

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

FORM 10-Q

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

For the quarterly period ended March 31, 2021

OR

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

For the Transition Period from _____ to _____

Commission File Number 333-18053

Pruco Life Insurance Company of New Jersey

(Exact Name of Registrant as Specified in its Charter)

New Jersey
(State or Other Jurisdiction of
Incorporation or Organization)

22-2426091
(I.R.S. Employer Identification Number)

213 Washington Street

Newark, NJ 07102

(973) 802-6000

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

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

Title of Each Class

Not Applicable

Trading Symbol(s)

Not Applicable

Name of Each Exchange on Which Registered

Not Applicable

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of the Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large Accelerated Filer

☐

Accelerated Filer

☐

Non-accelerated Filer

☒

Smaller Reporting Company

☐

Emerging Growth Company

☐

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

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

As of May 12, 2021, 400,000 shares of the registrant's Common Stock (par value \$5) were outstanding. As of such date, Pruco Life Insurance Company, an Arizona corporation, owned all of the registrant's Common Stock.

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

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FORWARD-LOOKING STATEMENTS

Certain of the statements included in this Quarterly Report on Form 10-Q, constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Words such as “expects,” “believes,” “anticipates,” “includes,” “plans,” “assumes,” “estimates,” “projects,” “intends,” “should,” “will,” “shall” or variations of such words are generally part of forward-looking statements. Forward-looking statements are made based on management’s current expectations and beliefs concerning future developments and their potential effects upon Pruco Life Insurance Company of New Jersey and its subsidiary. There can be no assurance that future developments affecting Pruco Life Insurance Company of New Jersey and its subsidiary will be those anticipated by management. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and there are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements, including, among others: (1) the ongoing impact of the COVID-19 pandemic on the global economy, financial markets and our business, (2) losses on investments or financial contracts due to deterioration in credit quality or value, or counterparty default; (3) losses on insurance products due to mortality experience or policyholder behavior experience that differs significantly from our expectations when we price our products; (4) changes in interest rates and equity prices that may (a) adversely impact the profitability of our products, the value of separate accounts supporting these products or the value of assets we manage, (b) result in losses on derivatives we use to hedge risk or increase collateral posting requirements and (c) limit opportunities to invest at appropriate returns; (5) guarantees within certain of our products which are market sensitive and may decrease our earnings or increase the volatility of our results of operations or financial position; (6) liquidity needs resulting from (a) derivative collateral market exposure, (b) asset/liability mismatches, (c) the lack of available funding in the financial markets or (d) unexpected cash demands due to severe mortality calamity or lapse events; (7) financial or customer losses, or regulatory and legal actions, due to inadequate or failed processes or systems, external events and human error or misconduct such as (a) disruption of our systems and data, (b) an information security breach, (c) a failure to protect the privacy of sensitive data (d) reliance on third parties or (e) labor and employment matters; (8) changes in the regulatory landscape, including related to (a) financial sector regulatory reform, (b) changes in tax laws, (c) fiduciary rules and other standards of care, (d) state insurance laws and developments regarding group-wide supervision, capital and reserves, and (e) privacy and cybersecurity regulation; (9) technological changes which may adversely impact companies in our investment portfolio or cause insurance experience to deviate from our assumptions; (10) ratings downgrades; (11) market conditions that may adversely affect the sales or persistency of our products; (12) competition; and (13) reputational damage. Pruco Life Insurance Company of New Jersey does not intend, and is under no obligation, to update any particular forward-looking statement included in this document. See “Risk Factors” included in the Annual Report on Form 10-K for the year ended December 31, 2020 for discussion of certain risks relating to our business and investment in our securities.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Unaudited Interim Statements of Financial Position March 31, 2021 and December 31, 2020 (in thousands, except share amounts)

