of the net premium is generally deferred and recognized into revenue based on expected future benefit payments. Benefits are recorded as an expense when they are incurred. A liability for future policy benefits is recorded when premiums are recognized using the net level premium methodology.

Revenues for variable deferred annuity contracts consist of charges against contractholder account values or separate accounts for mortality and expense risks, administration fees, surrender charges and an annual maintenance fee per contract. Revenues for mortality and expense risk charges and administration fees are recognized as assessed against the contractholder. Surrender charge revenue is recognized when the surrender charge is assessed against the contractholder at the time of surrender. Liabilities for the variable investment options on annuity contracts represent the account value of the contracts and are included in "Separate account liabilities".

Revenues for variable immediate annuity and supplementary contracts with life contingencies consist of certain charges against contractholder account values including mortality and expense risks and administration fees. These charges and fees are recognized as revenue when assessed against the contractholder. Liabilities for variable immediate annuity contracts represent the account value of the contracts and are included in "Separate account liabilities".

Revenues for variable life insurance contracts consist of charges against contractholder account values or separate accounts for expense charges, administration fees, cost of insurance charges and surrender charges. Certain contracts also include charges against premium to pay state premium taxes. All of these charges are recognized as revenue when assessed against the contractholder. Liabilities for variable life insurance contracts represent the account value of the contracts and are included in "Separate account liabilities".

Certain individual annuity contracts provide the contractholder a guarantee that the benefit received upon death or annuitization will be no less than a minimum prescribed amount. These benefits are accounted for as insurance contracts. The Company also provides contracts with certain living benefits which are considered embedded derivatives. See Note 5 for information regarding the valuation of these embedded derivatives and Note 8 for additional information regarding these contracts.

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

Amounts received as payment for universal or variable individual life contracts, deferred fixed or variable annuities and other contracts without life contingencies are reported as deposits to “Policyholders’ account balances” and/or “Separate account liabilities.” Revenues from these contracts are reflected in “Policy charges and fee income” consisting primarily of fees assessed during the period against the policyholders’ account balances for mortality and other benefit charges, policy administration charges and surrender charges. In addition to fees, the Company earns investment income from the investment of deposits in the Company’s general account portfolio. Fees assessed that represent compensation to the Company for services to be provided in future periods and certain other fees are generally deferred and amortized into revenue over the life of the related contracts in proportion to estimated gross profits. Benefits and expenses for these products include claims in excess of related account balances, expenses of contract administration, interest credited to policyholders’ account balances and amortization of DAC and DSI.

Policyholders’ account balances also include amounts representing the fair value of embedded derivative instruments associated with the index-linked features of certain annuity and universal life products. For additional information regarding the valuation of these embedded derivatives, see Note 5.

RECENT ACCOUNTING PRONOUNCEMENTS

Changes to U.S. GAAP are established by the Financial Accounting Standards Board (“FASB”) in the form of 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 December 31, 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.

Other ASU issued but not yet adopted as of December 31, 2022

Standard	Description	Effective date and method of adoption	Effect on the financial statements or other significant matters
<i>ASU 2022-02, Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosure</i>	This ASU eliminates the accounting guidance for 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.	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 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:

December 31, 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	\$ 354,348	\$ 300	\$ 72,856	\$ 0	\$ 281,792
Obligations of U.S. states and their political subdivisions	654,884	4,275	30,959	0	628,200
Foreign government bonds	330,967	1,140	58,640	5	273,462
U.S. public corporate securities	7,414,790	21,299	992,145	0	6,443,944
U.S. private corporate securities	4,140,734	13,071	335,205	1,871	3,816,729
Foreign public corporate securities	1,539,172	2,455	163,384	21	1,378,222
Foreign private corporate securities	4,338,585	19,761	589,153	2,863	3,766,330
Asset-backed securities(1)	1,467,955	6,976	32,577	0	1,442,354
Commercial mortgage-backed securities	727,159	94	69,101	0	658,152
Residential mortgage-backed securities(2)	342,493	3,211	9,479	9	336,216
Total fixed maturities, available-for-sale	<u>\$ 21,311,087</u>	<u>\$ 72,582</u>	<u>\$ 2,353,499</u>	<u>\$ 4,769</u>	<u>\$ 19,025,401</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 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:

December 31, 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	\$	212,991	\$	46,928	\$	62,630	\$	25,928	\$	275,621	\$	72,856
Obligations of U.S. states and their political subdivisions		307,734		16,851		61,915		14,108		369,649		30,959
Foreign government bonds		139,577		19,435		111,371		39,205		250,948		58,640
U.S. public corporate securities		3,873,275		389,937		1,979,725		602,208		5,853,000		992,145
U.S. private corporate securities		2,506,932		157,853		948,686		177,352		3,455,618		335,205
Foreign public corporate securities		548,083		40,508		596,437		122,856		1,144,520		163,364
Foreign private corporate securities		1,772,413		199,124		1,479,608		390,029		3,252,021		589,153
Asset-backed securities		625,710		15,146		289,581		17,431		915,291		32,577
Commercial mortgage-backed securities		459,186		30,408		176,349		38,693		635,535		69,101
Residential mortgage-backed securities		129,721		9,220		1,294		259		131,015		9,479
Total fixed maturities, available-for-sale	\$	10,575,622	\$	925,410	\$	5,707,596	\$	1,428,069	\$	16,283,218	\$	2,353,479

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
Obligations of U.S. states and their political subdivisions		104,621		701		0		0
Foreign government bonds		59,550		2,826		6,473		371
U.S. public corporate securities		1,681,201		23,160		180,249		6,610
U.S. private corporate securities		972,796		14,036		16,409		2,844
Foreign public corporate securities		532,445		8,255		29,718		2,108
Foreign private corporate securities		1,253,739		42,392		57,637		5,616
Asset-backed securities		288,971		1,099		0		0
Commercial mortgage-backed securities		157,355		1,622		40,689		1,775
Residential mortgage-backed securities		1,393		5		0		0
Total fixed maturities, available-for-sale	\$	5,052,071	\$	94,096	\$	333,294	\$	19,435
							\$	5,385,365
								113,531

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

As of December 31, 2022 and 2021, the gross unrealized losses on fixed maturity available-for-sale securities without an allowance were composed of \$2,164.1 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 \$189.4 million and \$18.4 million, respectively, related to other than high or highest quality securities based on NAIC or equivalent rating. As of December 31, 2022, the \$1,428.1 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 utility 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, the Company concluded that an adjustment to earnings for credit losses related to these fixed maturity securities was not warranted at December 31, 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 December 31, 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:

	December 31, 2022	
	Amortized Cost	Fair Value
	(in thousands)	
Fixed maturities, available-for-sale:		
Due in one year or less	\$ 357,166	\$ 347,772
Due after one year through five years	4,981,177	4,654,387
Due after five years through ten years	6,798,927	6,120,970
Due after ten years	6,636,210	5,465,550
Asset-backed securities	1,467,955	1,442,354
Commercial mortgage-backed securities	727,159	658,152
Residential mortgage-backed securities	342,493	336,216
Total fixed maturities, available-for-sale	\$ 21,311,087	\$ 19,025,401

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:

	Years Ended December 31,		
	2022	2021	2020
	(in thousands)		
Fixed maturities, available-for-sale:			
Proceeds from sales(1)	\$ 1,117,293	\$ 790,331	\$ 81,766
Proceeds from maturities/prepayments	624,640	465,347	305,859
Gross investment gains from sales and maturities	5,647	14,972	1,293
Gross investment losses from sales and maturities	(58,432)	(16,674)	(1,878)
Write-downs recognized in earnings(2)	(20,600)	(2)	(4,312)
(Addition to) release of allowance for credit losses	(620)	(1,810)	(2,339)

(1) Excludes activity from non-cash related proceeds due to the timing of trade settlements of \$(53.9) million, \$(4.4) million and \$(2.4) million for the years ended December 31, 2022, 2021 and 2020, respectively.

(2) Amounts represent write-downs of credit adverse securities and securities actively marketed for sale. In addition, for the year ended December 31, 2020, amount also includes write-downs on securities approaching maturities related to foreign exchange movements.

PRUCO LIFE INSURANCE COMPANY
Notes to 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:

	Year Ended December 31, 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	\$ 4,149	
Additions to allowance for credit losses not previously recorded	0	329	12,700	0	0	7	13,036	
Reductions for securities sold during the period	0	(96)	(1,702)	0	0	0	(1,798)	
Reductions for securities with intent to sell	0	(324)	(16,666)	0	0	0	(16,990)	
Additions (reductions) on securities with previous allowance	0	85	6,285	0	0	2	6,372	
Balance, end of period	\$ 0	\$ 5	\$ 4,755	\$ 0	\$ 0	\$ 9	\$ 4,769	

	Year Ended December 31, 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	11	2,664	0	0	0	0	2,675
Reductions for securities sold during the period	0	0	(28)	0	0	0	0	(28)
Additions (reductions) on securities with previous allowance	0	0	(837)	0	0	0	0	(837)
Balance, end of period	\$ 0	\$ 11	\$ 4,138	\$ 0	\$ 0	\$ 0	\$ 0	4,149

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

	Year Ended December 31, 2020						
	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	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Additions to allowance for credit losses not previously recorded	0	0	5,672	0	0	0	5,672
Reductions for securities sold during the period	0	0	(3,147)	0	0	0	(3,147)
Additions (reductions) on securities with previous allowance	0	0	(186)	0	0	0	(186)
Balance, end of period	\$ 0	\$ 0	\$ 2,339	\$ 0	\$ 0	\$ 0	\$ 2,339

See Note 2 for additional information about the Company's methodology for developing our allowance and expected losses.

For the year ended December 31, 2022, the net increase in the allowance for credit losses on available-for-sale securities was primarily related to net additions in the capital goods and utility sectors within private corporate securities due to adverse projected cash flows, partially offset by a net release on restructured private corporate securities within the communications and transportation sectors.

For the year ended December 31, 2021, the net increase in the allowance for credit losses on available-for-sale securities was primarily related to adverse projected cash flows on securities in the transportation and communications sectors within private corporate securities.

The Company did not have any fixed maturity securities purchased with credit deterioration, as of both December 31, 2022 and 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 \$(728.6) million, \$156.1 million and \$9.1 million during the years ended December 31, 2022, 2021 and 2020, 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, \$2.1 million and \$(1.2) million during the years ended December 31, 2022, 2021 and 2020, respectively.

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

Commercial Mortgage and Other Loans

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

	December 31, 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	\$ 1,289,026	26.0 %	\$ 748,414	26.4 %
Hospitality	104,177	2.1	48,141	1.7
Industrial	1,766,247	35.8	916,398	32.2
Office	590,897	11.9	445,055	15.7
Other	380,121	7.7	252,590	8.9
Retail	351,457	7.1	255,577	9.0
Total commercial mortgage loans	4,481,925	90.6	2,666,175	93.9
Agricultural property loans	467,018	9.4	172,336	6.1
Total commercial mortgage and agricultural property loans	4,948,943	100.0 %	2,838,511	100.0 %
Allowance for credit losses	(20,263)		(5,951)	
Total net commercial mortgage and agricultural property loans	\$ 4,928,680		\$ 2,832,560	

As of December 31, 2022, the commercial mortgage and agricultural property loans were secured by properties geographically dispersed throughout the United States with the largest concentrations in California (28%), Texas (13%) and New York (6%) and included loans secured by properties in Europe (10%), Mexico (2%) and Australia (1%).

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

	Commercial Mortgage Loans	Agricultural Property Loans	Total
	(in thousands)		
Balance at December 31, 2019	\$ 1,743	\$ 25	\$ 1,768
Cumulative effect of adoption of ASU 2016-13	2,495	(8)	2,487
Addition to (release of) allowance for expected losses	308	(11)	297
Balance at December 31, 2020	4,546	6	4,552
Addition to (release of) allowance for expected losses	1,301	98	1,399
Balance at December 31, 2021	5,847	104	5,951
Addition to (release of) allowance for expected losses	13,818	494	14,312
Balance at December 31, 2022	\$ 19,665	\$ 598	\$ 20,263

See Note 2 for additional information about the Company's methodology for developing our allowance and expected losses.

For the year ended December 31, 2022, the net increase in the allowance for credit losses on commercial mortgage and other loans was primarily related to loan originations and declining market conditions, partially offset by loan repayments and payoffs.

For the year ended December 31, 2021, the net increase in the allowance for credit losses on commercial mortgage and other loans was primarily related to portfolio growth, partially offset by the improving credit environment.

PRUCO LIFE INSURANCE COMPANY
Notes to 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:

December 31, 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%	\$ 266,453	\$ 262,095	\$ 63,558	\$ 222,638	\$ 201,087	\$ 894,646	\$ 1,910,477
60%-69.99%	344,110	681,996	243,800	219,593	61,757	305,175	1,856,431
70%-79.99%	166,629	304,386	47,388	66,148	2,409	53,336	640,296
80% or greater	0	0	0	3,249	0	71,472	74,721
Total	<u>\$ 777,192</u>	<u>\$ 1,248,477</u>	<u>\$ 354,746</u>	<u>\$ 511,628</u>	<u>\$ 265,253</u>	<u>\$ 1,324,629</u>	<u>\$ 4,481,925</u>
Debt Service Coverage Ratio:							
Greater or Equal to 1.2x	\$ 744,301	\$ 1,248,477	\$ 243,325	\$ 452,626	\$ 258,617	\$ 1,203,807	\$ 4,151,153
1.0 - 1.2x	32,891	0	83,655	26,558	6,636	45,742	195,482
Less than 1.0x	0	0	27,766	32,444	0	75,080	135,290
Total	<u>\$ 777,192</u>	<u>\$ 1,248,477</u>	<u>\$ 354,746</u>	<u>\$ 511,628</u>	<u>\$ 265,253</u>	<u>\$ 1,324,629</u>	<u>\$ 4,481,925</u>
Agricultural property loans							
Loan-to-Value Ratio:							
0%-59.99%	\$ 208,708	\$ 133,126	\$ 25,894	\$ 16,053	\$ 6,327	\$ 20,700	\$ 410,808
60%-69.99%	56,210	0	0	0	0	0	56,210
70%-79.99%	0	0	0	0	0	0	0
80% or greater	0	0	0	0	0	0	0
Total	<u>\$ 264,918</u>	<u>\$ 133,126</u>	<u>\$ 25,894</u>	<u>\$ 16,053</u>	<u>\$ 6,327</u>	<u>\$ 20,700</u>	<u>\$ 467,018</u>
Debt Service Coverage Ratio:							
Greater or Equal to 1.2x	\$ 262,918	\$ 133,126	\$ 25,894	\$ 16,053	\$ 6,327	\$ 20,700	\$ 465,018
1.0 - 1.2x	2,000	0	0	0	0	0	2,000
Less than 1.0x	0	0	0	0	0	0	0
Total	<u>\$ 264,918</u>	<u>\$ 133,126</u>	<u>\$ 25,894</u>	<u>\$ 16,053</u>	<u>\$ 6,327</u>	<u>\$ 20,700</u>	<u>\$ 467,018</u>

PRUCO LIFE INSURANCE COMPANY
Notes to 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 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:

	December 31, 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	\$ 4,481,925	\$ 0	\$ 0	\$ 0	\$ 4,481,925	\$ 0	\$ 0
Agricultural property loans	465,689	0	1,329	0	467,018	0	0
Total	\$ 4,947,614	\$ 0	\$ 1,329	\$ 0	\$ 4,948,943	\$ 0	\$ 0

- (1) As of December 31, 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.

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

December 31, 2021							
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)							
\$ 2,666,175	\$ 0	\$ 0	\$ 0	\$ 2,666,175	\$ 0		
172,336	0	0	0	172,336	0		
\$ 2,838,511	\$ 0	\$ 0	\$ 0	\$ 2,838,511	\$ 0		

- (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.

For the years ended December 31, 2022 and 2021, there were \$27.6 million and \$1,344.3 million, respectively, of commercial mortgage loans acquired, other than those through direct origination. For the years ended December 31, 2022 and 2021, there were \$24.8 million and \$68.8 million of commercial mortgage and other loans sold, respectively.

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

Other Invested Assets

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

	December 31,	
	2022	2021
	(in thousands)	
Company's investment in separate accounts(1)	\$ 510	\$ 53,694
LPs/LLCs:		
Equity method:		
Private equity	287,969	286,141
Hedge funds	576,595	432,749
Real estate-related	107,429	89,337
Subtotal equity method	971,993	808,227
Fair value:		
Private equity	59,146	69,137
Hedge funds	396	481
Real estate-related	9,457	9,861
Subtotal fair value	68,999	79,479
Total LPs/LLCs	1,040,992	887,706
Derivative instruments	47,111	268,525
Total other invested assets	<u>\$ 1,088,613</u>	<u>\$ 1,209,925</u>

- (1) Assets consist of investments in separate account funds. The largest fund was liquidated during 2022.

Equity Method Investments

The following tables set forth summarized combined financial information for significant LP/LLC interests accounted for under the equity method, including the Company's investments in operating joint ventures. Changes between periods in the tables below reflect changes in the activities within the operating joint ventures and LPs/LLCs, as well as changes in the Company's level of investment in such entities.