	March 31, 2021	December 31, 2020
ASSETS		
Fixed maturities available for sale, at fair value (allowance for credit losses: 2021-\$0; 2020-\$0) (amortized cost: 2021-\$1,691,841; 2020-\$1,635,870)	\$ 1,824,338	\$ 1,894,195
Fixed maturities, trading, at fair value (amortized cost: 2021-\$17,718; 2020-\$17,718)	18,639	19,269
Equity securities, at fair value (cost: 2021-\$4,660; 2020-\$4,660)	5,978	6,218
Policy loans	211,807	212,163
Commercial mortgage and other loans (net of \$466 and \$440 allowance for credit losses at March 31, 2021 and December 31, 2020, respectively)	132,441	133,115
Other invested assets (includes \$15,487 and \$17,581 of assets measured at fair value at March 31, 2021 and December 31, 2020, respectively)	103,134	97,509
Total investments	2,296,337	2,362,469
Cash and cash equivalents	71,205	68,527
Deferred policy acquisition costs	253,609	224,425
Accrued investment income	21,678	21,248
Reinsurance recoverables	3,331,052	3,860,612
Receivables from parent and affiliates	33,384	31,061
Income taxes receivable	10,937	0
Other assets	18,777	23,007
Separate account assets	17,151,428	17,117,510
TOTAL ASSETS	\$ 23,188,407	\$ 23,708,859
LIABILITIES AND EQUITY		
LIABILITIES		
Policyholders' account balances	\$ 2,596,465	\$ 2,532,766
Future policy benefits	2,431,120	2,976,575
Cash collateral for loaned securities	2,725	2,725
Income taxes payable	0	10,821
Payables to parent and affiliates	13,596	16,250
Other liabilities	192,841	187,620
Separate account liabilities	17,151,428	17,117,510
Total liabilities	22,388,175	22,844,267
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 10)		
EQUITY		
Common stock (\$5 par value; 400,000 shares authorized, issued and outstanding)	2,000	2,000
Additional paid-in capital	350,035	348,735
Retained earnings	352,588	328,450
Accumulated other comprehensive income (loss)	95,609	185,407
Total equity	800,232	864,592
TOTAL LIABILITIES AND EQUITY	\$ 23,188,407	\$ 23,708,859

See Notes to Unaudited Interim Financial Statements

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Unaudited Interim Statements of Operations and Comprehensive Income (Loss)
Three Months Ended March 31, 2021 and 2020 (in thousands)

	Three Months Ended March 31,	
	2021	2020
REVENUES		
Premiums	\$ 7,559	\$ 5,194
Policy charges and fee income	28,318	23,969
Net investment income	23,545	16,965
Asset administration fees	2,026	1,565
Other income	(264)	(1,949)
Realized investment gains (losses), net	15,832	13,065
TOTAL REVENUES	77,016	58,809
BENEFITS AND EXPENSES		
Policyholders' benefits	18,835	16,686
Interest credited to policyholders' account balances	10,711	10,191
Amortization of deferred policy acquisition costs	7,123	5,312
General, administrative and other expenses	14,084	10,374
TOTAL BENEFITS AND EXPENSES	50,753	42,563
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES	26,263	16,246
Income tax expense (benefit)	2,125	1,701
NET INCOME (LOSS)	\$ 24,138	\$ 14,545
Other comprehensive income (loss), before tax:		
Foreign currency translation adjustments	(108)	(1)
Net unrealized investment gains (losses)	(113,561)	(20,968)
Total	(113,669)	(20,969)
Less: Income tax expense (benefit) related to other comprehensive income (loss)	(23,871)	(4,404)
Other comprehensive income (loss), net of taxes	(89,798)	(16,565)
Comprehensive income (loss)	\$ (65,660)	\$ (2,020)

See Notes to Unaudited Interim Financial Statements

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Unaudited Interim Statements of Equity
Three Months Ended March 31, 2021 and 2020 (in thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, December 31, 2020	\$ 2,000	\$ 348,735	\$ 328,450	\$ 185,407	\$ 864,592
Contributed capital		1,300			1,300
Comprehensive income (loss):					
Net income (loss)			24,138		24,138
Other comprehensive income (loss), net of tax				(89,798)	(89,798)
Total comprehensive income (loss)					(65,660)
Balance, March 31, 2021	<u>\$ 2,000</u>	<u>\$ 350,035</u>	<u>\$ 352,588</u>	<u>\$ 95,609</u>	<u>\$ 800,232</u>

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, December 31, 2019	\$ 2,000	\$ 268,021	\$ 280,246	\$ 85,635	\$ 635,902
Cumulative effect of adoption of accounting changes(1)			(167)		(167)
Contributed capital		85,112			85,112
Contributed (distributed) capital-parent/child asset transfers		(4,268)			(4,268)
Net income (loss)			14,545		14,545
Other comprehensive income (loss), net of tax				(16,565)	(16,565)
Total comprehensive income (loss)					(2,020)
Balance, March 31, 2020	<u>\$ 2,000</u>	<u>\$ 348,865</u>	<u>\$ 294,624</u>	<u>\$ 69,070</u>	<u>\$ 714,559</u>

(1) Includes the impact from the adoption of ASU 2016-13. See Note 2 to the Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020 for additional information.