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

	December 31,	
	2022	2021
	(in thousands)	
STATEMENTS OF FINANCIAL POSITION		
Total assets(1)	\$ 67,721,613	\$ 72,416,906
Total liabilities(2)	\$ 12,174,133	\$ 12,120,390
Partners' capital	55,547,480	60,296,516
Total liabilities and partners' capital	\$ 67,721,613	\$ 72,416,906
Total liabilities and partners' capital included above	\$ 815,783	\$ 746,870
Equity in LP/LLC interests not included above	214,442	201,541
Carrying value	\$ 1,030,225	\$ 948,411

(1) Amount represents gross assets of each fund where the Company has a significant investment. These assets consist primarily of investments in real estate, investments in securities and other miscellaneous assets.

(2) Amount represents gross liabilities of each fund where the Company has a significant investment. These liabilities consist primarily of third-party-borrowed funds and other miscellaneous liabilities.

	Years Ended December 31,		
	2022	2021	2020
	(in thousands)		
STATEMENTS OF OPERATIONS			
Total revenue(1)	\$ 11,062,060	\$ 11,031,051	\$ 565,409
Total expenses(2)	(1,655,673)	(2,044,942)	(201,644)
Net earnings (losses)	\$ 9,406,387	\$ 8,986,109	\$ 363,765
Equity in net earnings (losses) included above	\$ (36,513)	\$ 62,173	\$ 8,644
Equity in net earnings (losses) of LP/LLC interests not included above	7,320	28,765	25,859
Total equity in net earnings (losses)	\$ (29,193)	\$ 90,938	\$ 34,503

(1) Amount represents gross revenue of each fund where the Company has a significant investment. This revenue consists of income from investments in real estate, investments in securities and other income.

(2) Amount represents gross expenses of each fund where the Company has a significant investment. These expenses consist primarily of interest expense, investment management fees, salary expenses and other expenses.

Accrued Investment Income

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

	December 31,	
	2022	2021
	(in thousands)	
Fixed maturities	\$ 187,628	\$ 117,216
Equity securities	349	2
Commercial mortgage and other loans	13,335	7,025
Policy loans	14,525	35,153
Other invested assets	48	254
Short-term investments and cash equivalents	3,750	377
Total accrued investment income	\$ 219,635	\$ 160,027

There were \$0.0 million and \$0.1 million of write-downs on accrued investment income for the years ended December 31, 2022 and 2021.

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

Net Investment Income

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

	Years Ended December 31,		
	2022	2021	2020
	(in thousands)		
Fixed maturities, available-for-sale	\$ 589,248	\$ 299,607	\$ 224,262
Fixed maturities, trading	55,790	38,778	1,768
Equity securities	8,226	530	410
Commercial mortgage and other loans	119,358	63,548	50,534
Policy loans	21,189	69,602	70,363
Other invested assets	101,289	104,375	36,684
Short-term investments and cash equivalents	44,182	712	3,219
Gross investment income	939,282	577,152	387,240
Less: investment expenses	(55,281)	(26,917)	(19,890)
Net investment income	<u>\$ 884,001</u>	<u>\$ 550,235</u>	<u>\$ 367,350</u>

The carrying value of non-income producing assets included \$13.2 million in available-for-sale fixed maturities and less than \$1 million in fixed maturities trading as of December 31, 2022. Non-income producing assets represent investments that had not produced income for the twelve months preceding December 31, 2022.

Realized Investment Gains (Losses), Net

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

	Years Ended December 31,		
	2022	2021	2020
	(in thousands)		
Fixed maturities(1)	\$ (74,005)	\$ (3,514)	\$ (7,236)
Commercial mortgage and other loans	(18,201)	1,535	(226)
Other invested assets	(78,671)	(2,737)	(287)
Derivatives(2)(3)	507,313	(382,531)	(55,003)
Short-term investments and cash equivalents	(54)	353	(224)
Realized investment gains (losses), net(3)	<u>\$ 336,382</u>	<u>\$ (386,894)</u>	<u>\$ (62,976)</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 for additional information.

(3) Amounts for the years ended December 31, 2022 and 2021 were adjusted for the implementation of ASU 2018-12: Targeted Improvements to the Accounting for Long-Duration Contracts.

PRUCO LIFE INSURANCE COMPANY
Notes to 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:

	December 31,		
	2022	2021	2020
	(in thousands)		
Fixed maturity securities, available-for-sale with an allowance	\$ 4,371	\$ 3,685	\$ 0
Fixed maturity securities, available-for-sale without an allowance	(2,285,288)	540,881	857,599
Derivatives designated as cash flow hedges(1)	138,627	39,896	(8,112)
Affiliated notes	(13,189)	73	4,024
Other investments(2)(3)	(1,176)	868	(4,162)
Net unrealized gains (losses) on investments(3)	<u>\$ (2,156,655)</u>	<u>\$ 585,403</u>	<u>\$ 849,349</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."

(3) Amounts for the years ended December 31, 2022 and 2021 were adjusted for the implementation of ASU 2018-12: Targeted Improvements to the Accounting for Long-Duration Contracts.

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 December 31, 2022 and 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:

	December 31, 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)					
Foreign government bonds	\$ 506	\$ 0	\$ 506	\$ 0	\$ 0	\$ 0
U.S. public corporate securities	7,903	0	7,903	3,004	0	3,004
Foreign public corporate securities	12,873	0	12,873	0	0	0
Equity securities	65,468	0	65,468	0	0	0
Total cash collateral for loaned securities(1)	<u>\$ 86,750</u>	<u>\$ 0</u>	<u>\$ 86,750</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.

Securities Pledged, Restricted Assets and Special Deposits

The Company pledges as collateral investment securities it owns to unaffiliated parties through certain transactions, including securities lending, securities sold under agreements to repurchase, collateralized borrowings and postings of collateral with derivative counterparties. The following table sets forth the carrying value of investments pledged to third parties and the carrying amount of the associated liabilities supported by the pledged collateral, as of the dates indicated:

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

	December 31,	
	2022	2021
	(in thousands)	
Pledged collateral:		
Fixed maturity securities, available-for-sale	\$ 20,553	\$ 2,871
Equity securities	63,895	0
Total securities pledged	<u>\$ 84,448</u>	<u>\$ 2,871</u>
Liabilities supported by the pledged collateral:		
Cash collateral for loaned securities	\$ 86,750	\$ 3,004
Total liabilities supported by the pledged collateral	<u>\$ 86,750</u>	<u>\$ 3,004</u>

In the normal course of its business activities, the Company accepts collateral that can be sold or repledged. The primary sources of this collateral are securities purchased under agreements to resell. As of December 31, 2022 and 2021, there were \$290 million and \$0 million of collateral that could be sold or repledged.

As of December 31, 2022 and 2021, there were available-for-sale fixed maturities of \$3.9 million and \$4.1 million, respectively, on deposit with governmental authorities or trustees as required by certain insurance laws.

4. DERIVATIVES AND HEDGING

Types of Derivative Instruments and Derivative Strategies

Interest Rate Contracts

Interest rate swaps, options, and futures are used by the Company to reduce risks from changes in interest rates, manage interest rate exposures arising from mismatches between assets and liabilities and to hedge against changes in their values it owns or anticipates acquiring or selling.

Swaps may be attributed to specific assets or liabilities or to a portfolio of assets or liabilities. Under interest rate swaps, the Company agrees with counterparties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed upon notional principal amount.

The Company also uses interest rate swaptions, caps and floors to manage interest rate risk. A swaption is an option to enter into a swap with a forward starting effective date. The Company pays a premium for purchased swaptions and receives a premium for written swaptions. In an interest rate cap, the buyer receives payments at the end of each period in which the interest rate exceeds the agreed strike price. Similarly, in an interest rate floor, the buyer receives payments at the end of each period in which the interest rate is below the agreed strike price. Swaptions, caps and floors are included in interest rate options.

In standardized exchange-traded interest rate futures transactions, the Company purchases or sells a specified number of contracts, the values of which are determined by the daily market values of underlying referenced investments. The Company enters into exchange-traded futures with regulated futures commission's merchants who are members of a trading exchange.

Equity Contracts

Equity options, total return swaps, and futures are used by the Company to manage its exposure to the equity markets which impacts the value of assets and liabilities it owns or anticipates acquiring or selling.

Equity index options are contracts which will settle in cash based on differentials in the underlying indices at the time of exercise and the strike price. The Company uses combinations of purchases and sales of equity index options to hedge the effects of adverse changes in equity indices within a predetermined range.

Total return swaps are contracts whereby the Company agrees with counterparties to exchange, at specified intervals, the difference between the return on an asset (or market index) and London Inter-Bank Offered Rate ("LIBOR") plus an associated funding spread based on a notional amount. The Company generally uses total return swaps to hedge the effect of adverse changes in equity indices.

In standardized exchange-traded equity futures transactions, the Company purchases or sells a specified number of contracts, the values of which are determined by the daily market values underlying referenced equity indices. The Company enters into exchange-traded futures with regulated futures commission's merchants who are members of a trading exchange.

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

Foreign Exchange Contracts

Currency derivatives, including currency swaps and forwards, are used by the Company to reduce risks from changes in currency exchange rates with respect to investments denominated in foreign currencies that the Company either holds or intends to acquire or sell.

Under currency forwards, the Company agrees with counterparties to deliver a specified amount of an identified currency at a specified future date. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at the specified future date. The Company executes forward sales of the hedged currency in exchange for U.S. dollars at a specified exchange rate. The maturities of these forwards correspond with the future periods in which the non-U.S. dollar-denominated earnings are expected to be generated.

Under currency swaps, the Company agrees with counterparties to exchange, at specified intervals, the difference between one currency and another at an exchange rate and calculated by reference to an agreed principal amount. Generally, the principal amount of each currency is exchanged at the beginning and termination of the currency swap by each party.

Credit Contracts

The Company writes credit protection to gain exposure similar to investment in public fixed maturity cash instruments. With these credit derivatives the Company sells credit protection on a single name reference, or certain index reference, and in return receives a quarterly premium. This premium or credit spread generally corresponds to the difference between the yield on the referenced name (or an index's referenced names) public fixed maturity cash instruments and swap rates, at the time the agreement is executed. If there is an event of default by the referenced name or one of the referenced names in the index, as defined by the agreement, then the Company is obligated to pay the referenced amount of the contract to the counterparty and receive in return the referenced defaulted security or similar security or (in the case of a credit default index) pay the referenced amount less the auction recovery rate.

In addition to selling credit protection, the Company purchases credit protection using credit derivatives in order to hedge specific credit exposures in the Company's investment portfolio.

Embedded Derivatives

The Company offers certain products (for example, indexed annuities and index-linked universal life) which may include features that are accounted for as embedded derivatives; related to certain of these derivatives, the Company has entered into reinsurance agreements with both affiliated and unaffiliated parties. Effective April 1, 2016, the Company entered into reinsurance agreements with PALAC and Prudential Insurance. The reinsurance agreement with PALAC was recaptured on July 1, 2021. Additionally, the Company has entered into a reinsurance agreement with an external counterparty, Union Hamilton Reinsurance, Ltd. ("Union Hamilton") effective April 1, 2015. See Note 11 for additional information on the reinsurance agreements.

Effective December 1, 2021, the Company entered into a reinsurance arrangement with FLIAC (previously named PALAC), which includes features that are accounted for as embedded derivatives. See Note 11 for additional information on the reinsurance arrangement.

These embedded derivatives and reinsurance agreements, also accounted for as derivatives, are carried at fair value and marked to market through "Realized investment gains (losses), net" based on the change in value of the underlying contractual guarantees, which are determined using valuation models, as described in Note 5.

PRUCO LIFE INSURANCE COMPANY
Notes to 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. 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	December 31, 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	\$ (316)	\$ 3,344	\$ 55	\$ 0
Foreign Currency Swaps	1,933,343	233,812	(10,462)	886,552	37,259	(6,900)
Total Derivatives Designated as Hedge Accounting Instruments	\$ 1,936,568	\$ 233,812	\$ (10,778)	\$ 889,896	\$ 37,314	\$ (6,900)
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate						
Interest Rate Swaps	\$ 138,419,110	\$ 6,757,890	\$ (17,092,749)	\$ 130,358,860	\$ 5,698,740	\$ (10,348,130)
Interest Rate Futures	2,425,500	3,267	(201)	4,109,300	2,876	(2,709)
Interest Rate Options	8,368,000	123,168	(225,125)	9,883,000	280,323	(173,863)
Interest Rate Forwards	1,104,000	11,265	(12,359)	195,000	3,760	(991)
Foreign Currency						
Foreign Currency Forwards	364,946	590	(10,423)	119,653	842	(1,063)
Credit						
Credit Default Swaps	47,450	346	0	306,900	24,789	0
Currency/Interest Rate						
Foreign Currency Swaps	2,289,170	194,412	(14,624)	2,139,523	68,477	(23,251)
Equity						
Total Return Swaps	15,958,130	120,341	(175,104)	15,129,666	66,627	(475,209)
Equity Options	25,187,516	239,003	(1,112,196)	19,461,881	902,050	(1,535,272)
Futures	876,790	956	(513)	5,015,002	736	(6,595)
Total Derivatives Not Qualifying as Hedge Accounting Instruments	\$ 195,040,612	\$ 7,451,238	\$ (18,643,294)	\$ 186,718,785	\$ 7,049,220	\$ (12,567,083)
Total Derivatives(1)(2)	\$ 196,977,180	\$ 7,685,050	\$ (18,654,072)	\$ 187,608,681	\$ 7,086,534	\$ (12,573,983)

(1) Excludes embedded derivatives which contain multiple underlying risks. The fair value of these embedded derivatives was a net liability of \$3,502 million and \$3,246 million as of December 31, 2022 and 2021, respectively included in "Policyholders' account balances". Other assets included \$141 million and \$73 million as of December 31, 2022 and 2021, respectively. Other liabilities included \$10 million and \$13 million as of December 31, 2022 and 2021, respectively.

(2) Recorded in "Other invested assets" and "Payables to parent and affiliates" on the Consolidated Statements of Financial Position.

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

Offsetting Assets and Liabilities

The following table presents recognized derivative instruments (excluding embedded derivatives), and repurchase and reverse repurchase agreements that are offset in the 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 Consolidated Statements of Financial Position.

	December 31, 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	\$ 7,685,050	\$ (7,637,939)	\$ 47,111	\$ 0	\$ 47,111
Securities purchased under agreements to resell	290,000	0	290,000	(290,000)	0
Total Assets	<u>\$ 7,975,050</u>	<u>\$ (7,637,939)</u>	<u>\$ 337,111</u>	<u>\$ (290,000)</u>	<u>\$ 47,111</u>
Offsetting of Financial Liabilities:					
Derivatives	\$ 18,654,072	\$ (16,568,912)	\$ 2,085,160	\$ (2,085,160)	\$ 0
Securities sold under agreements to repurchase	0	0	0	0	0
Total Liabilities	<u>\$ 18,654,072</u>	<u>\$ (16,568,912)</u>	<u>\$ 2,085,160</u>	<u>\$ (2,085,160)</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 15. 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.

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.

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

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.

	Year Ended December 31, 2022				
	Realized Investment Gains (Losses) (1)	Change in Value of Market Risk Benefits, Net of Related Hedging Gain (Loss) (1)	Net Investment Income	Other Income	Change in AOCI
	(in thousands)				
Derivatives Designated as Hedge Accounting Instruments:					
Cash flow hedges					
Interest Rate	\$ 1	\$ 0	\$ (8)	\$ 0	\$ (312)
Currency/Interest Rate	7,636	0	36,734	34,070	99,043
Total cash flow hedges	7,637	0	36,726	34,070	98,731
Derivatives Not Qualifying as Hedge Accounting Instruments:					
Interest Rate	661,978	(5,230,085)	0	0	0
Currency	18,952	0	0	0	0
Currency/Interest Rate	107,388	0	0	557	0
Credit	(15,904)	0	0	0	0
Equity	40,076	1,050,139	0	0	0
Embedded Derivatives	(312,814)	0	0	0	0
Total Derivatives Not Qualifying as Hedge Accounting Instruments	499,676	(4,179,946)	0	557	0
Total	\$ 507,313	\$ (4,179,946)	\$ 36,726	\$ 34,627	\$ 98,731

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

	Year Ended December 31, 2021				
	Realized Investment Gains (Losses) (1)	Change in Value of Market Risk Benefits, Net of Related Hedging Gain (Loss) (1)	Net Investment Income	Other Income	Change in AOCI
	(in thousands)				
Derivatives Designated as Hedge Accounting Instruments:					
Cash flow hedges					
Interest Rate	\$ 2	\$ 0	\$ 47	\$ 0	\$ (161)
Currency/Interest Rate	1,357	0	15,983	11,119	48,169
Total cash flow hedges	1,359	0	16,030	11,119	48,008
Derivatives Not Qualifying as Hedge Accounting Instruments:					
Interest Rate	(53,626)	33,029	0	0	0
Currency	2,006	0	0	0	0
Currency/Interest Rate	44,350	0	0	79	0
Credit	2,892	0	0	0	0
Equity	(299,798)	(644,967)	0	0	0
Embedded Derivatives	(79,714)	0	0	0	0
Total Derivatives Not Qualifying as Hedge Accounting Instruments	(383,890)	(611,938)	0	79	0
Total	\$ (382,531)	\$ (611,938)	\$ 16,030	\$ 11,198	\$ 48,008

	Year Ended December 31, 2020				
	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	\$ (44)	\$ 21	\$ 0	\$ 284	
Currency/Interest Rate	(314)	10,660	(10,161)	(34,522)	
Total cash flow hedges	(358)	10,681	(10,161)	(34,238)	
Derivatives Not Qualifying as Hedge Accounting Instruments:					
Interest Rate	17,000	0	0	0	
Currency	(2,560)	0	0	0	
Currency/Interest Rate	(4,130)	0	(109)	0	
Credit	(284)	0	0	0	
Equity	37,480	0	0	0	
Embedded Derivatives	(102,151)	0	0	0	
Total Derivatives Not Qualifying as Hedge Accounting Instruments	(54,645)	0	(109)	0	
Total	\$ (55,003)	\$ 10,681	\$ (10,270)	\$ (34,238)	

(1) Amounts adjusted for the implementation of ASU 2018-12: Targeted Improvements to the Accounting for Long-Duration Contracts.

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

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

	(in thousands)
Balance, December 31, 2019	\$ 26,126
Amount recorded in AOCI	
Interest Rate	261
Currency/Interest Rate	(34,337)
Total amount recorded in AOCI	(34,076)
Amount reclassified from AOCI to income	
Interest Rate	23
Currency/Interest Rate	(185)
Total amount reclassified from AOCI to income	(162)
Balance, December 31, 2020	\$ (8,112)
Amount recorded in AOCI	
Interest Rate	(112)
Currency/Interest Rate	76,628
Total amount recorded in AOCI	76,516
Amount reclassified from AOCI to income	
Interest Rate	(49)
Currency/Interest Rate	(28,459)
Total amount reclassified from AOCI to income	(28,508)
Balance, December 31, 2021	\$ 39,896
Amount recorded in AOCI	
Interest Rate	(319)
Currency/Interest Rate	177,483
Total amount recorded in AOCI	177,164
Amount reclassified from AOCI to income	
Interest Rate	7
Currency/Interest Rate	(78,440)
Total amount reclassified from AOCI to income	(78,433)
Balance, December 31, 2022	\$ 138,627

The changes in fair value of cash flow hedges are deferred in AOCI and are included in "Net unrealized investment gains (losses)" in the Consolidated Statements of Operations and Comprehensive Income (Loss); these amounts are then reclassified to earnings when the hedged item affects earnings. Using December 31, 2022 values, it is estimated that a pre-tax gain of \$20 million is expected to be reclassified from AOCI to earnings during the subsequent twelve months ending December 31, 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 Consolidated Financial Statements—(Continued)

Credit Derivatives

Credit Derivatives, where the Company has written credit protection on certain index references, have outstanding notional amounts of \$47 million and \$157 million as of December 31, 2022 and December 31, 2021, respectively. These credit derivatives are reported at fair value as an asset of \$0 million and \$11 million as of December 31, 2022 and December 31, 2021, respectively. As of December 31, 2022 the notional amount of these credit derivatives had \$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 as of December 31, 2022 and 2021, respectively. These credit derivatives are reported at fair value as an asset of \$0 million and \$14 million as of December 31, 2022 and 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 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.

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

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. The Company's Level 1 assets and liabilities primarily include certain cash equivalents and short-term investments, equity securities, derivative contracts that trade on an active exchange market, separate account assets and other 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. The Company's Level 2 assets and liabilities include: fixed maturities (corporate public and private bonds, most government securities, certain asset-backed and mortgage-backed securities, etc.), certain equity securities (mutual funds, which do not trade in active markets because they are not publicly available), certain cash equivalents (primarily commercial paper), short-term investments and certain OTC derivatives and embedded derivatives resulting from reinsurance.

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. The Company's Level 3 assets and liabilities primarily include: certain private fixed maturities and equity securities, certain manually priced public fixed maturities, certain highly structured OTC derivative contracts, contracts or contract features pertaining to living benefit features (market risk benefits) of the Company's variable annuity contracts and embedded derivatives associated with the index-linked features of certain universal life and annuity products.

PRUCO LIFE INSURANCE COMPANY
Notes to 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.

	December 31, 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	\$ 281,792	\$ 0	\$	281,792
Obligations of U.S. states and their political subdivisions	0	628,200	0		628,200
Foreign government bonds	0	272,738	724		273,462
U.S. corporate public securities	0	6,443,944	0		6,443,944
U.S. corporate private securities	0	3,573,269	243,460		3,816,729
Foreign corporate public securities	0	1,371,354	6,868		1,378,222
Foreign corporate private securities	0	3,509,162	257,168		3,766,330
Asset-backed securities(2)	0	1,421,852	20,502		1,442,354
Commercial mortgage-backed securities	0	573,930	84,222		658,152
Residential mortgage-backed securities	0	336,216	0		336,216
Subtotal	0	18,412,457	612,944		19,025,401
Market risk benefit assets(3)	0	0	1,393,237		1,393,237
Fixed maturities, trading	0	1,936,159	0		1,936,159
Equity securities	108,076	6,403	28,593		143,072
Short-term investments	0	81,215	16,945		98,160
Cash equivalents	0	1,432,182	0		1,432,182
Other invested assets(4)	4,223	7,680,827	0	(7,637,939)	47,111
Other assets	0	0	141,041		141,041
Receivables from parent and affiliates	0	148,075	0		148,075
Subtotal excluding separate account assets	112,299	29,697,318	2,192,760	(7,637,939)	24,364,438
Separate account assets(5)(6)	102,243	108,682,425	4,645		108,789,313
Total assets	\$ 214,542	\$ 138,379,743	\$ 2,197,405	\$ (7,637,939)	\$ 133,153,751
Market risk benefit liabilities(3)	\$ 0	\$ 0	\$ 5,521,601	\$	5,521,601
Policyholders' account balances	0	0	3,502,096		3,502,096
Payables to parent and affiliates	0	18,653,159	0	(16,568,242)	2,084,917
Other liabilities	899	(9,496)	0	(670)	(9,267)
Total liabilities	\$ 899	\$ 18,643,663	\$ 9,023,697	\$ (16,568,912)	\$ 11,099,347

PRUCO LIFE INSURANCE COMPANY
Notes to 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	\$ 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
Market risk benefit assets(3)	0	0	1,786,565		1,786,565
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(4)	246,097	6,840,437	0	(6,818,009)	268,525
Other assets	0	0	72,937		72,937
Receivables from parent and affiliates	0	162,045	0		162,045
Subtotal excluding separate account assets	328,253	23,622,020	2,431,702	(6,818,009)	19,563,966
Separate account assets(5)(6)	52,100	144,059,558	0		144,111,658
Total assets	<u>\$ 380,353</u>	<u>\$ 167,681,578</u>	<u>\$ 2,431,702</u>	<u>\$ (6,818,009)</u>	<u>\$ 163,675,624</u>
Market risk benefit liabilities(3)	\$ 0	\$ 0	\$ 9,764,443	\$ 0	\$ 9,764,443
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	<u>\$ 10,730</u>	<u>\$ 12,575,877</u>	<u>\$ 13,010,216</u>	<u>\$ (12,568,082)</u>	<u>\$ 13,028,741</u>

(1) "Netting" amounts represent cash collateral of \$(8,931) million and \$(5,750) million as of December 31, 2022 and 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) Amounts adjusted for the implementation of ASU 2018-12: Targeted Improvements to the Accounting for Long-Duration Contracts.

(4) 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. At December 31, 2022 and 2021, the fair values of such investments were \$69 million and \$79 million, respectively.

(5) 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 Consolidated Statements of Financial Position.

(6) 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 December 31, 2022 and 2021, the fair value of such investments was \$5,262 million and \$5,686 million, respectively.

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

The methods and assumptions the Company uses to estimate the fair value of assets and liabilities measured at fair value on a recurring basis are summarized below.

Fixed Maturity Securities - The fair values of the Company's public fixed maturity securities are generally based on prices obtained from independent pricing services. Prices for each security are generally sourced from multiple pricing vendors, and a vendor hierarchy is maintained by asset type based on historical pricing experience and vendor expertise. The Company ultimately uses the price from the pricing service highest in the vendor hierarchy based on the respective asset type. The pricing hierarchy is updated for new financial products and recent pricing experience with various vendors. Consistent with the fair value hierarchy described above, securities with validated quotes from pricing services are generally reflected within Level 2, as they are primarily based on observable pricing for similar assets and/or other market observable inputs. Typical inputs used by these pricing services include but are not limited to, reported trades, benchmark yields, issuer spreads, bids, offers, and/or estimated cash flow, prepayment speeds, and default rates. If the pricing information received from third-party pricing services is deemed not reflective of market activity or other inputs observable in the market, the Company may challenge the price through a formal process with the pricing service or classify the securities as Level 3. If the pricing service updates the price to be more consistent with the presented market observations, the security remains within Level 2.

Internally-developed valuations or indicative broker quotes are also used to determine fair value in circumstances where vendor pricing is not available, or where the Company ultimately concludes that pricing information received from the independent pricing services is not reflective of market activity. If the Company concludes the values from both pricing services and brokers are not reflective of market activity, it may override the information with an internally-developed valuation. As of December 31, 2022 and 2021, overrides on a net basis were not material. Pricing service overrides, internally-developed valuations and indicative broker quotes are generally included in Level 3 in the fair value hierarchy.

The Company conducts several specific price monitoring activities. Daily analyses identify price changes over predetermined thresholds defined at the financial instrument level. Various pricing integrity reports are reviewed on a daily and monthly basis to determine if pricing is reflective of market activity or if it would warrant any adjustments. Other procedures performed include, but are not limited to, reviews of third-party pricing services methodologies, reviews of pricing trends and back testing.

The fair values of private fixed maturities, which are originated by internal private asset managers, are primarily determined using discounted cash flow models. These models primarily use observable inputs that include Treasury or similar base rates plus estimated credit spreads to value each security. The credit spreads are obtained through a survey of private market intermediaries who are active in both primary and secondary transactions, and consider, among other factors, the credit quality and the reduced liquidity associated with private placements. Internal adjustments are made to reflect variation in observed sector spreads. Since most private placements are valued using standard market observable inputs and inputs derived from, or corroborated by, market observable data including, but not limited to observed prices and spreads for similar publicly or privately traded issues, they have been reflected within Level 2. For certain private fixed maturities, the discounted cash flow model may incorporate significant unobservable inputs, which reflect the Company's own assumptions about the inputs that market participants would use in pricing the asset. To the extent management determines that such unobservable inputs are significant to the price of a security, a Level 3 classification is made.

Equity Securities - Equity securities consist principally of investments in common and preferred stock of publicly traded companies, privately traded securities, as well as mutual fund shares. The fair values of most publicly traded equity securities are based on quoted market prices in active markets for identical assets and are classified within Level 1 in the fair value hierarchy. Estimated fair values for most privately traded equity securities are determined using discounted cash flow, earnings multiple and other valuation models that require a substantial level of judgment around inputs and therefore are classified within Level 3. The fair values of mutual fund shares that transact regularly (but do not trade in active markets because they are not publicly available) are based on transaction prices of identical fund shares and are classified within Level 2 in the fair value hierarchy.

Derivative Instruments - Derivatives are recorded at fair value either as assets, within "Other invested assets", or as liabilities within "Payables to parent and affiliates" or "Other liabilities", except for embedded derivatives which are recorded with the associated host contract. The fair values of derivative contracts can be affected by changes in interest rates, foreign exchange rates, credit spreads, market volatility, expected returns, NPR, liquidity and other factors.

The Company's exchange-traded futures and options include treasury and equity futures. Exchange-traded futures and options are valued using quoted prices in active markets and are classified within Level 1 in the fair value hierarchy.

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Notes to Consolidated Financial Statements—(Continued)

The majority of the Company's derivative positions are traded in the OTC derivative market and are classified within Level 2 in the fair value hierarchy. OTC derivatives classified within Level 2 are valued using models that utilize actively quoted or observable market inputs from external market data providers, third-party pricing vendors and/or recent trading activity. The Company's policy is to use mid-market pricing in determining its best estimate of fair value. The fair values of most OTC derivatives, including interest rate and cross-currency swaps, currency forward contracts and credit default swaps are determined using discounted cash flow models. The fair values of European style option contracts are determined using Black-Scholes option pricing models. These models' key inputs include the contractual terms of the respective contract, along with significant observable inputs, including interest rates, currency rates, credit spreads, equity prices, index dividend yields, NPR, volatility and other factors.

The Company's cleared interest rate swaps and credit derivatives linked to an index are valued using models that utilize actively quoted or observable market inputs, including the secured overnight financing rate ("SOFR"), obtained from external market data providers, third-party pricing vendors and/or recent trading activity. These derivatives are classified as Level 2 in the fair value hierarchy.

Cash Equivalents and Short-Term Investments - Cash equivalents and short-term investments include money market instruments, commercial paper and other highly liquid debt instruments. Certain money market instruments are valued using unadjusted quoted prices in active markets that are accessible for identical assets and are primarily classified as Level 1. The remaining instruments in this category are generally fair valued based on market observable inputs and these investments have primarily been classified within Level 2.

Separate Account Assets - Separate account assets include fixed maturity securities, treasuries, equity securities, real estate, mutual funds and commercial mortgage loans for which values are determined consistent with similar instruments described above under "Fixed Maturity Securities" and "Equity Securities".

Receivables from Parent and Affiliates - Receivables from parent and affiliates carried at fair value include affiliated bonds within the Company's legal entity where fair value is determined consistent with similar securities described above under "Fixed Maturity Securities" managed by affiliated asset managers.

Other Assets - consists primarily of deposit assets related to reinsurance agreements using deposit accounting under U.S. GAAP, which include amounts representing the fair value of embedded derivative instruments associated with the index-linked features of certain annuity products. The methods and assumptions used to estimate the fair value are consistent with those described below in "Policyholders' account balances".

Market Risk Benefits - As a result of the adoption of ASU 2018-12 in the first quarter of 2023, the Company is required to measure all market risk benefits (e.g., living benefit and death benefit guarantees associated with variable annuities) at fair value. Market risk benefit liabilities (or assets) represent contracts or contract features that provide protection to the contractholder and exposes the Company to other than nominal capital market risk, primarily related to deferred annuities with guaranteed minimum benefits in the annuities products including GMDB, GMIB, GMAB, GMWB and GMIWB. The benefits are bundled together and accounted for as single compound market risk benefits using a fair value measurement framework.

The fair value of these market risk benefits is calculated as the present value of expected future benefit payments to contract holders less the present value of expected future rider fees attributable to the market risk benefit. The fair value of these benefit features is based on assumptions a market participant would use in valuing market risk benefits. This methodology could result in either a liability or asset balance, given changing capital market conditions and various actuarial assumptions. Since there is no observable active market for the transfer of these obligations, the valuations are calculated using internally-developed models with option pricing techniques. The models are based on a risk neutral valuation framework and incorporate premiums for risks inherent in valuation techniques, inputs, and the general uncertainty around the timing and amount of future cash flows. The determination of these risk premiums requires the use of management's judgment.

The significant inputs to the valuation models for these market risk benefits include capital market assumptions, such as interest rate levels and volatility assumptions, the Company's market-perceived NPR, as well as actuarially determined assumptions, including contractholder behavior, such as lapse rates, benefit utilization rates, withdrawal rates, and mortality rates. Since many of these assumptions are unobservable and are considered to be significant inputs to the valuations, the assets and liabilities included in market risk benefits have been reflected within Level 3 in the fair value hierarchy.

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Notes to Consolidated Financial Statements—(Continued)

Capital market inputs and actual policyholders' account values are updated each quarter based on capital market conditions as of the end of the quarter, including interest rates, equity markets and volatility. In the risk neutral valuation, the initial swap curve drives the total return used to grow the policyholders' account values. The Company's discount rate assumption is based on the SOFR swap curve adjusted for an additional spread relative to SOFR to reflect the Company's market-perceived 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 the Company issued 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.

Actuarial assumptions, including contractholder behavior and mortality, are reviewed at least annually, and updated based upon company emerging experience and industry studies, future expectations and other data, including any observable market data. These assumptions are generally updated annually unless a material change that the Company feels is indicative of a long-term trend is observed in an interim period.

Policyholders' Account Balances - The liability for policyholders' account balances is related to certain embedded derivative instruments associated with certain universal life and annuity products that provide policyholders with index-linked interest credited over contract specified term periods. The fair values of these liabilities are determined using discounted cash flow models which include capital market assumptions such as interest rates and equity index volatility assumptions, the Company's market-perceived NPR and actuarially determined assumptions for mortality, lapses and projected hedge costs.

As there is no observable active market for these liabilities, the fair value is determined as the present value of account balances paid to policyholders in excess of contractually guaranteed minimums using option pricing techniques for index term periods that contain deposits as of the valuation date, and the expected option cost for future index term periods, where the terms of index crediting rates have not yet been declared by the Company. Premiums for risks inherent in valuation techniques, inputs, and the general uncertainty around the timing and amount of future cash flows are also incorporated in the fair value of these liabilities. Since the valuation of these liabilities require the use of management's judgment to determine these risk premiums and the use of unobservable inputs, these liabilities are reflected within Level 3 in the fair value hierarchy.

Capital market inputs, including interest rates and equity markets volatility, and actual policyholders' account values are updated each quarter. Actuarial assumptions are reviewed at least annually and updated based upon emerging experience, future expectations and other data, including any observable market data. Aside from these annual updates, assumptions are generally updated only if a material change is observed in an interim period that the Company believes is indicative of a long-term trend.