See Notes to Unaudited Interim Financial Statements

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Unaudited Interim Statements of Cash Flows
Three Months Ended March 31, 2021 and 2020 (in thousands)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 24,138	\$ 14,545
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Policy charges and fee income	(10,959)	(8,571)
Interest credited to policyholders' account balances	10,711	10,191
Realized investment (gains) losses, net	(15,832)	(13,065)
Amortization and other non-cash items	(4,785)	1,063
Change in:		
Future policy benefits	62,561	108,205
Reinsurance recoverables	(43,468)	(96,083)
Accrued investment income	(430)	(731)
Net payables to/receivables from parent and affiliates	(5,011)	(951)
Deferred policy acquisition costs	(18,981)	(12,994)
Income taxes	2,114	1,690
Derivatives, net	5,046	(251)
Other, net	14,388	1,313
Cash flows from (used in) operating activities	19,492	4,361
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	14,508	13,664
Policy loans	7,377	6,512
Ceded policy loans	(742)	(297)
Commercial mortgage and other loans	483	5,457
Other invested assets	390	857
Payments for the purchase/origination of:		
Fixed maturities, available-for-sale	(50,946)	(28,895)
Policy loans	(4,537)	(8,623)
Ceded policy loans	334	2,474
Commercial mortgage and other loans	0	(2,198)
Other invested assets	(4,149)	(3,452)
Notes receivable from parent and affiliates, net	(8)	75
Derivatives, net	(136)	(416)
Other, net	(104)	7
Cash flows from (used in) investing activities	(37,530)	(14,835)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Policyholders' account deposits	108,982	136,986
Ceded policyholders' account deposits	(79,213)	(91,138)
Policyholders' account withdrawals	(72,274)	(73,651)
Ceded policyholders' account withdrawals	57,352	57,603
Net change in securities sold under agreement to repurchase and cash collateral for loaned securities	0	106
Net change in all other financing arrangements (maturities 90 days or less)	0	(89)
Drafts outstanding	(542)	5,000
Other, net	6,411	4,518
Cash flows from (used in) financing activities	20,716	39,335
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,678	28,861
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	68,527	55,924
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 71,205	\$ 84,785

Significant Non-Cash Transactions

There were no significant non-cash transactions for the three months ended March 31, 2021. For the three months ended March 31, 2020, the Company received \$85 million of non-cash assets from its parent, Pruco Life Insurance Company. See Note 9 for additional information.

See Notes to Unaudited Interim Financial Statements

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

1. BUSINESS AND BASIS OF PRESENTATION

Pruco Life Insurance Company of New Jersey ("PLNJ") is a wholly-owned subsidiary of Pruco Life Insurance Company ("Pruco Life"), which in turn is a wholly-owned subsidiary of The Prudential Insurance Company of America ("Prudential Insurance"). Prudential Insurance is a direct wholly-owned subsidiary of Prudential Financial, Inc. ("Prudential Financial"). 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, and sells such products primarily through affiliated and unaffiliated distributors.

Basis of Presentation

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

In the opinion of management, all adjustments necessary for a fair statement of the financial position and results of operations have been made. All such adjustments are of a normal, recurring nature. Interim results are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with the Company's Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

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

COVID-19

Beginning in the first quarter of 2020, the outbreak of the novel coronavirus ("COVID-19") resulted in extreme stress and disruption in the global economy and financial markets. While markets have rebounded, the pandemic has adversely impacted, and may continue to adversely impact, the Company's results of operations, financial condition and cash flows. Due to the highly uncertain nature of these conditions, it is not possible to estimate the ultimate impacts at this time. The risks may have manifested, and may continue to manifest, in the Company's financial statements in the areas of, among others, i) investments: increased risk of loss on our investments due to default or deterioration in credit quality or value; and ii) 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.). 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.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

Recent Accounting Pronouncements

Changes to U.S. GAAP are established by the Financial Accounting Standards Board ("FASB") in the form of Accounting Standards Updates ("ASUs") to the FASB Accounting Standards Codification ("ASC"). The Company considers the applicability and impact of all ASUs. ASUs listed below include those that have been adopted during the current fiscal year and/or those that have been issued but not yet adopted as of March 31, 2021, and as of the date of this filing. ASUs not listed below were assessed and determined to be either not applicable or not material.