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

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

December 31, 2022							
	Fair Value	Valuation	Unobservable	Minimum	Maximum	Weighted	Impact of
	(in thousands)	Techniques	Inputs			Average	Increase in Input on Fair Value(1)
Assets:							
Corporate securities(2)	\$ 408,494	Discounted cash flow	Discount rate	9.77 %	20 %	16.53 %	Decrease
		Market Comparables	EBITDA multiples(3)	2.2 X	23.5 X	8.1 X	Increase
Market risk benefit assets(4)(5)	\$ 1,393,237	Discounted cash flow	Lapse rate(6)	1 %	20 %		Increase
			Spread over SOFR(7)	0.50 %	2.20 %		Increase
			Utilization rate(8)	38 %	95 %		Decrease
			Withdrawal rate		See table footnote (9) below.		
			Mortality rate(10)	0 %	15 %		Increase
			Equity volatility curve	18 %	26 %		Decrease
Liabilities:							
Market risk benefit liabilities(4)(5)	\$ 5,521,601	Discounted cash flow	Lapse rate(6)	1 %	20 %		Decrease
			Spread over SOFR(7)	0.50 %	2.20 %		Decrease
			Utilization rate(8)	38 %	95 %		Increase
			Withdrawal rate		See table footnote (9) below.		
			Mortality rate(10)	0 %	15 %		Decrease
			Equity volatility curve	18 %	26 %		Increase
Policyholders' account balances(11)	\$ 3,502,096	Discounted cash flow	Lapse rate(6)	1 %	80 %		Decrease
			Spread over SOFR(7)	0.22 %	2.26 %		Decrease
			Mortality rate(10)	0 %	23 %		Decrease
			Equity volatility curve	6 %	30 %		Increase
			Option Budget(12)	(2)%	6 %		Increase

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

December 31, 2021

	Fair Value (in thousands)	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Weighted Average	Impact of Increase in Input on Fair Value(1)
Assets:							
Corporate securities(2)	\$ 312,139	Discounted cash flow	Discount rate	1.65 %	20 %	4.57 %	Decrease
		Market Comparables	EBITDA multiples(3)	4.9 X	19.2 X	9.0 X	Increase
		Liquidation	Liquidation Value	62.58 %	62.58 %	62.58 %	Increase
Market risk benefit assets(4)(5)	\$ 1,786,565	Discounted cash flow	Lapse rate(6)	1 %	20 %		Increase
			Spread over LIBOR(7)	0.03 %	1.13 %		Increase
			Utilization rate(8)	39 %	96 %		Decrease
			Withdrawal rate	See table footnote (9) below.			
			Mortality rate(10)	0 %	15 %		Increase
			Equity volatility curve	16 %	25 %		Decrease
Liabilities:							
Market risk benefit liabilities(4)(5)	\$ 9,764,443	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(11)	\$ 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) Market risk benefits primarily represent fair value for all living benefit guarantees including accommodation, withdrawal and income benefits. Since the valuation methodology for these assets and 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) Amounts adjusted for the implementation of ASU 2018-12: Targeted Improvements to the Accounting for Long-Duration Contracts.

(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 SOFR swap curve and the 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 December 31, 2022 and 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 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 December 31, 2022 and 2021, the minimum withdrawal rate assumption is 77% and 76%, respectively. As of December 31, 2022 and 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 50 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.
- (11) 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.
- (12) Option budget estimates the expected long-term cost of options used to hedge exposures associated with equity price and interest rate changes. The level of option budgets determines future costs of the options, which impacts the growth in account value and the valuation of embedded derivatives.

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.

Market Risk Benefits – The Company expects efficient benefit utilization and withdrawal rates to generally be correlated with lapse rates. However, behavior is generally 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.

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

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 (excluding MRBs disclosed in Note 10). 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.

Year Ended December 31, 2022(6)(9)											
	Fair Value, beginning of period	Total realized and unrealized gains (losses)	Purchases	Sales	Issuances	Settlements	Other(1)	Transfers into Level 3	Transfers out of Level 3	Fair Value, end of period	Unrealized gains (losses) for assets still held(2)
(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	69
Corporate securities(3)	385,634	(47,296)	323,603	(62,827)	0	(102,377)	106,408	10,475	(106,124)	507,496	(45,235)
Structured securities(4)	173,944	(26,318)	81,576	0	0	(1,993)	0	0	(122,485)	104,724	(28,489)
Other assets:											
Fixed maturities, trading	0	0	0	0	0	0	0	0	0	0	0
Equity securities	12,472	(3,310)	10,000	(230)	0	0	9,661	0	0	28,593	(3,872)
Short-term investments	0	114	18,046	0	0	(8,560)	7,290	55	0	16,945	73
Cash equivalents	0	0	0	0	0	0	0	0	0	0	0
Other assets	72,937	44,096	49,677	0	0	(3,855)	(21,814)	0	0	141,041	47,951
Separate account assets	0	(70)	7,715	(3,000)	0	0	0	0	0	4,645	(70)
Liabilities:											
Policyholders' account balances(5)	(3,245,773)	(409,912)	0	0	(1,094,824)	0	1,248,413	0	0	(3,502,096)	(289,548)

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

Year Ended December 31, 2022(6)											
	Total realized and unrealized gains (losses)					Unrealized gains (losses) for assets still held(2)					
	Realized investment gains (losses), net	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)(8)		
(in thousands)											
Fixed maturities, available-for-sale	\$ (16,829)	\$ 0	\$ 0	\$ (56,470)	\$ (242)	\$ (14,416)	\$ 0	\$ 0	\$ 0	\$ (59,239)	
Other assets:											
Fixed maturities, trading	0	0	0	0	0	0	0	0	0	0	
Equity securities	0	(3,310)	0	0	0	0	(3,872)	0	0	0	
Short-term investments	77	0	0	73	(36)	0	0	0	0	73	
Cash equivalents	0	0	0	0	0	0	0	0	0	0	
Other assets	44,096	0	0	0	0	47,951	0	0	0	0	
Separate account assets	0	0	(70)	0	0	0	0	(70)	0	0	
Liabilities:											
Policyholders' account balances	(409,912)	0	0	0	0	(289,548)	0	0	0	0	
Year Ended December 31, 2021(6)(9)											
	Fair Value, beginning of period	Total realized and unrealized gains (losses)	Purchases	Sales	Issuances	Settlements	Other(1)	Transfers into Level 3	Transfers out of Level 3	Fair Value, end of period	Unrealized gains (losses) for assets still held(2)
(in thousands)											
Fixed maturities, available-for-sale:											
U.S. government	\$ 55,000	\$ 0	\$ 0	\$ (55,000)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	0
Foreign government	163	(13)	0	0	0	0	0	0	0	150	(15)
Corporate securities(3)	174,776	(10,914)	95,294	(5,085)	0	(28,690)	156,667	9,313	(5,727)	385,634	(11,298)
Structured securities(4)	2,065	4,165	74,800	(29)	0	(1,761)	32,859	107,038	(45,193)	173,944	4,189
Other assets:											
Fixed maturities, trading	755	46	0	0	0	0	0	0	(801)	0	46
Equity securities	7,889	709	0	0	0	0	3,874	0	0	12,472	709
Short-term investments	0	181	0	0	0	(1,871)	1,690	0	0	0	0
Cash equivalents	0	147	0	0	0	(1,377)	1,230	0	0	0	0
Other assets	0	1,258	1,170	0	0	(899)	71,408	0	0	72,937	359
Separate account assets	0	0	0	0	0	0	0	0	0	0	0
Liabilities:											
Policyholders' account balances(5)	(1,155,274)	(78,321)	0	0	(265,807)	0	(1,746,371)	0	0	(3,245,773)	5,476

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

Year Ended December 31, 2021(6)							
Total realized and unrealized gains (losses)				Unrealized gains (losses) for assets still held(2)			
Realized investment gains (losses), net	Other income (loss)	Included in other comprehensive income (loss)	Net investment income	Realized investment gains (losses), net	Other income (loss)	Included in other comprehensive income (loss)(8)	
(in thousands)							
Fixed maturities, available-for-sale	\$ (832)	\$ 0	\$ (6,318)	\$ 388	\$ (1,778)	\$ 0	\$ (5,346)
Other assets:							
Fixed maturities, trading	0	46	0	0	0	46	0
Equity securities	0	709	0	0	0	709	0
Short-term investments	181	0	0	0	0	0	0
Cash equivalents	147	0	0	0	0	0	0
Other assets	1,258	0	0	0	359	0	0
Separate account assets	0	0	0	0	0	0	0
Liabilities:							
Policyholders' account balances	(78,321)	0	0	0	5,476	0	0

Year Ended December 31, 2020							
Total realized and unrealized gains (losses)				Unrealized gains (losses) for assets still held(2)			
Realized investment gains (losses), net(7)	Other income (loss)	Included in other comprehensive income (loss)	Net investment income	Realized investment gains (losses), net	Other income (loss)	Included in other comprehensive income (loss)(8)	
(in thousands)							
Fixed maturities, available-for-sale	\$ (5,019)	\$ 0	\$ 19,106	\$ 145	\$ (4,773)	\$ 0	\$ 18,962
Other assets:							
Fixed maturities, trading	0	87	0	0	0	87	0
Equity securities	0	2,821	0	0	0	1,211	0
Short-term investments	0	0	0	0	0	0	0
Cash equivalents	0	0	0	0	0	0	0
Other assets	0	0	0	0	0	0	0
Reinsurance recoverables	3,604,075	0	0	0	3,889,923	0	0
Receivables from parent and affiliates	0	0	0	23	0	0	0
Liabilities:							
Future policy benefits	(3,610,281)	0	0	0	(3,896,128)	0	0
Policyholders' account balances	(30,199)	0	0	0	3,853	0	0

- (1) For current year "Other" in policyholders' account balances largely represent non-cash moves related to novated indexed variable annuities under the reinsurance agreement with FLIAC. See Note 11 for more details regarding these transactions. In addition, other assets and policyholders' account balances 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 for more details.
- (2) 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.
- (3) Includes U.S. corporate private, foreign corporate public, foreign corporate private securities and foreign government bonds.
- (4) Includes asset-backed and commercial mortgage-backed securities.
- (5) Issuances and settlements for Policyholders' account balances are presented net in the rollforward.
- (6) Effective January 1, 2021, Future policy benefits and Reinsurance recoverables previously included in "Changes in level 3 assets and liabilities" are reported in Note 10 Market Risk Benefits.
- (7) 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. Refer to Note 1 for impacts to Realized investments gains (losses), net related to the 2021 Variable Annuities Recapture and the Affiliated Reinsurance Agreement.
- (8) Effective January 1, 2020, the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period were added prospectively due to adoption of ASU 2018-13.
- (9) Excludes MRB assets of \$1,393 million and \$1,787 million and MRB liabilities of \$5,522 million and \$9,764 million for period ending December 31, 2022 and 2021, respectively. See Note 10 for additional information.

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

Nonrecurring Fair Value Measurements - The following tables represent information for assets measured at fair value on a nonrecurring basis. The fair value measurement is nonrecurring as these assets are measured at fair value only when there is a triggering event (e.g., an evidence of impairment). Assets included in the table are those that were impaired during the respective reporting periods and that are still held as of the reporting date. The estimated fair values for these amounts were determined using significant unobservable inputs (Level 3).

	Year Ended December 31,			
	2022	2021	2020	
	(in thousands)			
Equity in earnings of operating joint venture, net of taxes				
Investment in joint venture	\$	(75,000)	\$	0
			\$	0
Gains (Losses):				
Other invested assets	\$	(11,125)	\$	0
			\$	0
		December 31, 2022	December 31, 2021	
		(in thousands)		
Carrying value after measurement as of period end:				
Investment in joint venture(1)		\$	60,456	\$
Other invested assets			0	0

(1) Reported carrying value includes value as of the measurement period of June 30, 2022 for "Investment in joint venture".

Fair Value of Financial Instruments

The tables below present the carrying amount and fair value by fair value hierarchy level of certain financial instruments that are not reported at fair value. The financial instruments presented below are reported at carrying value on the Company's Consolidated Statements of Financial Position. In some cases, as described below, the carrying amount equals or approximates fair value.

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

	December 31, 2022					
	Fair Value				Carrying Amount(1)	
	Level 1	Level 2	Level 3	Total	Total	
	(in thousands)					
Assets:						
Commercial mortgage and other loans	\$ 0	\$ 0	\$ 4,602,177	\$ 4,602,177	\$ 4,928,680	
Policy loans	0	0	505,367	505,367	505,367	
Short-term investments	26,331	0	0	26,331	26,331	
Cash and cash equivalents	675,445	290,000	0	965,445	965,445	
Accrued investment income	0	219,635	0	219,635	219,635	
Reinsurance recoverables	0	0	25,127	25,127	27,183	
Receivables from parent and affiliates	0	76,846	0	76,846	76,846	
Other assets	0	94,200	730,682	824,882	824,882	
Total assets	\$ 701,776	\$ 680,681	\$ 5,863,353	\$ 7,245,810	\$ 7,574,369	
Liabilities:						
Policyholders' account balances - investment contracts	\$ 0	\$ 1,192,271	\$ 3,141,000	\$ 4,333,271	\$ 4,351,945	
Cash collateral for loaned securities	0	86,750	0	86,750	86,750	
Short-term debt to affiliates	0	120,325	0	120,325	126,250	
Long-term debt to affiliates	0	173,905	0	173,905	185,563	
Payables to parent and affiliates	0	41,654	0	41,654	41,654	
Other liabilities	0	1,269,615	33,250	1,302,865	1,302,866	
Total liabilities	\$ 0	\$ 2,884,520	\$ 3,174,250	\$ 6,058,770	\$ 6,095,028	
	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	\$ 334,299	\$ 595,711	\$ 4,675,509	\$ 5,605,519	\$ 5,553,321	
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	\$ 0	\$ 2,575,642	\$ 2,624,578	\$ 5,200,220	\$ 5,195,842	

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

(1) Carrying values presented herein differ from those in the Company's 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.

The fair values presented above have been determined by using available market information and by applying market valuation methodologies, as described in more detail below.

Commercial Mortgage and Other Loans

The fair value of most commercial mortgage loans is based upon the present value of the expected future cash flows discounted at the appropriate U.S. Treasury rate or foreign government bond rate (for non-U.S. dollar-denominated loans) plus an appropriate credit spread for loans of similar quality, average life and currency. The quality ratings for these loans, a primary determinant of the credit spreads and a significant component of the pricing process, are based on an internally-developed methodology. Certain commercial mortgage loans are valued incorporating other factors, including the terms of the loans, the relative strength of the underlying collateral, the principal exit strategies for the loans, prevailing interest rates and credit risk.

Policy Loans

The Company's valuation technique for policy loans is to discount cash flows at the current policy loan coupon rate. Policy loans are fully collateralized by the cash surrender value of underlying insurance policies. As a result, the carrying value of the policy loans approximates the fair value.

Short-Term Investments, Cash and Cash Equivalents, Accrued Investment Income, Receivables from Parent and Affiliates

The Company believes that due to the short-term nature of certain assets, the carrying value approximates fair value. These assets include: certain short-term investments, which are not securities, recorded at amortized cost; cash and cash equivalent instruments, accrued investment income.

Reinsurance Recoverables

Reinsurance recoverables include corresponding receivables associated with reinsurance arrangements between the Company and related parties. See Note 11 for additional information about the Company's reinsurance arrangements.

Other Assets

Other assets primarily consists of deposit assets related to the reinsurance agreements with Pruco Life and a third party reinsurer, which uses deposit accounting under U.S. GAAP. Also included are other assets that meet the definition of financial instruments, including receivables such as unsettled trades and accounts receivable.

Policyholders' Account Balances - Investment Contracts

Only the portion of policyholders' account balances related to products that are investment contracts (those without significant mortality or morbidity risk) are reflected in the table above. For fixed deferred annuities, payout annuities and other similar contracts without life contingencies, fair values are generally derived using discounted projected cash flows based on interest rates that are representative of the Company's financial strength ratings, and hence reflect the Company's NPR. For those balances that can be withdrawn by the customer at any time without prior notice or penalty, the fair value is the amount estimated to be payable to the customer as of the reporting date, which is generally the carrying value.

Cash Collateral for Loaned Securities

Cash collateral for loaned securities represents the collateral received or paid in connection with loaning or borrowing securities. Due to the short-term nature of these transactions, the carrying value approximates fair value.

Debt

The fair value of short-term and long-term debt is generally determined by either prices obtained from independent pricing services, which are validated by the Company, or discounted cash flow models. These fair values consider the Company's NPR. Discounted cash flow models predominately use market observable inputs such as the borrowing rates currently available to the Company for debt and financial instruments with similar terms and remaining maturities. For debt with a maturity of less than 90 days, the carrying value approximates fair value.

Other Liabilities and Payables to Parent and Affiliates

Other liabilities includes the funds withheld liability for assets retained under the reinsurance agreement that corresponds to the deposit assets above in "Other Assets". Also included are unsettled trades, drafts, and escrow deposits. Payables to parent and affiliates is primarily related to accrued expense payables. Due to the short term until settlement of most of these liabilities, the Company believes that carrying value approximates fair value.