ASU issued but not yet adopted as of March 31, 2021 — ASU 2018-12

ASU 2018-12, Financial Services - Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts, was issued by the FASB on August 15, 2018 and is expected to have a significant impact on the Financial Statements and Notes to the Financial Statements. In October 2019, the FASB issued ASU 2019-09, *Financial Services - Insurance (Topic 944): Effective Date* to affirm its decision to defer the effective date of ASU 2018-12 to January 1, 2022 (with early adoption permitted), representing a one year extension from the original effective date of January 1, 2021. As a result of the COVID-19 pandemic, in November 2020 the FASB issued ASU 2020-11, *Financial Services-Insurance (Topic 944): Effective Date and Early Application* to defer for an additional one year the effective date of ASU 2018-12 from January 1, 2022 to January 1, 2023, and to provide transition relief to facilitate the early adoption of the ASU. The transition relief would allow large calendar-year public companies that early adopt ASU 2018-12 to apply the guidance either as of January 1, 2020 or January 1, 2021 (and record transition adjustments as of January 1, 2020 or January 1, 2021, respectively) in the 2022 financial statements. Companies that do not early adopt ASU 2018-12 would apply the guidance as of January 1, 2021 (and record transition adjustments as of January 1, 2021) in the 2023 financial statements. The Company currently intends to adopt ASU 2018-12 effective January 1, 2023. ASU 2018-12 will impact, at least to some extent, the accounting and disclosure requirements for all long-duration insurance and investment contracts issued by the Company. Outlined below are four key areas of change, although there are other less significant changes not noted below. In addition to the impacts to the balance sheet upon transition, the Company also expects an impact to the pattern of earnings emergence following the transition date.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

Modifications related to COVID-19

We assess modifications to certain fixed income instruments on a case-by-case basis to evaluate whether a troubled debt restructuring ("TDR") has occurred. In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") provides a temporary suspension of TDR accounting for certain COVID-19 related modifications where the investment was not more than 30 days past due as of December 31, 2019 ("TDR Relief"). The TDR Relief was set to expire on December 31, 2020, but was extended through December 31, 2021 by the Consolidated Appropriations Act of 2021. The Company elected to apply the TDR Relief beginning in the first quarter of 2021. The TDR Relief does not apply to modifications completed 60 days after the national emergency related to COVID-19 ends, or December 31, 2021, whichever comes earlier. As of March 31, 2021, any such modifications did not have a material impact on the Company's results of operations. For additional information regarding the Company's policies for troubled debt restructurings, see Note 2 to the Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

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:

	March 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	\$ 10,581	\$ 883	\$ 0	\$ 0	\$ 11,464
Obligations of U.S. states and their political subdivisions	162,123	16,339	0	0	178,462
Foreign government bonds	98,897	6,352	1,753	0	103,496
U.S. public corporate securities	819,642	82,750	9,962	0	892,430
U.S. private corporate securities	219,742	14,690	432	0	234,000
Foreign public corporate securities	74,570	5,823	1,388	0	79,005
Foreign private corporate securities	146,199	10,526	1,280	0	155,445
Asset-backed securities(1)	16,540	681	1	0	17,220
Commercial mortgage-backed securities	140,516	8,796	0	0	149,312
Residential mortgage-backed securities(2)	3,031	473	0	0	3,504
Total fixed maturities, available-for-sale	\$ 1,691,841	\$ 147,313	\$ 14,816	\$ 0	\$ 1,824,338

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

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

December 31, 2020					
	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	\$ 10,638	\$ 1,017	\$ 0	\$ 0	\$ 11,655
Obligations of U.S. states and their political subdivisions	162,227	20,399	0	0	182,626
Foreign government bonds	79,318	13,347	29	0	92,636
U.S. public corporate securities	791,616	158,087	118	0	949,585
U.S. private corporate securities	222,279	23,564	225	0	245,618
Foreign public corporate securities	60,376	10,022	51	0	70,347
Foreign private corporate securities	148,103	17,892	640	0	165,355
Asset-backed securities(1)	16,535	666	12	0	17,189
Commercial mortgage-backed securities	141,564	13,854	0	0	155,418
Residential mortgage-backed securities(2)	3,214	552	0	0	3,766
Total fixed maturities, available-for-sale	<u>\$ 1,635,870</u>	<u>\$ 259,400</u>	<u>\$ 1,075</u>	<u>\$ 0</u>	<u>\$ 1,894,195</u>

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

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

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:

	March 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:						
Foreign government bonds	\$ 29,269	\$ 1,753	\$ 0	\$ 0	\$ 29,269	\$ 1,753
U.S. public corporate securities	151,096	9,962	0	0	151,096	9,962
U.S. private corporate securities	15,403	262	5,180	170	20,583	432
Foreign public corporate securities	23,302	1,388	0	0	23,302	1,388
Foreign private corporate securities	11,241	208	11,585	1,072	22,826	1,280
Asset-backed securities	490	1	1,012	0	1,502	1
Total fixed maturities, available-for-sale	\$ 230,801	\$ 13,574	\$ 17,777	\$ 1,242	\$ 248,578	\$ 14,816

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

	December 31, 2020					
	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:						
Foreign government bonds	\$ 2,122	\$ 29	\$ 0	\$ 0	\$ 2,122	\$ 29
U.S. public corporate securities	10,416	118	0	0	10,416	118
U.S. private corporate securities	9,635	225	0	0	9,635	225
Foreign public corporate securities	1,611	51	0	0	1,611	51
Foreign private corporate securities	0	0	12,017	640	12,017	640
Asset-backed securities	988	2	3,941	10	4,929	12
Residential mortgage-backed securities	0	0	0	0	0	0
Total fixed maturities, available-for-sale	\$ 24,772	\$ 425	\$ 15,958	\$ 650	\$ 40,730	\$ 1,075

As of March 31, 2021 and December 31, 2020, the gross unrealized losses on fixed maturity available-for-sale securities without an allowance were composed of \$13.8 million and \$0.4 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 \$1.0 million and \$0.7 million, respectively, related to other than high or highest quality securities based on NAIC or equivalent rating. As of March 31, 2021, the \$1.2 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 transportation sectors. As of December 31, 2020, the \$0.7 million of gross unrealized losses of twelve months or more were concentrated in the Company’s corporate securities within the finance and consumer non-cyclical sectors.

In accordance with its policy described in Note 2 to the Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020, the Company concluded that an adjustment to earnings for credit losses related to these fixed maturity securities was not warranted at March 31, 2021. 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 general credit spread widening, increases in interest rates, foreign currency exchange rate movements and the financial condition or near-term prospects of the issuer. As of March 31, 2021, 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.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

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

	March 31, 2021	
	Amortized Cost	Fair Value
	(in thousands)	
Fixed maturities, available-for-sale:		
Due in one year or less	\$ 45,685	\$ 45,656
Due after one year through five years	237,943	252,705
Due after five years through ten years	149,055	160,579
Due after ten years	1,099,071	1,195,362
Asset-backed securities	16,540	17,220
Commercial mortgage-backed securities	140,516	149,312
Residential mortgage-backed securities	3,031	3,504
Total fixed maturities, available-for-sale	\$ 1,691,841	\$ 1,824,338

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

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

	Three Months Ended March 31,	
	2021	2020
	(in thousands)	
Fixed maturities, available-for-sale:		
Proceeds from sales(1)	\$ 2,922	\$ 1,410
Proceeds from maturities/prepayments	10,086	12,254
Gross investment gains from sales and maturities	25	24
Gross investment losses from sales and maturities	(167)	0
Write-downs recognized in earnings(2)	0	(625)
(Addition to) release of allowance for credit losses	0	0

(1) Includes \$(1.5) million and \$0.0 million of non-cash related proceeds due to the timing of trade settlements for the three months ended March 31, 2021 and 2020, respectively.

(2) Amounts represent securities actively marketed for sale.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

For both the three months ended March 31, 2021 and 2020, there was no activity in the allowance for credit losses for fixed maturity securities.

See Note 2 to the Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, for additional information about the Company's methodology for developing our allowance for credit losses.

The Company did not have any fixed maturity securities purchased with credit deterioration, as of both March 31, 2021 and December 31, 2020.

Equity Securities

The net change in unrealized gains (losses) from equity securities still held at period end, recorded within "Other income," was \$(0.2) million and \$(0.5) million during the three months ended March 31, 2021 and 2020, respectively.

Commercial Mortgage and Other Loans

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

	March 31, 2021		December 31, 2020	
	Amount (in thousands)	% of Total	Amount (in thousands)	% of Total
Commercial mortgage and agricultural property loans by property type:				
Apartments/Multi-Family	\$ 46,534	35.0 %	\$ 46,755	35.0 %
Hospitality	14,031	10.6	14,031	10.5
Industrial	13,884	10.4	13,936	10.4
Office	23,524	17.7	23,649	17.7
Other	16,801	12.6	16,929	12.7
Retail	15,772	11.9	15,857	11.9
Total commercial mortgage loans	130,546	98.2	131,157	98.2
Agricultural property loans	2,361	1.8	2,398	1.8
Total commercial mortgage and agricultural property loans	132,907	100.0 %	133,555	100.0 %
Allowance for credit losses	(466)		(440)	
Total net commercial mortgage and other loans	<u>\$ 132,441</u>		<u>\$ 133,115</u>	

As of March 31, 2021, the commercial mortgage and agricultural property loans were secured by properties geographically dispersed throughout the United States (with the largest concentrations in New York (14%), Florida (10%), Illinois (9%) and Texas (9%)) and included loans secured by properties in Europe (11%).