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

6. DEFERRED POLICY ACQUISITION COSTS, DEFERRED REINSURANCE AND DEFERRED SALES INDUCEMENTS

Deferred Policy Acquisition Costs

The following tables show a rollforward for the lines of business that contain DAC balances, along with a reconciliation to the Company's total DAC balance:

	Fixed Annuities	Variable Annuities	Term Life	Variable / Universal Life	Total
	(in thousands)				
Balance, January 1, 2021	\$ 0	\$ 0	\$ 462,099	\$ 2,030,983	\$ 2,493,082
Capitalization	576	32,590	168,760	653,864	855,790
Amortization expense	(1,008)	(146,952)	(53,775)	(123,860)	(325,595)
Other(1)	84,913	3,921,094	0	24	4,006,031
Balance, December 31, 2021	<u>\$ 84,481</u>	<u>\$ 3,806,732</u>	<u>\$ 577,084</u>	<u>\$ 2,561,011</u>	<u>\$ 7,029,308</u>
Capitalization	31,494	270,864	127,541	532,678	962,577
Amortization expense	(13,724)	(341,142)	(55,423)	(109,987)	(520,276)
Other(2)	0	0	(365)	(540,819)	(541,184)
Balance, December 31, 2022	<u>\$ 102,251</u>	<u>\$ 3,736,454</u>	<u>\$ 648,837</u>	<u>\$ 2,442,883</u>	<u>\$ 6,930,425</u>

(1) Includes the impact of the 2021 Variable Annuities Recapture as well as the assuming of DAC upon Affiliated Reinsurance Agreement with FLIAC within Fixed Annuities. See Note 1 and Note 11 for additional information.

(2) Includes the impact of the reinsurance agreement with Lotus Re. See Note 11 for additional information.

	2020 (in thousands)
Balance, beginning of year	\$ 1,855,698
Capitalization of commissions, sales and issue expenses	758,469
Amortization-Impact of assumption and experience unlocking and true-ups	(27,844)
Amortization-All other	(112,718)
Change due to unrealized investment gains and losses	(39,861)
Other(1)	192
Balance, end of year	<u>2,433,936</u>
Transition adjustments(2)	59,146
Balance after transition, January 1, 2021	<u>\$ 2,493,082</u>

(1) Represents the impact of the January 1, 2020 adoption of ASU 2016-13.

(2) Adjustments for the implementation of ASU 2018-12: Targeted Improvements to the Accounting for Long-Duration Contracts.

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

Deferred Reinsurance Losses

The following tables show a rollforward for the lines of business that contain DRL balances, along with a reconciliation to the Company's total DRL balance:

	December 31, 2022		
	Variable Annuities	Term Life	Total
	(in thousands)		
Balance, beginning of period	\$ 254,577	\$ 78,426	\$ 333,003
Amortization expense	(31,057)	(9,048)	(40,105)
Other	(5)	0	(5)
Balance, end of period	<u>\$ 223,515</u>	<u>\$ 69,378</u>	<u>\$ 292,893</u>

	December 31, 2021		
	Variable Annuities	Term Life	Total
	(in thousands)		
Balance, beginning of period	\$ 274,415	\$ 87,932	\$ 362,347
Amortization expense	(14,847)	(9,506)	(24,353)
Other	(4,991)	0	(4,991)
Balance, end of period	<u>\$ 254,577</u>	<u>\$ 78,426</u>	<u>\$ 333,003</u>

Deferred Reinsurance Gains

The following tables show a rollforward for the lines of business that contain DRG balances, along with a reconciliation to the Company's total DRG balance:

	December 31, 2022		
	Variable / Universal Life	Fixed Annuities	Total
	(in thousands)		
Balance, beginning of period	\$ 174,598	\$ 78,138	\$ 252,736
Amortization	(79,952)	(6,437)	(86,389)
Other(1)	1,340,312	(13,803)	1,326,509
Balance, end of period	<u>\$ 1,434,958</u>	<u>\$ 57,898</u>	<u>\$ 1,492,856</u>

(1) Includes \$1,352 million deferred gain related to the reinsurance agreement with Lotus Re, entered into January 1, 2022.

	December 31, 2021		
	Variable / Universal Life	Fixed Annuities	Total
	(in thousands)		
Balance, beginning of period	\$ 174,259	\$ 0	\$ 174,259
Amortization	(7,365)	(657)	(8,022)
Other(1)	7,704	78,795	86,499
Balance, end of period	<u>\$ 174,598</u>	<u>\$ 78,138</u>	<u>\$ 252,736</u>

(1) Includes the impact of the 2021 Variable Annuities Recapture.

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

Deferred Sales Inducements

The following table shows a rollforward of DSI balances for variable annuity products, which is the only line of business that contains a DSI balance, along with a reconciliation to the Company's total DSI balance:

	December 31, 2022	December 31, 2021
	Variable Annuities (in thousands)	
Balance, beginning of period	\$ 414,619	\$ 0
Capitalization	676	167
Amortization expense	(33,791)	(17,885)
Other adjustments(1)	0	432,337
Balance, end of period	\$ 381,504	\$ 414,619

(1) Other adjustments includes the impact of the 2021 Variable Annuities Recapture.

7. SEPARATE ACCOUNTS

The Company issues variable annuity and variable life insurance contracts through its separate accounts for which investment income and investment gains and losses accrue directly to, and investment risk is borne by, the contractholder. Most variable annuity and variable life insurance contracts are offered with both separate and general account options. See Note 9 for additional information.

The assets supporting the variable portion of variable annuity and variable life insurance contracts are carried at fair value and reported as “Separate account assets” with an equivalent amount reported as “Separate account liabilities”. The liabilities related to the net amount at risk are reflected within future policy benefits or market risk benefits. Amounts assessed against the contractholders for mortality, administration, and other services are included within revenue in “Policy charges and fee income” and changes in liabilities for minimum guarantees are generally included in “Policyholders’ benefits” or “Realized investment gains (losses), net”.

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

Separate Account Assets

The aggregate fair value of assets, by major investment asset category, supporting separate accounts is as follows:

	December 31, 2022	December 31, 2021
	(in thousands)	
Asset Type:		
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 2,510	\$ 2,636
U.S. corporate securities	8,702	4,610
Foreign corporate securities	1,420	821
Mortgage-backed securities	276	478
Mutual funds:		
Equity	67,144,660	100,272,679
Fixed Income	38,109,374	39,543,862
Other	3,441,016	4,238,263
Equity securities	49,260	34,030
Other invested assets	5,262,178	5,686,253
Short-term investments	1,237	1,310
Cash and cash equivalents	30,613	12,886
Total	<u>\$ 114,051,246</u>	<u>\$ 149,797,828</u>

For the periods ended December 31, 2022 and December 31, 2021, there were no transfers of assets, other than cash, from the general account to a separate account; therefore, no gains or losses were recorded.

Separate Account Liabilities

The balances of and changes in separate account liabilities as of and for the periods indicated are as follows:

	December 31, 2022		
	Variable Annuities	Variable Life	Total
	(in thousands)		
Balance, beginning of period	\$ 123,977,624	\$ 25,820,204	\$ 149,797,828
Deposits	658,695	2,275,000	2,933,695
Investment performance	(21,600,783)	(4,270,091)	(25,870,874)
Policy charges	(2,513,831)	(767,168)	(3,280,999)
Surrenders and withdrawals	(8,481,231)	(339,931)	(8,821,162)
Benefit payments	(62,586)	(278,140)	(340,726)
Net transfers (to) from general account	(206,269)	(213,752)	(420,021)
Other	13,828	39,677	53,505
Balance, end of period	<u>\$ 91,785,447</u>	<u>\$ 22,265,799</u>	<u>\$ 114,051,246</u>
Cash surrender value(1)	\$ 90,208,083	\$ 19,575,562	\$ 109,783,645

(1) Cash surrender value represents the amount of the contractholder's account balances distributable at the balance sheet date less certain surrender charges.

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

	December 31, 2021		
	Variable Annuities	Variable Life (in thousands)	Total
Balance, beginning of period	\$ 124,275,626	\$ 21,464,796	\$ 145,740,422
Deposits	669,497	2,397,739	3,067,236
Investment performance	13,179,092	3,482,547	16,661,639
Policy charges	(2,937,255)	(703,264)	(3,640,519)
Surrenders and withdrawals	(11,147,772)	(403,558)	(11,551,330)
Benefit payments	(74,953)	(289,298)	(364,251)
Net transfers (to) from general account	3,449	(164,405)	(160,956)
Other	9,940	35,647	45,587
Balance, end of period	<u>\$ 123,977,624</u>	<u>\$ 25,820,204</u>	<u>\$ 149,797,828</u>
Cash surrender value(1)	\$ 121,847,584	\$ 23,174,409	\$ 145,021,993

(1) Cash surrender value represents the amount of the contractholder's account balances distributable at the balance sheet date less certain surrender charges.

8. LIABILITY FOR FUTURE POLICY BENEFITS

Liability for Future Policy Benefits primarily consists of the following sub-components, which are discussed in greater detail below.

- Benefit Reserves;
- Deferred Profit Liability; and
- Additional Insurance Reserves

Benefit Reserves

The balances of and changes in Benefit Reserves as of and for the periods indicated consist of the three tables presented below: Present Value of Expected Net Premiums rollforward, Present Value of Expected Future Policy Benefits rollforward, and Net Liability for Future Policy Benefits.

	December 31, 2022		
	Present Value of Expected Net Premiums		
	Term Life	Fixed Annuities	Total
	(in thousands)		
Balance, beginning of period	\$ 12,485,056	\$ 0	\$ 12,485,056
Effect of cumulative changes in discount rate assumptions, beginning of period	(1,826,120)	0	(1,826,120)
Balance at original discount rate, beginning of period	10,658,936	0	10,658,936
Effect of assumption update	1,295,294	0	1,295,294
Effect of actual variances from expected experience and other activity	(112,661)	(1,143)	(113,804)
Adjusted balance, beginning of period	11,841,569	(1,143)	11,840,426
Issuances	439,874	30,469	470,343
Net premiums / considerations collected	(1,339,902)	(29,326)	(1,369,228)
Interest accrual	525,149	0	525,149
Balance at original discount rate, end of period	11,466,690	0	11,466,690
Effect of cumulative changes in discount rate assumptions, end of period	(554,896)	0	(554,896)
Balance, end of period	<u>\$ 10,911,794</u>	<u>\$ 0</u>	<u>\$ 10,911,794</u>

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

	December 31, 2022		
	Present Value of Expected Future Policy Benefits		
	Term Life	Fixed Annuities	Total
	(in thousands)		
Balance, beginning of period	\$ 20,937,097	\$ 237,065	\$ 21,174,162
Effect of cumulative changes in discount rate assumptions, beginning of period	(3,607,275)	(16,704)	(3,623,979)
Balance at original discount rate, beginning of period	17,329,822	220,361	17,550,183
Effect of assumption update	1,756,995	0	1,756,995
Effect of actual variances from expected experience and other activity	(206,175)	(1,639)	(207,814)
Adjusted balance, beginning of period	18,880,642	218,722	19,099,364
Issuances	439,874	30,469	470,343
Interest accrual	888,525	7,836	896,361
Benefit payments	(1,416,823)	(27,138)	(1,443,961)
Other adjustments	5,068	(286)	4,782
Balance at original discount rate, end of period	18,797,286	229,603	19,026,889
Effect of cumulative changes in discount rate assumptions, end of period	(962,035)	(24,876)	(986,911)
Balance, end of period	\$ 17,835,251	\$ 204,727	\$ 18,039,978
Other, end of period			2,127
Total balance, end of period			\$ 18,042,105

	December 31, 2022		
	Net Liability for Future Policy Benefits (Benefit Reserves)		
	Term Life	Fixed Annuities	Total
	(in thousands)		
Balance, end of period, pre-flooring	\$ 6,923,457	\$ 204,727	\$ 7,128,184
Flooring impact, end of period	0	0	0
Balance, end of period, post-flooring	6,923,457	204,727	7,128,184
Less: Reinsurance recoverable	6,497,257	16,460	6,513,717
Balance after reinsurance recoverable, end of period, post-flooring	\$ 426,200	\$ 188,267	\$ 614,467

	December 31, 2021		
	Present Value of Expected Net Premiums		
	Term Life	Fixed Annuities	Total
	(in thousands)		
Balance, beginning of period	\$ 12,791,701	\$ 0	\$ 12,791,701
Effect of cumulative changes in discount rate assumptions, beginning of period	(2,461,823)	0	(2,461,823)
Balance at original discount rate, beginning of period	10,329,878	0	10,329,878
Effect of assumption update	39,089	0	39,089
Effect of actual variances from expected experience and other activity	246,712	0	246,712
Adjusted balance, beginning of period	10,615,679	0	10,615,679
Issuances	747,703	29,700	777,403
Net premiums / considerations collected	(1,193,642)	(29,700)	(1,223,342)
Interest accrual	489,196	0	489,196
Balance at original discount rate, end of period	10,658,936	0	10,658,936
Effect of cumulative changes in discount rate assumptions, end of period	1,826,120	0	1,826,120
Balance, end of period	\$ 12,485,056	\$ 0	\$ 12,485,056

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

	December 31, 2021		
	Present Value of Expected Future Policy Benefits		
	Term Life	Fixed Annuities	Total
	(in thousands)		
Balance, beginning of period	\$ 21,897,943	\$ 237,094	\$ 22,135,037
Effect of cumulative changes in discount rate assumptions, beginning of period	(4,893,834)	(27,090)	(4,920,924)
Balance at original discount rate, beginning of period	17,004,109	210,004	17,214,113
Effect of assumption update	40,236	0	40,236
Effect of actual variances from expected experience and other activity	268,005	(1,422)	266,583
Adjusted balance, beginning of period	17,312,350	208,582	17,520,932
Issuances	747,703	29,700	777,403
Interest accrual	832,663	7,454	840,117
Benefit payments	(1,566,091)	(25,328)	(1,591,419)
Other adjustments	3,197	(47)	3,150
Balance at original discount rate, end of period	17,329,822	220,361	17,550,183
Effect of cumulative changes in discount rate assumptions, end of period	3,607,275	16,704	3,623,979
Balance, end of period	\$ 20,937,097	\$ 237,065	\$ 21,174,162
Other, end of period			2,902
Total balance, end of period			\$ 21,177,064

	December 31, 2021		
	Net Liability for Future Policy Benefits (Benefit Reserves)		
	Term Life	Fixed Annuities	Total
	(in thousands)		
Balance, end of period, pre-flooring	\$ 8,452,041	\$ 237,065	\$ 8,689,106
Flooring impact, end of period	951	0	951
Balance, end of period, post-flooring	8,452,992	237,065	8,690,057
Less: Reinsurance recoverable	7,855,802	19,314	7,875,116
Balance after reinsurance recoverable, end of period, post-flooring	\$ 597,190	\$ 217,751	\$ 814,941

The following tables provide supplemental information related to the balances of and changes in Benefit Reserves included in the disaggregated tables above, on a gross (direct and assumed) basis, as of and for the periods indicated:

	December 31, 2022			
	Term Life		Fixed Annuities	
	(\$ in thousands)			
Undiscounted expected future gross premiums	\$	22,223,836	\$	0
Discounted expected future gross premiums (at original discount rate)	\$	15,322,180	\$	0
Discounted expected future gross premiums (at current discount rate)	\$	14,587,657	\$	0
Undiscounted expected future benefits and expenses	\$	29,330,574	\$	306,286
Interest accrual	\$	363,375	\$	7,836
Gross premiums	\$	1,831,360	\$	32,105
Weighted-average duration of the liability in years (at original discount rate)		11		7
Weighted-average duration of the liability in years (at current discount rate)		10		6
Weighted-average interest rate (at original discount rate)		5.23 %		3.60 %
Weighted-average interest rate (at current discount rate)		5.39 %		5.33 %

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

	December 31, 2021			
	Term Life		Fixed Annuities	
	(\$ in thousands)			
Undiscounted expected future gross premiums	\$	24,005,621	\$	0
Discounted expected future gross premiums (at original discount rate)	\$	16,246,950	\$	0
Discounted expected future gross premiums (at current discount rate)	\$	19,102,730	\$	0
Undiscounted expected future benefits and expenses	\$	27,127,403	\$	293,095
Interest accrual	\$	343,467	\$	7,454
Gross premiums	\$	1,822,261	\$	35,672
Weighted-average duration of the liability in years (at original discount rate)		10		7
Weighted-average duration of the liability in years (at current discount rate)		11		7
Weighted-average interest rate (at original discount rate)		5.30	%	3.47
Weighted-average interest rate (at current discount rate)		2.55	%	2.49

For additional information regarding observable market information and the techniques used to determine the interest rate assumptions seen above, see Note 2.

For non-participating traditional and limited-payment products, if a cohort is in a loss position where the liability for future policy benefits plus the present value of expected future gross premiums are determined to be insufficient to provide for the present value of expected future policy benefits and non-level claim settlement expenses, then the liability for future policy benefits is adjusted at that time, and thereafter such that all changes, both favorable and unfavorable, in expected benefits resulting from both actual experience deviations and changes in future assumptions are recognized immediately as a gain or loss.

In 2022, there was an \$83 million charge to net income for nonparticipating traditional and limited-payment products, where net premiums exceeded gross premiums for certain issue-year cohorts, mostly offset by a \$82 million gain, reflecting the impact of ceded reinsurance on the affected cohorts. The unfavorable impact in 2022 was primarily due to unfavorable assumption updates related to the individual term life products.

In 2021, there was a \$15 million charge to net income for nonparticipating traditional and limited-payment products, where net premiums exceeded gross premiums for certain issue-year cohorts, mostly offset by a \$14 million gain, reflecting the impact of ceded reinsurance on the affected cohorts. The unfavorable impact in 2021 was primarily due to unfavorable mortality experience related to the individual term life products.

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

Deferred Profit Liability

The balances of and changes in Deferred Profit Liability as of and for the periods indicated are as follows:

	December 31, 2022	December 31, 2021
	Fixed Annuities	
	(in thousands)	
Balance, beginning of period	\$ 15,765	\$ 9,959
Effect of actual variances from expected experience and other activity	1,250	1,247
Adjusted balance, beginning of period	17,015	11,206
Profits deferred	2,511	5,823
Interest accrual	616	529
Amortization	(1,909)	(1,793)
Other adjustments	(40)	0
Balance, end of period	18,193	15,765
Less: Reinsurance recoverable	1,684	1,726
Balance after reinsurance recoverable	\$ 16,509	\$ 14,039

The following table provides supplemental information related to the balances of and changes in Deferred Profit Liability, included in the disaggregated table above, on a gross (direct and assumed) basis, as of and for the period indicated:

	December 31, 2022	December 31, 2021
	Fixed Annuities	
	(in thousands)	
Revenue(1)	\$ (2,428)	\$ (5,805)
Interest accrual	616	529

(1) Represents the gross premiums collected in changes in deferred profit liability.

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

Additional Insurance Reserves

AIR represents the additional liability for annuitization, death, or other insurance benefits, including GMDB and GMIB contract features, that are above and beyond the contractholder's account balance.

The following table shows a rollforward of AIR balances for variable and universal life products for the periods indicated:

	December 31, 2022	December 31, 2021
	(in thousands)	
Balance, including amounts in AOCI, beginning of period, post-flooring	\$ 11,660,527	\$ 10,878,087
Flooring impact and amounts in AOCI	(896,931)	(1,169,972)
Balance, excluding amounts in AOCI, beginning of period, pre-flooring	10,763,596	9,708,115
Effect of assumption update	2,197,592	(1,243)
Effect of actual variances from expected experience and other activity	(223,185)	53,125
Adjusted balance, beginning of period	12,738,003	9,759,997
Assessments collected(1)	961,924	848,263
Interest accrual	433,631	344,789
Benefits paid	(199,877)	(189,453)
Balance, excluding amounts in AOCI, end of period, pre-flooring	13,933,681	10,763,596
Flooring impact and amounts in AOCI	(1,269,236)	896,931
Balance, including amounts in AOCI, end of period, post-flooring	12,664,445	11,660,527
Less: Reinsurance recoverable	12,458,184	11,419,340
Balance after reinsurance recoverable, including amounts in AOCI, end of period	\$ 206,261	\$ 241,187

(1) Represents the portion of gross assessments required to fund the future policy benefits.

	December 31, 2022	December 31, 2021
	(\$ in thousands)	
Interest accrual	\$ 433,631	\$ 344,789
Gross assessments	\$ 1,367,796	\$ 1,674,305
Weighted-average duration of the liability in years (at original discount rate)	23	22
Weighted-average interest rate (at original discount rate)	3.37 %	3.37 %

Future Policy Benefits Reconciliation

The following table presents the reconciliation of the ending balances from the above rollforwards, Benefit Reserves, Additional Insurance Reserves, and Deferred Profit Liability including other liabilities, gross of related reinsurance recoverables, to the total liability for Future Policy Benefits as reported on the Company's Consolidated Statements of Financial Position as of the periods indicated:

	December 31, 2022	December 31, 2021
	(in thousands)	
Benefit reserves, end of period, post-flooring	\$ 7,128,184	\$ 8,690,057
Additional insurance reserves, including amounts in AOCI, end of period, post-flooring	12,664,445	11,660,527
Deferred profit liability, end of period, post-flooring	18,193	15,765
Subtotal of amounts disclosed above	19,810,822	20,366,349
Other Future policy benefits reserves(1)	1,018,211	1,144,400
Total Future policy benefits	\$ 20,829,033	\$ 21,510,749

(1) Represents balances for which disaggregated rollforward disclosures are not required, including unpaid claims and claims expenses, and incurred but not reported and in course of settlement claim liabilities.

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

Revenue and Interest Expense

The following tables present revenue and interest expense related to Benefit Reserves, Additional Insurance Reserves, and Deferred Profit Liability, as well as related revenue and interest expense not presented in the above supplemental tables in the Company's Consolidated Statement of Operations for the periods indicated:

	December 31, 2022			
	Revenues(1)			
	Term Life	Variable/ Universal Life	Fixed Annuities	Total
	(in thousands)			
Benefit reserves	\$ 1,831,360	\$ 0	\$ 32,105	\$ 1,863,465
Additional insurance reserves	0	1,367,796	0	1,367,796
Deferred profit liability	0	0	(2,428)	(2,428)
Total	\$ 1,831,360	\$ 1,367,796	\$ 29,677	\$ 3,228,833

	December 31, 2021			
	Revenues(1)			
	Term Life	Variable/ Universal Life	Fixed Annuities	Total
	(in thousands)			
Benefit reserves	\$ 1,822,261	\$ 0	\$ 35,672	\$ 1,857,933
Additional insurance reserves	0	1,674,305	0	1,674,305
Deferred profit liability	0	0	(5,805)	(5,805)
Total	\$ 1,822,261	\$ 1,674,305	\$ 29,867	\$ 3,526,433

(1) Represents "Gross premiums" for benefit reserves; "Gross assessments" for additional insurance reserves; and "Revenue" for deferred profit liability.

	December 31, 2022			
	Interest Expense			
	Term Life	Variable/ Universal Life	Fixed Annuities	Total
	(in thousands)			
Benefit reserves	\$ 363,375	\$ 0	\$ 7,836	\$ 371,211
Additional insurance reserves	0	433,631	0	433,631
Deferred profit liability	0	0	616	616
Total	\$ 363,375	\$ 433,631	\$ 8,452	\$ 805,458

	December 31, 2021			
	Interest Expense			
	Term Life	Variable/ Universal Life	Fixed Annuities	Total
	(in thousands)			
Benefit reserves	\$ 343,467	\$ 0	\$ 7,454	\$ 350,921
Additional insurance reserves	0	344,789	0	344,789
Deferred profit liability	0	0	529	529
Total	\$ 343,467	\$ 344,789	\$ 7,983	\$ 696,239

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

9. POLICYHOLDERS' ACCOUNT BALANCES

Policyholders' Account Balances

The Company issues variable life and universal life insurance contracts where the Company contractually guarantees to the contractholder a death benefit even when there is insufficient value to cover monthly mortality and expense charges, whereas otherwise the contract would typically lapse (“no-lapse guarantee”).

The Company also issues variable annuity insurance contracts where the Company contractually guarantees to the contractholder a return of no less than (1) total deposits made to the contract adjusted for any partial withdrawals plus a minimum return, and/or (2) the highest contract value on a specified date adjusted for any withdrawals. These guarantees include benefits that are payable in the event of death, annuitization or at specified dates during the accumulation period and withdrawal and income benefits payable during specified periods.

For those guarantees of benefits that are payable in the event of death, the net amount at risk is generally defined as the current guaranteed minimum death benefit in excess of the current account balance at the balance sheet date. The Company’s primary risk exposures for these contracts relates to actual deviations from, or changes to, the assumptions used in the original pricing of these products, including fixed income and equity market returns, contract lapses and contractholder mortality.

For guarantees of benefits that are payable at annuitization, the net amount at risk is generally defined as the present value of the minimum guaranteed annuity payments available to the contractholder determined in accordance with the terms of the contract in excess of the current account balance. The Company’s primary risk exposures for these contracts relates to actual deviations from, or changes to, the assumptions used in the original pricing of these products, including fixed income and equity market returns, timing of annuitization, contract lapses and contractholder mortality.

For guarantees of benefits that are payable at withdrawal, the net amount at risk is generally defined as the present value of the minimum guaranteed withdrawal payments available to the contractholder determined in accordance with the terms of the contract in excess of the current account balance.

For guarantees of accumulation balances, the net amount at risk is generally defined as the guaranteed minimum accumulation balance minus the current account balance. The Company’s primary risk exposures for these contracts relates to actual deviations from, or changes to, the assumptions used in the original pricing of these products, including equity market returns, interest rates, market volatility and contractholder behavior.

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

The balance of and changes in policyholders' account balances as of and for the periods ended are as follows:

	December 31, 2022				
	Variable Annuities		Variable Life / Universal Life		Total
	(\$ in thousands)				
Balance, beginning of period	\$	11,465,411	\$	18,762,548	\$ 30,227,959
Deposits		4,761,547		2,173,035	6,934,582
Interest credited		175,574		583,814	759,388
Policy charges		(5,482)		(1,795,879)	(1,801,361)
Surrenders and withdrawals		(282,497)		(873,034)	(1,155,531)
Benefit payments		(35,042)		(103,358)	(138,400)
Net transfers (to) from separate account		206,269		213,752	420,021
Change in market value and other adjustments		146,252		(224,513)	(78,261)
Balance, end of period		16,432,032		18,736,365	35,168,397
Less: Reinsurance and other recoverables(1)		323,981		12,896,517	13,220,498
Policyholders' account balance net of reinsurance and other recoverables	\$	16,108,051	\$	5,839,848	\$ 21,947,899
Unearned revenue reserve					3,067,336
Other					3,676,803
Total Policyholders' account balance					\$ 41,912,536
Weighted-average crediting rate		1.26 %		3.11 %	2.32 %
Net amount at risk(2)	\$	0	\$	304,864,582	\$ 304,864,582
Cash surrender value(3)	\$	13,844,151	\$	17,137,744	\$ 30,981,895

(1) The amount of recoverables related to reinsurance agreements that reduce the risk of the policyholders' account balances gross liability.

(2) The net amount at risk calculation includes both general and separate account balances.

(3) Cash surrender value represents the amount of the contractholder's account balances distributable at the balance sheet date less certain surrender charges.

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

	December 31, 2021		
	Variable Annuities	Variable Life / Universal Life	Total
	(\$ in thousands)		
Balance, beginning of period	\$ 3,634,125	\$ 18,363,958	\$ 21,998,083
Deposits	725,701	2,523,000	3,248,701
Interest credited	94,453	508,391	602,844
Policy charges	(1,941)	(1,740,260)	(1,742,201)
Surrenders and withdrawals	(208,224)	(990,423)	(1,198,647)
Benefit payments	(41,851)	(132,586)	(174,437)
Net transfers (to) from separate account	(3,449)	164,405	160,956
Change in market value and other adjustments(1)	7,266,597	66,063	7,332,660
Balance, end of period	11,465,411	18,762,548	30,227,959
Less: Reinsurance and other recoverables(2)	340,527	11,706,343	12,046,870
Policyholders' account balance net of reinsurance and other recoverables	<u>\$ 11,124,884</u>	<u>\$ 7,056,205</u>	<u>\$ 18,181,089</u>
Unearned revenue reserve			2,398,788
Other			3,103,933
Total Policyholders' account balance			<u>\$ 35,730,680</u>
Weighted-average crediting rate	1.25 %	2.74 %	2.31 %
Net amount at risk(3)	\$ 0	\$ 309,431,313	\$ 309,431,313
Cash surrender value(4)	\$ 11,250,816	\$ 16,915,935	\$ 28,166,751

(1) Includes \$7,203 million related to assuming of policyholders' account balances with PALAC. See Note 1 for additional information.

(2) The amount of recoverables related to reinsurance agreements that reduce the risk of the policyholders' account balances gross liability.

(3) The net amount at risk calculation includes both general and separate account balances.

(4) Cash surrender value represents the amount of the contractholder's account balances distributable at the balance sheet date less certain surrender charges.

The balance of account values by range of guaranteed minimum crediting rates and the related range of difference, in basis points, between rates being credited to policyholders and the respective guaranteed minimums are as follows:

Range of Guaranteed Minimum Crediting Rate(1)	December 31, 2022				
	At guaranteed minimum	1 - 50 bps above guaranteed minimum	51 - 150 bps above guaranteed minimum	Greater than 150 bps above guaranteed minimum	Total
	(\$ in thousands)				
Variable Annuities					
Less than 1.00%	\$ 1,008,763	\$ 861,119	\$ 18,744	\$ 2	\$ 1,888,628
1.00% - 1.99%	243,223	2,257	1,294	0	246,774
2.00% - 2.99%	26,778	973	0	0	27,751
3.00% - 4.00%	1,070,958	2,247	0	0	1,073,205
Greater than 4.00%	2,172	0	0	0	2,172
Total	\$ 2,351,894	\$ 866,596	\$ 20,038	\$ 2	\$ 3,238,530
Variable Life / Universal Life					
Less than 1.00%	\$ 11,902	\$ 0	\$ 0	\$ 0	\$ 11,902
1.00% - 1.99%	418,399	0	773,591	1,928,342	3,120,332
2.00% - 2.99%	32,651	121,200	2,413,571	1,824,303	4,391,725
3.00% - 4.00%	4,737,864	3,510	2,093,511	129,398	6,964,283
Greater than 4.00%	2,145,123	0	0	0	2,145,123
Total	\$ 7,345,939	\$ 124,710	\$ 5,280,673	\$ 3,882,043	\$ 16,633,365

(1) Excludes contracts without minimum guaranteed crediting rates, such as funds with indexed-linked crediting options.

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

Range of Guaranteed Minimum Crediting Rate(1)	December 31, 2021					Total
	At guaranteed minimum	1 - 50 bps above guaranteed minimum	51 - 150 bps above guaranteed minimum	Greater than 150 bps above guaranteed minimum		
	(\$ in thousands)					
Variable Annuities						
Less than 1.00%	\$ 1,070,567	\$ 894,487	\$ 19,207	\$ 2	\$ 1,984,263	
1.00% - 1.99%	267,409	1,627	0	0	269,036	
2.00% - 2.99%	30,738	62	0	0	30,800	
3.00% - 4.00%	1,150,448	0	0	0	1,150,448	
Greater than 4.00%	2,415	0	0	0	2,415	
Total	\$ 2,521,577	\$ 896,176	\$ 19,207	\$ 2	\$ 3,436,962	
Variable Life / Universal Life						
Less than 1.00%	\$ 18,091	\$ 0	\$ 0	\$ 0	\$ 18,091	
1.00% - 1.99%	380,144	0	0	2,537,887	2,918,031	
2.00% - 2.99%	10,227	0	3,735,376	552,995	4,298,598	
3.00% - 4.00%	4,793,734	2,048,590	343,129	53,673	7,239,126	
Greater than 4.00%	2,092,925	0	0	0	2,092,925	
Total	\$ 7,295,121	\$ 2,048,590	\$ 4,078,505	\$ 3,144,555	\$ 16,566,771	

(1) Excludes contracts without minimum guaranteed crediting rates, such as funds with indexed-linked crediting options.

Unearned Revenue Reserve

The balances of and changes in URR as of and for the periods ended are as follows:

	December 31, 2022	December 31, 2021
	Variable Life / Universal Life	
	(in thousands)	
Balance, beginning of period	\$ 2,398,788	\$ 1,745,269
Unearned revenue	799,185	760,153
Amortization expense	(129,525)	(106,634)
Other adjustments	(1,112)	0
Balance, end of period	3,067,336	2,398,788
Less: Reinsurance recoverables	1,542,900	939,798
Unearned revenue reserve net of reinsurance recoverables	<u>\$ 1,524,436</u>	<u>\$ 1,458,990</u>

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

10. MARKET RISK BENEFITS

The following tables show a rollforward of MRB balances for variable annuity products, along with a reconciliation to the Company's total net MRB positions as of the following dates:

	December 31, 2022		
	Variable Annuities	Less: Reinsured Market Risk Benefits	Total, Net of Reinsurance
		(in thousands)	
Balance, beginning of period	\$ 8,884,362	\$ (906,484)	\$ 7,977,878
Effect of cumulative changes in non-performance risk	287,605	0	287,605
Balance, beginning of period, before effect of changes in non-performance risk	9,171,967	(906,484)	8,265,483
Attributed fees collected	1,249,956	(147,727)	1,102,229
Claims paid	(64,406)	3,456	(60,950)
Interest accrual	143,483	(13,438)	130,045
Actual in force different from expected	105,996	(9,968)	96,028
Effect of changes in interest rates	(7,271,427)	767,394	(6,504,033)
Effect of changes in equity markets	3,103,563	(326,575)	2,776,988
Effect of assumption update	(160,597)	23,171	(137,426)
Effect of changes in current period counterparty non-performance risk	0	187,910	187,910
Balance, end of period, before effect of changes in non-performance risk	6,278,535	(422,261)	5,856,274
Effect of cumulative changes in non-performance risk	(1,727,910)	0	(1,727,910)
Balance, end of period	\$ 4,550,625	\$ (422,261)	\$ 4,128,364

	December 31, 2021		
	Variable Annuities	Less: Reinsured Market Risk Benefits	Total, Net of Reinsurance
		(in thousands)	
Balance, beginning of period	\$ 13,577,543	\$ (13,589,575)	\$ (12,032)
Effect of cumulative changes in non-performance risk	722,837	0	722,837
Balance, beginning of period, before effect of changes in non-performance risk	14,300,380	(13,589,575)	710,805
Attributed fees collected	1,368,434	(759,997)	608,437
Claims paid	(29,401)	14,648	(14,753)
Interest accrual	24,824	(16,593)	8,231
Actual in force different from expected	(19,290)	22,687	3,397
Effect of changes in interest rates	(3,461,436)	3,240,588	(220,848)
Effect of changes in equity markets	(2,789,777)	2,070,833	(718,944)
Effect of assumption update	(221,767)	221,767	0
Other(1)	0	8,223,470	8,223,470
Effect of changes in current period counterparty non-performance risk	0	(334,312)	(334,312)
Balance, end of period, before effect of changes in non-performance risk	9,171,967	(906,484)	8,265,483
Effect of cumulative changes in non-performance risk	(287,605)	0	(287,605)
Balance, end of period	\$ 8,884,362	\$ (906,484)	\$ 7,977,878

(1) Includes the impact of the 2021 Variable Annuities Recapture. See Note 1 for additional information.