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

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

	Three Months Ended March 31,					
	2021			2020		
	Commercial Mortgage Loans	Agricultural Property Loans	Total	Commercial Mortgage Loans	Agricultural Property Loans	Total
	(in thousands)					
Allowance, beginning of period	\$ 440	\$ 0	\$ 440	\$ 164	\$ 1	\$ 165
Cumulative effect of adoption of ASU 2016-13	0	0	0	204	0	204
Addition to (release of) allowance for expected losses	26	0	26	73	0	73
Allowance, end of period	<u>\$ 466</u>	<u>\$ 0</u>	<u>\$ 466</u>	<u>\$ 441</u>	<u>\$ 1</u>	<u>\$ 442</u>

See Note 2 to the Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020 for additional information about the Company's methodology for developing our allowance and expected losses.

For the three months ended March 31, 2021, the increase in the allowance for credit losses on commercial mortgage and other loans was primarily related to net negative credit migration. For the three months ended March 31, 2020, the increase in the allowance for credit losses on commercial mortgage and other loans was primarily related to the cumulative effect of adoption of ASU 2016-13.

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:

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

March 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%	\$ 0	\$ 0	\$ 6,246	\$ 1,466	\$ 10,713	\$ 64,251	\$ 82,676	
60%-69.99%	0	2,198	27,745	0	1,016	12,153	43,112	
70%-79.99%	0	0	1,870	0	0	1,914	3,784	
80% or greater	0	0	0	0	974	0	974	
Total	<u>\$ 0</u>	<u>\$ 2,198</u>	<u>\$ 35,861</u>	<u>\$ 1,466</u>	<u>\$ 12,703</u>	<u>\$ 78,318</u>	<u>\$ 130,546</u>	
Debt Service Coverage Ratio:								
Greater or Equal to 1.2x	\$ 0	\$ 2,198	\$ 31,493	\$ 1,466	\$ 11,729	\$ 72,099	\$ 118,985	
1.0 - 1.2x	0	0	3,364	0	974	6,219	10,557	
Less than 1.0x	0	0	1,004	0	0	0	1,004	
Total	<u>\$ 0</u>	<u>\$ 2,198</u>	<u>\$ 35,861</u>	<u>\$ 1,466</u>	<u>\$ 12,703</u>	<u>\$ 78,318</u>	<u>\$ 130,546</u>	
Agricultural Property Loans								
Loan-to-Value Ratio:								
0%-59.99%	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,361	\$ 2,361	
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	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,361</u>	<u>\$ 2,361</u>	
Debt Service Coverage Ratio:								
Greater or Equal to 1.2x	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,361	\$ 2,361	
1.0 - 1.2x	0	0	0	0	0	0	0	
Less than 1.0x	0	0	0	0	0	0	0	
Total	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,361</u>	<u>\$ 2,361</u>	

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

December 31, 2020								
Amortized Cost by Origination Year								
	2020	2019	2018	2017	2016	Prior	Total	
(in thousands)								
Commercial Mortgage Loans								
Loan-to-Value Ratio:								
0%-59.99%	\$ 0	\$ 6,285	\$ 0	\$ 6,349	\$ 9,731	\$ 45,261	\$ 67,626	
60%-69.99%	2,198	27,970	1,478	5,381	3,191	18,533	58,751	
70%-79.99%	0	1,870	0	0	0	1,931	3,801	
80% or greater	0	0	0	979	0	0	979	
Total	<u>\$ 2,198</u>	<u>\$ 36,125</u>	<u>\$ 1,478</u>	<u>\$ 12,709</u>	<u>\$ 12,922</u>	<u>\$ 65,725</u>	<u>\$ 131,157</u>	
Debt Service Coverage Ratio:								
Greater or Equal to 1.2x	\$ 2,198	\$ 31,751	\$ 1,478	\$ 11,730	\$ 11,872	\$ 60,499	\$ 119,528	
1.0 - 1.2x	0	3,364	0	979	1,050	5,226	10,619	
Less than 1.0x	0	1,010	0	0	0	0	1,010	
Total	<u>\$ 2,198</u>	<u>\$ 36,125</u>	<u>\$ 1,478</u>	<u>\$ 12,709</u>	<u>\$ 12,922</u>	<u>\$ 65,725</u>	<u>\$ 131,157</u>	
Agricultural Property Loans								
Loan-to-Value Ratio:								
0%-59.99%	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,398	\$ 2,398	
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	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,398</u>	<u>\$ 2,398</u>	
Debt Service Coverage Ratio:								
Greater or Equal to 1.2x	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,398	\$ 2,398	
1.0 - 1.2x	0	0	0	0	0	0	0	
Less than 1.0x	0	0	0	0	0	0	0	
Total	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,398</u>	<u>\$ 2,398</u>	

See Note 2 to the Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020 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:

March 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)							
Commercial mortgage loans	\$ 130,546	\$ 0	\$ 0	\$ 0	\$ 130,546	\$ 0	
Agricultural property loans	2,361	0	0	0	2,361	0	
Total	<u>\$ 132,907</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 132,907</u>	<u>\$ 0</u>	

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

(2) For additional information regarding the Company's policies for accruing interest on loans, see Note 2 to the Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

	December 31, 2020					Total Loans	Non-Accrual Status(2)
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due(1)	(in thousands)		
Commercial mortgage loans	\$ 131,157	\$ 0	\$ 0	\$ 0	\$ 131,157	\$ 0	
Agricultural property loans	2,398	0	0	0	2,398	0	
Total	<u>\$ 133,555</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 133,555</u>	<u>\$ 0</u>	

(1) As of December 31, 2020, there were no loans in this category accruing interest.

(2) For additional information regarding the Company's policies for accruing interest on loans, see Note 2 to the Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

The Company did not have any commercial mortgage and other loans purchased with credit deterioration, as of both March 31, 2021 and December 31, 2020.

For both the three months ended March 31, 2021 and 2020, there were no commercial mortgage and other loans acquired, other than those through direct origination, and there were no commercial mortgage and other loans sold.

Other Invested Assets

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

	March 31, 2021	December 31, 2020
	(in thousands)	
Company's investment in separate accounts	\$ 3,373	\$ 3,269
LPs/LLCs:		
Equity method:		
Private equity	45,304	38,261
Hedge funds	34,050	33,773
Real estate-related	4,920	4,625
Subtotal equity method	84,274	76,659
Fair value:		
Private equity	567	590
Hedge funds	56	69
Real estate-related	2,208	2,141
Subtotal fair value	2,831	2,800
Total LPs/LLCs	87,105	79,459
Derivative instruments	12,656	14,781
Total other invested assets	<u>\$ 103,134</u>	<u>\$ 97,509</u>

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

Accrued Investment Income

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

	March 31, 2021	December 31, 2020
	(in thousands)	
Fixed maturities	\$ 15,458	\$ 15,178
Equity securities	92	1
Commercial mortgage and other loans	373	372
Policy loans	5,748	5,688
Short-term investments and cash equivalents	7	9
Total accrued investment income	<u>\$ 21,678</u>	<u>\$ 21,248</u>

There were no write-downs on accrued investment income for both the three months ended March 31, 2021 and 2020.

Net Investment Income

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

	Three Months Ended March 31,	
	2021	2020
	(in thousands)	
Fixed maturities, available-for-sale	\$ 15,966	\$ 14,162
Fixed maturities, trading	167	121
Equity securities	91	91
Commercial mortgage and other loans	1,267	1,402
Policy loans	2,827	2,876
Other invested assets	4,243	(1,045)
Short-term investments and cash equivalents	22	303
Gross investment income	24,583	17,910
Less: investment expenses	(1,038)	(945)
Net investment income	<u>\$ 23,545</u>	<u>\$ 16,965</u>

Realized Investment Gains (Losses), Net

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

	Three Months Ended March 31,	
	2021	2020
	(in thousands)	
Fixed maturities(1)	\$ (142)	\$ (601)
Commercial mortgage and other loans	(26)	(73)
Other invested assets	34	(60)
Derivatives	15,970	13,871
Short term investments and cash equivalents	(4)	(72)
Realized investment gains (losses), net	<u>\$ 15,832</u>	<u>\$ 13,065</u>

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim 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:

	March 31, 2021	December 31, 2020
	(in thousands)	
Fixed maturity securities, available-for-sale without an allowance	\$ 132,497	\$ 258,325
Derivatives designated as cash flow hedges(1)	(1,453)	(2,998)
Affiliated notes, available-for-sale	212	254
Other investments	307	143
Net unrealized gains (losses) on investments	<u>\$ 131,563</u>	<u>\$ 255,724</u>

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

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 March 31, 2021 and December 31, 2020, 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:

	March 31, 2021			December 31, 2020		
	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 public corporate securities	\$ 2,725	\$ 0	\$ 2,725	\$ 2,725	\$ 0	\$ 2,725
Total cash collateral for loaned securities(1)	<u>\$ 2,725</u>	<u>\$ 0</u>	<u>\$ 2,725</u>	<u>\$ 2,725</u>	<u>\$ 0</u>	<u>\$ 2,725</u>

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

4. DERIVATIVES AND HEDGING

Types of Derivative Instruments and Derivative Strategies

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

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

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

- Embedded derivatives

For detailed information on these contracts and the related strategies, see Note 4 to the Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