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

The following table presents accompanying information to the rollforward table above. See Note 9 for information on "Net amount at risk".

	December 31, 2022	December 31, 2021
	Variable Annuities	
	(\$ in thousands)	
Net amount at risk(1)	\$ 12,141,947	\$ 2,566,157
Weighted-average attained age of contractholders	68	66

(1) For contracts with multiple benefit features, the highest net amount at risk for each contract is included.

The table below reconciles MRB asset and liability positions as of the following dates:

	December 31, 2022	December 31, 2021
	Variable Annuities	
	(in thousands)	
Market risk benefit assets	\$ 1,393,237	\$ 1,786,565
Market risk benefit liabilities	5,521,601	9,764,443
Net liability	\$ 4,128,364	\$ 7,977,878

11. 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 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.

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.

Change in value of market risk benefits, net of related hedging gain (loss) include the impact of reinsurance agreements, particularly reinsurance agreements involving living benefit guarantees. 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 market risk benefits and have been accounted for in the same manner. See Note 4 for additional information related to the accounting for market risk benefits.

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

Reinsurance amounts included in the Company's Consolidated Statements of Financial Position as of December 31, were as follows:

	2022	2021
	(in thousands)	
Reinsurance recoverables(1)	\$ 37,096,562	\$ 40,444,196
Policy loans	(1,011,112)	(156,749)
Deferred policy acquisition costs(1)	(3,343,270)	(2,677,100)
Deferred sales inducements(1)	(38,146)	(41,346)
Market risk benefit assets(1)	543,177	1,003,121
Other assets(1)(2)	1,146,794	1,092,302
Policyholders' account balances(1)(2)	7,157,639	14,392,479
Future policy benefits(1)	6,320,863	5,823,285
Market risk benefit liabilities(1)	120,916	96,637
Other liabilities(1)(2)	2,891,433	1,708,624

(1) Amounts adjusted for the implementation of ASU 2018-12: Targeted Improvements to the Accounting for Long-Duration Contracts.

(2) 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 Consolidated Statements of Financial Position as of December 31, were as follows:

	2022	2021(1)
	(in thousands)	
Deferred policy acquisition costs(2)	\$ 111,379	0
Market risk benefit assets(2)	64,738	134,311
Other assets	1,034,000	497,050
Policyholders' account balances(2)	2,771,961	0
Future policy benefits	0	9
Market risk benefit liabilities(2)	40,731	24,741
Other liabilities	820,185	467,203

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

(2) Amounts adjusted for the implementation of ASU 2018-12: Targeted Improvements to the Accounting for Long-Duration Contracts.

The deposit assets on reinsurance totaled \$828 million and \$497 million at December 31, 2022 and 2021, respectively. The funds withheld liabilities totaled \$705 million and \$419 million at December 31, 2022 and 2021, respectively.

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

Reinsurance recoverables by counterparty as of December 31, were as follows:

	2022	2021
	(in thousands)	
PAR U(1)	\$ 15,051,337	\$ 14,314,640
PALAC(1)(2)	0	6,961,542
PURC(1)	6,928,950	6,557,937
PARCC(1)	2,437,589	2,736,429
GUL Re(1)	3,124,697	2,898,472
PAR Term(1)	2,040,599	2,463,381
Prudential Insurance(1)	986,013	1,259,013
Term Re(1)	1,830,197	2,304,710
Lotus Re(1)	1,952,215	32,039
DART(1)	578,462	767,892
Unaffiliated(1)(2)	2,166,503	148,141
Total reinsurance recoverables(1)	<u>\$ 37,096,562</u>	<u>\$ 40,444,196</u>

(1) Amounts adjusted for the implementation of ASU 2018-12: Targeted Improvements to the Accounting for Long-Duration Contracts.

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

Reinsurance amounts, included in the Company's Consolidated Statements of Operations and Comprehensive Income (Loss) for the years ended December 31, were as follows:

	2022	2021	2020
	(in thousands)		
Premiums:			
Direct(1)	\$ 1,868,709	\$ 1,903,865	\$ 1,923,708
Assumed	776	162	184
Ceded(1)	(1,604,277)	(1,719,569)	(1,831,716)
Net premiums(1)	<u>265,208</u>	<u>184,458</u>	<u>92,176</u>
Policy charges and fee income:			
Direct(1)	3,034,193	3,348,259	3,491,735
Assumed(1)	594,622	565,814	587,466
Ceded(1)	(2,398,214)	(2,613,978)	(3,454,881)
Net policy charges and fee income(1)	<u>1,230,601</u>	<u>1,300,095</u>	<u>624,320</u>
Net investment income:			
Direct	920,674	555,404	372,822
Assumed	1,513	1,049	1,579
Ceded	(38,186)	(6,218)	(7,051)
Net investment income	<u>884,001</u>	<u>550,235</u>	<u>367,350</u>
Asset administration fees:			
Direct	351,600	403,359	360,438
Assumed	0	0	0
Ceded	(67,418)	(201,182)	(341,300)
Net asset administration fees	<u>284,182</u>	<u>202,177</u>	<u>19,138</u>
Other income (loss):			
Direct	(731,796)	227,035	78,445
Assumed	271	(66)	(1)
Ceded(1)	80,056	35,451	165
Amortization of reinsurance income(1)	<u>0</u>	<u>0</u>	<u>4,647</u>
Net other income(1)	<u>(651,469)</u>	<u>262,420</u>	<u>83,256</u>

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

Realized investment gains (losses), net:			
Direct(1)(2)	497,016	(388,914)	(3,593,799)
Assumed(1)(2)	(244,000)	12,592	0
Ceded(1)(2)	83,366	(10,572)	3,530,823
Realized investment gains (losses), net(1)	336,382	(386,894)	(62,976)
Change in value of market risk benefits, net of related hedging gain (loss):			
Direct(1)	(181,260)	9,096,963	0
Ceded(1)	(519,321)	(13,319,493)	0
Net change in value of market risk benefits, net of related hedging gain (loss)(1)	(700,581)	(4,222,530)	0
Policyholders' benefits (including change in reserves):			
Direct(1)	3,362,353	3,215,531	3,584,011
Assumed(1)	1,107,436	905,325	1,055,277
Ceded(1)	(4,011,416)	(4,038,146)	(4,341,139)
Net policyholders' benefits (including change in reserves)(1)	458,373	82,710	298,149
Change in estimates of liability for future policy benefits:			
Direct(1)	1,716,983	99,202	0
Assumed(1)	679,863	(16,166)	0
Ceded(1)	(2,341,747)	(56,028)	0
Net change in estimates of liability for future policy benefits(1)	55,099	27,008	0
Interest credited to policyholders' account balances:			
Direct(1)	805,411	525,038	536,886
Assumed	74,402	138,202	136,153
Ceded(1)	(434,598)	(814,629)	(439,664)
Net interest credited to policyholders' account balances(1)	445,215	(151,389)	233,375
Reinsurance expense allowances and general and administrative expenses, net of capitalization and amortization(1)	(150,374)	(2,195,677)	(1,589,113)

(1) Amounts for the years ended December 31, 2022 and 2021 were adjusted for the implementation of ASU 2018-12: Targeted Improvements to the Accounting for Long-Duration Contracts.

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

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

Unaffiliated reinsurance assumed and ceded amounts included in the table above and in the Company's Consolidated Statements of Operations and Comprehensive Income (Loss) for the years ended December 31, were as follows:

	2022	2021(1)	2020(1)
	(in thousands)		
Premiums:			
Assumed(2)	\$ 149	\$ 162	\$ 184
Ceded(2)	(42,721)	(26,143)	(10,526)
Policy charges and fee income:			
Assumed	2,113	0	0
Ceded	(81,781)	(65,451)	(53,871)
Net investment income:			
Ceded	10,802	687	0
Other income (loss):			
Assumed	270	(68)	1
Ceded(2)	3,243	0	0
Realized investment gains (losses), net:			
Assumed(2)	778,620	0	0
Ceded(2)	82,386	80,540	73,108
Change in value of market risk benefits, net of related hedging gain (loss):			
Ceded(2)	(120,663)	(130,654)	0
Policyholders' benefits (including change in reserves):			
Assumed	2,566	429	949
Ceded(2)	(94,402)	(186,927)	(69,720)
Change in estimates of liability for future policy benefits:			
Ceded(2)	(6,824)	0	0
Interest credited to policyholders' account balances:			
Assumed	(95,285)	0	0

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

(2) Amounts for the years ended December 31, 2022 and 2021 were adjusted for the implementation of ASU 2018-12: Targeted Improvements to the Accounting for Long-Duration Contracts.

The gross and net amounts of life insurance face amount in force as of December 31, were as follows:

	2022	2021	2020
	(in thousands)		
Direct gross life insurance face amount in force	\$ 1,093,610,227	\$ 1,079,382,740	\$ 1,045,775,819
Assumed gross life insurance face amount in force	36,668,045	37,822,851	38,818,752
Reinsurance ceded	(1,009,571,304)	(992,635,327)	(986,701,914)
Net life insurance face amount in force	<u>\$ 120,706,968</u>	<u>\$ 124,570,264</u>	<u>\$ 97,892,657</u>

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

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.

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 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 remain on the books of Pruco Life and an offsetting reinsurance recoverable is established. These assets and liabilities are 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 16 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 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 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 \$1,387 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 \$1,352 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 indexed variable annuities. The reinsurance of the indexed variable annuities transfers all significant risks, including mortality risk, embedded in the reinsured contracts to the Company. 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 under this agreement. As of December 31, 2022, the total account value of contracts novated from FLIAC to the Company were \$4.8 billion for indexed variable annuities contracts and \$1.9 billion for fixed annuities and fixed indexed annuities contracts, which is approximately 74% 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. 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 December 31, 2022, \$2.5 billion of HDI v.3.0 account values are reinsured to Union Hamilton.

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

12. INCOME TAXES

The following schedule discloses significant components of income tax expense (benefit) for each year presented:

	Year Ended December 31,		
	2022	2021	2020
	(in thousands)		
Current tax expense (benefit):			
U.S. federal	\$ (345,263)	\$ 440,649	\$ (358,548)
State and local	4,479	5,002	0
Total	(340,784)	445,651	(358,548)
Deferred tax expense (benefit):			
U.S. federal(1)	45,249	(920,437)	228,300
Total	45,249	(920,437)	228,300
Total income tax expense (benefit) on income (loss) before equity in earnings of operating joint ventures	(295,535)	(474,786)	(130,248)
Income tax expense (benefit) on equity in earnings of operating joint ventures	(193)	(147)	(518)
Income tax expense (benefit) reported in equity related to:			
Other comprehensive income (loss)(1)	(106,197)	(128,241)	70,806
Total income tax expense (benefit)	\$ (401,925)	\$ (603,174)	\$ (59,960)

(1) Amounts for the years ended December 31, 2022 and 2021 were adjusted for the implementation of ASU 2018-12: Targeted Improvements to the Accounting for Long-Duration Contracts.

Reconciliation of Expected Tax at Statutory Rates to Reported Income Tax Expense (Benefit)

The differences between income taxes expected at the U.S. federal statutory income tax rate of 21% applicable for 2022, 2021 and 2020, and the reported income tax expense (benefit) are summarized as follows:

	Year Ended December 31,		
	2022	2021	2020
	(\$ in thousands)		
Expected federal income tax expense (benefit)(1)	\$ (207,292)	\$ (392,740)	\$ 14,308
Non-taxable investment income	(46,426)	(48,662)	(46,836)
Tax credits	(47,544)	(36,806)	(27,980)
Changes in tax law	0	(3,644)	(70,121)
Other	5,727	7,066	381
Reported income tax expense (benefit)	\$ (295,535)	\$ (474,786)	\$ (130,248)
Effective tax rate(1)	29.9 %	25.4 %	(191.2) %

(1) Amounts for the years ended December 31, 2022 and 2021 were adjusted for the implementation of ASU 2018-12: Targeted Improvements to the Accounting for Long-Duration Contracts.

The effective tax rate is the ratio of “Income tax expense (benefit)” divided by “Income (loss) from operations before income taxes and equity in earnings of operating joint venture.” The Company’s effective tax rate for fiscal years 2022, 2021 and 2020 was 29.9%, 25.4% and (191.2)%, respectively. The following is a description of items that had a significant impact on the difference between the Company’s statutory U.S. federal income tax rate of 21% applicable for 2022, 2021 and 2020, and the Company’s effective tax rate during the periods presented:

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

Non-Taxable Investment Income. The U.S. Dividends Received Deduction (“DRD”) reduces the amount of dividend income subject to U.S. tax and is included in the non-taxable investment income shown in the table above. More specifically, the U.S. DRD constitutes \$44 million of the total \$46 million of 2022 non-taxable investment income, \$46 million of the total \$49 million of 2021 non-taxable investment income, and \$45 million of the total \$47 million of 2020 non-taxable investment income. The DRD for the current period was estimated using information from 2021, current year investment results, and current year’s equity market performance. The actual current year DRD can vary based on factors such as, but not limited to, changes in the amount of dividends received that are eligible for the DRD, changes in the amount of distributions received from fund investments, changes in the account balances of variable life and annuity contracts, and the Company’s taxable income before the DRD.

Tax credits. These amounts primarily represent tax credits relating to foreign taxes withheld on the Company’s separate account investments.

Changes in Tax Law. The following is a notable change in tax law that impacted the Company’s effective tax rate for the periods presented:

The CARES Act. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was enacted into law. One provision of the CARES Act amends the Tax Act of 2017 and allows companies with net operating losses (“NOLs”) originating in 2020, 2019 or 2018 to carry back those losses for up to five years. For 2020, the Company recorded an income tax benefit of \$70 million from carrying the 2020 NOL back to tax years that have a 35% tax rate.

Other. This line item represents reconciling items that are individually less than 5% of the computed expected federal income tax expense (benefit) and have therefore been aggregated for purposes of this reconciliation in accordance with relevant disclosure guidance.

Schedule of Deferred Tax Assets and Deferred Tax Liabilities

	As of December 31,	
	2022	2021
	(in thousands)	
Deferred tax assets:		
Insurance reserves(1)	\$ 1,235,687	\$ 2,351,754
Investments(1)	354,538	0
Net unrealized loss on securities(1)	481,989	0
Other(1)	2,801	2,895
Deferred tax assets	2,075,015	2,354,649
Deferred tax liabilities:		
Deferred policy acquisition cost(1)	954,953	1,044,951
Deferred sales inducements(1)	80,116	87,070
Net unrealized gain on securities(1)	0	114,459
Investments(1)	0	135,128
Deferred tax liabilities	1,035,069	1,381,608
Net deferred tax asset (liability)	\$ 1,039,946	\$ 973,041

(1) Amounts adjusted for the implementation of Accounting Standards Update (“ASU”) 2018-12: Targeted Improvements to the Accounting for Long-Duration Contracts.

The application of U.S. GAAP requires the Company to evaluate the recoverability of deferred tax assets and establish a valuation allowance if necessary to reduce the deferred tax asset to an amount that is more likely than not expected to be realized. Considerable judgment is required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. In evaluating the need for a valuation allowance, the Company considers many factors, including: (1) the nature of the deferred tax assets and liabilities; (2) whether they are ordinary or capital; (3) in which tax jurisdictions they were generated and the timing of their reversal; (4) taxable income in prior carryback years as well as projected taxable earnings exclusive of reversing temporary differences and carryforwards; (5) the length of time that carryovers can be utilized in the various taxing jurisdictions; (6) any unique tax rules that would impact the utilization of the deferred tax assets; and (7) any tax planning strategies that the Company would employ to avoid a tax benefit from expiring unused. Although realization is not assured, management believes it is more likely than not that the deferred tax assets, net of valuation allowances, will be realized.

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

Changes in market conditions during 2022, including rising interest rates, resulted in the recording of deferred tax assets related to net unrealized tax capital losses. When assessing recoverability of these deferred tax assets, we consider our ability and intent to hold the underlying securities to recovery in value, if necessary, as well as other factors as noted above. As of December 31, 2022, based on all available evidence, including capital loss carryback capacity, we concluded that the deferred tax assets related to the unrealized tax capital losses on the available for sale securities portfolios are, more likely than not, expected to be realized.

The Company had no valuation allowance as of December 31, 2022, and 2021. Adjustments to the valuation allowance will be made if there is a change in management's assessment of the amount of deferred tax asset that is realizable.

The Company's "Income (loss) from operations before income taxes and equity in earnings of operating joint venture" includes income from domestic operations of \$(987) million, \$(1,870) million and \$68 million for the years ended December 31, 2022, 2021 and 2020, respectively.

Tax Audit and Unrecognized Tax Benefits

The Company's liability for income taxes includes the liability for unrecognized tax benefits and interest that relate to tax years still subject to review by the IRS or other taxing authorities. The completion of review or the expiration of the Federal statute of limitations for a given audit period could result in an adjustment to the liability for income taxes.

The Company had no unrecognized tax benefits as of December 31, 2022, 2021, and 2020. The Company does not anticipate any significant changes within the next twelve months to its total unrecognized tax benefits related to tax years for which the statute of limitations has not expired.

The Company classifies all interest and penalties related to tax uncertainties as income tax expense (benefit). The Company did not recognize tax related interest and penalties.

At December 31, 2022, the Company remains subject to examination in the U.S. for tax years 2014 through 2022.

The Company participates in the IRS's Compliance Assurance Program. Under this program, the IRS assigns an examination team to review completed transactions as they occur in order to reach agreement with the Company on how they should be reported in the relevant tax returns. If disagreements arise, accelerated resolutions programs are available to resolve the disagreements in a timely manner.

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

13. EQUITY

Accumulated Other Comprehensive Income (Loss)

AOCI represents the cumulative OCI items that are reported separate from net income and detailed on the Consolidated Statements of Operations and Comprehensive Income (Loss). Net unrealized investment gains (losses) are described in further detail in Note 2. The balance of and changes in each component of AOCI as of and for the years ended December 31, are as follows:

	Accumulated Other Comprehensive Income (Loss)				Total Accumulated Other Comprehensive Income (Loss)
	Foreign Currency Translation Adjustment	Net Unrealized Investment Gains (Losses)(1)	Interest Rate Remeasurement of Future Policy Benefits	Gain (loss) from Changes in Non-Performance Risk on Market Risk Benefits	
	(in thousands)				
Balance, December 31, 2019	\$ (7,917)	\$ 289,359	\$	\$	\$ 281,442
Change in OCI before reclassifications	599	327,819			328,418
Amounts reclassified from AOCI	0	7,074			7,074
Income tax benefit (expense)	(479)	(70,327)			(70,806)
Balance, December 31, 2020	(7,797)	553,925			546,128
Cumulative effect of adoption of ASU 2018-12	0	(81,364)	(155,255)	571,039	334,420
Change in OCI before reclassifications(2)	(3,891)	(185,492)	37,274	(435,232)	(587,341)
Amounts reclassified from AOCI	0	(24,994)	0	0	(24,994)
Income tax benefit (expense)(2)	414	44,256	(7,828)	91,399	128,241
Balance, December 31, 2021	(11,274)	306,331	(125,809)	227,206	396,454
Change in OCI before reclassifications(2)	(9,337)	(2,249,609)	310,351	1,440,307	(508,288)
Amounts reclassified from AOCI	0	(4,428)	0	0	(4,428)
Income tax benefit (expense)(2)	604	473,231	(65,174)	(302,464)	106,197
Balance, December 31, 2022	<u>\$ (20,007)</u>	<u>\$ (1,474,475)</u>	<u>\$ 119,368</u>	<u>\$ 1,365,049</u>	<u>\$ (10,065)</u>

(1) Includes cash flow hedges of \$139 million, \$40 million, and \$(8) million as of December 31, 2022, 2021 and 2020, respectively.

(2) Amounts were adjusted for the implementation of ASU 2018-12: Targeted Improvements to the Accounting for Long-Duration Contracts.

Reclassifications out of Accumulated Other Comprehensive Income (Loss)

	Year Ended December 31,		
	2022	2021	2020
	(in thousands)		
Amounts reclassified from AOCI(1)(2):			
Net unrealized investment gains (losses):			
Cash flow hedges—Currency/Interest rate(3)	\$ 78,433	\$ 28,508	\$ 162
Net unrealized investment gains (losses) on available-for-sale securities	(74,005)	(3,514)	(7,236)
Total net unrealized investment gains (losses)(4)	<u>4,428</u>	<u>24,994</u>	<u>(7,074)</u>
Total reclassifications for the period	<u>\$ 4,428</u>	<u>\$ 24,994</u>	<u>\$ (7,074)</u>

(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.

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

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 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 (loss)" 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 OTTI had been previously recognized, an allowance for credit losses has been recorded, and all other net unrealized investment gains (losses), are as follows:

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

	Net Unrealized Gains (Losses) on Available-for- Sale Fixed Maturity Securities on which an OTTI Loss has been Recognized	Net Unrealized Gains (Losses) on Investments on Available-for-Sale Fixed Maturity Securities on Which an Allowance for Credit Losses has been Recognized(1)	Net Unrealized Gains (Losses) on All Other Investments(2)	Other Costs(3)	Future Policy Benefits, Policyholders' Account Balances and Other Liabilities(4)	Income Tax Benefit (Expense)	Accumulated Other Comprehensive Income (Loss) Related to Net Unrealized Investment Gains (Losses)
	(in thousands)						
Balance, December 31, 2019	\$ 1,568	\$ 0	\$ 423,612	\$ 423,227	\$ (482,134)	\$ (76,914)	\$ 289,359
Reclassification due to implementation of ASU 2016-13(5)	(1,568)	0	1,568	0	0	0	0
Net investment gains (losses) on investments arising during the period	0	616	416,479	0	0	(87,588)	329,507
Reclassification adjustment for (gains) losses included in net income	0	0	7,074	0	0	(1,486)	5,588
Reclassification due to allowance for credit losses recorded during the period	0	(616)	616	0	0	0	0
Impact of net unrealized investment (gains) losses	0	0	0	776,821	(866,097)	18,747	(70,529)
Balance, December 31, 2020	0	0	849,349	1,200,048	(1,348,231)	(147,241)	553,925
Cumulative effect of adoption of ASU 2018-12	0	0	(1,000)	(89,160)	(12,880)	21,677	(81,363)
Net investment gains (losses) on investments arising during the period	0	2,951	(240,903)	0	0	50,016	(187,936)
Reclassification adjustment for (gains) losses included in net income	0	(8)	(24,986)	0	0	5,254	(19,740)
Reclassification due to allowance for credit losses recorded during the period	0	742	(742)	0	0	0	0
Impact of net unrealized investment (gains) losses(6)	0	0	0	(275,458)	327,917	(11,014)	41,445
Balance, December 31, 2021	0	3,685	581,718	835,430	(1,033,194)	(81,308)	306,331
Net investment gains (losses) on investments arising during the period	0	(149)	(2,737,481)	0	0	574,760	(2,162,870)
Reclassification adjustment for (gains) losses included in net income	0	831	(5,259)	0	0	930	(3,498)
Reclassification due to allowance for credit losses recorded during the period	0	4	(4)	0	0	0	0
Impact of net unrealized investment (gains) losses(6)	0	0	0	(2,033,852)	2,521,873	(102,459)	385,562
Balance, December 31, 2022	\$ 0	\$ 4,371	\$ (2,161,026)	\$ (1,198,422)	\$ 1,488,679	\$ 391,923	\$ (1,474,475)

(1) Allowance for credit losses on available-for-sale fixed maturity securities effective January 1, 2020.

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

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

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

(5) Represents net unrealized gains (losses) for which an OTTI had been previously recognized.

(6) Amounts were adjusted for the implementation of ASU 2018-12: Targeted Improvements to the Accounting for Long-Duration Contracts.

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

14. STATUTORY NET INCOME AND SURPLUS AND DIVIDEND RESTRICTIONS

The Company is required to prepare statutory financial statements in accordance with accounting practices prescribed or permitted by the Arizona Department of Insurance ("AZDOI"). Its subsidiary PLNJ is required to prepare statutory financial statements in accordance with accounting practices prescribed or permitted by the New Jersey Department of Insurance and Banking. Statutory accounting practices primarily differ from U.S. GAAP by charging policy acquisition costs to expense as incurred, establishing future policy benefit liabilities using different actuarial assumptions and valuing investments, deferred taxes, and certain assets on a different basis.

The following table summarizes certain statutory financial information for the Company, including its subsidiary PLNJ, for the periods indicated:

	Year Ended December 31,		
	2022	2021	2020
	(in millions)		
Statutory net income (loss)(1)(2)	\$ 3,317	\$ 833	\$ (671)
Statutory capital and surplus(1)(2)	5,205	5,955	1,461

(1) Prior year amounts have been updated to conform to finalized statutory filing where applicable.

(2) 2022 amounts include adjustments made to the audited statutory financial statements as of December 31, 2022.

The Company does not utilize prescribed or permitted practices that vary materially from the statutory accounting practices prescribed by the NAIC.

The Company is subject to Arizona law, which limits the amount of dividends that insurance companies can pay to stockholders without approval of the AZDOI. The maximum dividend, which may be paid in any twelve-month period without notification or approval, is limited to the lesser of 10% of statutory surplus as of December 31 of the preceding year or the net gain from operations of the preceding calendar year. Cash dividends may only be paid out of surplus derived from realized net profits. The Company must obtain approval from AZDOI prior to paying a dividend if the dividend, together with other dividend distributions made within the preceding twelve months, would exceed the lesser of 10% of statutory surplus or net gain from operations. Based on these limitations, there is no capacity to pay a dividend in 2023 without prior approval. The Company did not pay dividends to Prudential Insurance in 2022, 2021 and 2020.

15. 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 \$1 million for each of the years ended December 31, 2022, 2021 and 2020. The expense charged to the Company for the deferred compensation program was \$5 million, \$4 million and \$5 million for the years ended December 31, 2022, 2021 and 2020, 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 \$19 million, \$14 million and \$17 million for the years ended December 31, 2022, 2021 and 2020, respectively.

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

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 \$15 million, \$13 million and \$18 million for the years ended December 31, 2022, 2021 and 2020, 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 \$9 million, \$5 million and \$7 million for the years ended December 31, 2022, 2021 and 2020, respectively.

The Company is charged distribution expenses from Prudential's proprietary nationwide sales organization, "Prudential Advisors" through a transfer pricing agreement, which is intended to reflect a market-based pricing arrangement. Prudential Advisors distributes Prudential life insurance, annuities, and investment products with proprietary and non-proprietary product options.

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 \$611 million, \$379 million and \$529 million for the years ended December 31, 2022, 2021 and 2020, 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 \$105 million, \$86 million and \$76 million for the years ended December 31, 2022, 2021 and 2020, respectively.

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 \$4,512 million at December 31, 2022 and \$5,248 million at December 31, 2021. Fees related to these COLI policies were \$52 million, \$56 million and \$50 million for the years ended December 31, 2022, 2021 and 2020, 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 \$41 million, \$20 million and \$15 million for the years ended December 31, 2022, 2021 and 2020, respectively. These expenses are recorded as "Net investment income" in the Consolidated Statements of Operations and Comprehensive Income.

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.

The interest income to the Company from PGF related to affiliated cash collateral was \$137 million for the year ended December 31, 2022.

Joint Ventures

The Company has made investments in joint ventures with certain subsidiaries of Prudential Financial. "Other invested assets" includes \$606 million and \$466 million as of December 31, 2022 and 2021, respectively. "Net investment income" related to these ventures includes gains of \$21 million, \$39 million and \$12 million for the years ended December 31, 2022, 2021 and 2020, 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 \$306 million, \$374 million and \$344 million for the years ended December 31, 2022, 2021 and 2020, respectively. These revenues are recorded as "Asset administration fees" in the Consolidated Statements of Operations and Comprehensive Income.

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

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 \$36 million, \$21 million and \$11 million for the years ended December 31, 2022, 2021 and 2020, respectively. These revenues are recorded as "Asset administration fees" in the Consolidated Statements of Operations and Comprehensive Income.

Affiliated Notes Receivable

Affiliated notes receivable included in "Receivables from parent and affiliates" at December 31, were as follows:

	Maturity Dates			Interest Rates			2022	2021
							(in thousands)	
U.S. dollar fixed rate notes	2022	-	2027	0.00%	-	14.85 %	\$ 148,076	\$ 162,045
Total long-term notes receivable - affiliated(1)							\$ 148,076	\$ 162,045

(1) All long-term 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 December 31, 2022 and 2021, and is included in "Other assets." Revenues related to these loans was \$3 million, \$4 million and \$4 million for each of the years ended December 31, 2022, 2021 and 2020, respectively, and are included in "Other income (loss)."

Affiliated Commercial Mortgage Loan

The affiliated commercial mortgage loan included in "Commercial mortgage and other loans" at December 31, was as follows:

	Maturity Date	Interest Rate	2022	2021
	(in thousands)			
Affiliated Commercial Mortgage Loan	2025	8.67%	\$ 72,225	\$ 73,412

This affiliated commercial mortgage loan was transferred from PALAC as part of the 2021 Variable Annuities Recapture. See Note 1 for 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 \$0.5 million and \$0.3 million for years ended December 31, 2022 and 2021, respectively, and is included in "Accrued investment income". Revenues were \$4.6 million and \$1.7 million and for the years ended December 31, 2022 and 2021, respectively, and is included in "Net investment income."

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

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 years ended December 31, 2022 and 2021, excluding those related to the 2021 Variable Annuities Recapture effective July 1, 2021, as described in Note 1.

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
PARU	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

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

PURC	December 2021	Purchase	Fixed Maturities	\$	48,041	\$	48,041	\$	0	\$	0
PALAC	December 2021	Purchase	Fixed Maturities	\$	57,087	\$	57,087	\$	0	\$	0
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
PARU	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
PARU	June 2022	Purchase	Commercial Mortgage and Other Loans	\$	6,492	\$	6,492	\$	0	\$	0
PARU	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 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
PARU	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 Company	September 2022	Purchase	Fixed Maturities	\$ 3,497	\$ 3,497	\$ 0	\$ 0
WH Warehouse Ltd	October 2022	Sale	Fixed Maturities	\$ 26,536	\$ 26,388	\$ 0	\$ 148
PARU	November 2022	Purchase	Fixed Maturities	\$ 91,051	\$ 91,051	\$ 0	\$ 0
Prudential Insurance	December 2022	Purchase	Fixed Maturities	\$ 67,477	\$ 71,369	\$ 3,075	\$ 0

Debt Agreements

The Company is authorized to borrow funds up to \$7 billion from affiliates to meet its capital and other funding needs. The following table provides the breakout of the Company's short and long-term debt to affiliates as of December 31, 2022:

Affiliate	Date Issued	Amount of Notes - December 31, 2022	Amount of Notes - December 31, 2021	Interest Rate	Date of Maturity
(in thousands)					
Prudential Insurance	8/13/2021	\$ 96,666	\$ 99,770	4.39 %	12/15/2023
Prudential Insurance	8/13/2021	29,000	29,931	4.39 %	12/15/2023
Prudential Insurance	8/13/2021	97,665	100,348	3.95 %	6/20/2024
Prudential Insurance	8/13/2021	39,066	40,139	3.95 %	6/20/2024
Prudential Insurance	8/13/2021	48,832	50,174	3.95 %	6/20/2024
Prudential Funding, LLC	12/28/2022	138	0	4.73 %	1/31/2023
Prudential Funding, LLC	12/29/2022	62	0	4.73 %	1/31/2023
Prudential Funding, LLC	12/30/2022	384	0	4.73 %	1/31/2023
Total Loans Payable to Affiliates		<u>\$ 311,813</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 was \$3.2 million, \$0.4 million and \$0.7 million for the years ended December 31, 2022, 2021 and 2020, respectively.

Contributed Capital and Dividends

In February 2023, the Company received a capital contribution in the amount of \$405 million from Prudential Insurance. In March, June and September of 2022, the Company received capital contributions 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 amounts 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 affiliated reinsurance agreement with PALAC. In June, September and December of 2020, the Company received capital contributions in the amounts of \$325 million, \$75 million and \$175 million, respectively, from Prudential Insurance.

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

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. There was no return of capital in 2022 or 2020.

In 2022, 2021 and 2020, the Company did not pay any dividends to Prudential Insurance.

Reinsurance with Affiliates

As discussed in Note 11, the Company participates in reinsurance transactions with certain affiliates.

16. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

The Company has made commitments to fund commercial mortgage loans. As of December 31, 2022 and 2021, the outstanding balances on these commitments were \$333 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 \$0.1 million and \$0.0 million as of December 31, 2022 and 2021, respectively, which is a change of \$0.1 million and \$0.0 million for the years ended December 31, 2022 and 2021, respectively. The Company also made commitments to purchase or fund investments, mostly private fixed maturities. As of December 31, 2022 and 2021, \$582 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 both the years ended December 31, 2022 and 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 11. In June 2021, PIH 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 and \$34 million as of December 31, 2022 and 2021, respectively, 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 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 December 31, 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.

Moreland, Socorro v. PICA, et al.

In June 2020, a putative class action complaint entitled Socorro Moreland v. The Prudential Insurance Company of America; Pruco Life Insurance Company, was filed in the United States District Court for the Northern District of California, alleging that the Company failed to comply with California laws requiring that life insurance policies issued and delivered in California: (i) provide for a 60-day grace period pre-lapse during which a policy must stay in force; (ii) provide a 30-day written notice of pending lapse; and (iii) notify policyowners of their right to designate additional recipients for lapse notices. The complaint asserts claims for violation of California law, breach of contract, unfair competition, and bad faith violation of the implied covenant of good faith and fair dealing, and seeks unspecified damages, declaratory and injunctive relief. In August 2020, defendants filed an answer to the complaint and a motion to stay the action pending the California Supreme Court's decision, in *McHugh v. Protective Life Insurance*, on the question of whether the California lapse statutes apply to policies that were in force when the statutes went into effect on January 1, 2013, or solely to policies issued after that date. The Moreland court granted defendants' motion to stay in October 2020. Subsequently, in August 2021, the California Supreme Court in *McHugh* determined that the California lapse statutes apply to policies that were in force as of January 1, 2013. In October 2021, the Moreland court lifted the stay order. In December 2022, plaintiff filed a motion for class certification.

Regulatory

Variable Products

The Company has received regulatory inquiries and requests for information from state and federal regulators, including subpoenas from the U.S. Securities and Exchange Commission, concerning the appropriateness of variable product sales and replacement activity. The Company is cooperating with regulators and may become subject to additional regulatory inquiries and other actions related to this matter.

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.