Primary Risks Managed by Derivatives

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

Primary Underlying Risk/Instrument Type	March 31, 2021			December 31, 2020		
	Gross Notional	Fair Value		Gross Notional	Fair Value	
		Assets	Liabilities		Assets	Liabilities
(in thousands)						
Derivatives Designated as Hedge Accounting Instruments:						
Currency/Interest Rate						
Foreign Currency Swaps	\$ 126,312	\$ 2,685	\$ (5,670)	\$ 126,806	\$ 2,404	\$ (7,017)
Total Derivatives Designated as Hedge Accounting Instruments:	<u>\$ 126,312</u>	<u>\$ 2,685</u>	<u>\$ (5,670)</u>	<u>\$ 126,806</u>	<u>\$ 2,404</u>	<u>\$ (7,017)</u>
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate						
Interest Rate Swaps	\$ 30,200	\$ 3,409	\$ 0	\$ 30,200	\$ 4,535	\$ 0
Credit						
Credit Default Swaps	0	0	0	713	0	(6)
Currency/Interest Rate						
Foreign Currency Swaps	33,224	2,230	(1,648)	33,224	2,374	(1,650)
Foreign Currency						
Foreign Currency Forwards	3,466	127	(2)	3,087	0	(96)
Equity						
Equity Options	454,675	41,498	(29,973)	441,725	41,582	(27,350)
Total Derivatives Not Qualifying as Hedge Accounting Instruments:	<u>\$ 521,565</u>	<u>\$ 47,264</u>	<u>\$ (31,623)</u>	<u>\$ 508,949</u>	<u>\$ 48,491</u>	<u>\$ (29,102)</u>
Total Derivatives(1)(2)	<u>\$ 647,877</u>	<u>\$ 49,949</u>	<u>\$ (37,293)</u>	<u>\$ 635,755</u>	<u>\$ 50,895</u>	<u>\$ (36,119)</u>

(1) Excludes embedded derivatives and associated reinsurance recoverables which contain multiple underlying risks. The fair value of these embedded derivatives was a net liability of \$661 million and \$1,195 million as of March 31, 2021 and December 31, 2020, respectively included in "Future policy benefits" and \$137 million and \$154 million as of March 31, 2021 and December 31, 2020, respectively included in "Policyholders' account balances". The fair value of the related reinsurance, included in "Reinsurance recoverables" or "Other liabilities" was an asset of \$661 million and \$1,195 million as of March 31, 2021 and December 31, 2020, respectively.

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

Offsetting Assets and Liabilities

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

	March 31, 2021				
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Statements of Financial Position	Net Amounts Presented in the Statements of Financial Position	Financial Instruments/ Collateral(1)	Net Amount
	(in thousands)				
Offsetting of Financial Assets:					
Derivatives(1)	\$ 49,949	\$ (37,293)	\$ 12,656	\$ (12,656)	\$ 0
Securities purchased under agreements to resell	0	0	0	0	0
Total Assets	\$ 49,949	\$ (37,293)	\$ 12,656	\$ (12,656)	\$ 0
Offsetting of Financial Liabilities:					
Derivatives(1)	\$ 37,293	\$ (37,293)	\$ 0	\$ 0	\$ 0
Securities sold under agreements to repurchase	0	0	0	0	0
Total Liabilities	\$ 37,293	\$ (37,293)	\$ 0	\$ 0	\$ 0
	December 31, 2020				
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Statements of Financial Position	Net Amounts Presented in the Statements of Financial Position	Financial Instruments/ Collateral(1)	Net Amount
	(in thousands)				
Offsetting of Financial Assets:					
Derivatives(1)	\$ 50,895	\$ (36,114)	\$ 14,781	\$ (14,572)	\$ 209
Securities purchased under agreements to resell	0	0	0	0	0
Total Assets	\$ 50,895	\$ (36,114)	\$ 14,781	\$ (14,572)	\$ 209
Offsetting of Financial Liabilities:					
Derivatives(1)	\$ 36,119	\$ (36,119)	\$ 0	\$ 0	\$ 0
Securities sold under agreements to repurchase	0	0	0	0	0
Total Liabilities	\$ 36,119	\$ (36,119)	\$ 0	\$ 0	\$ 0

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

For information regarding the rights of offset associated with the derivative assets and liabilities in the table above see “Credit Risk” below and Note 9. For securities purchased under agreements to resell and securities sold under agreements to repurchase, the Company monitors the value of the securities and maintains collateral, as appropriate, to protect against credit exposure. Where the Company has entered into repurchase and resale agreements with the same counterparty, in the event of default, the Company would generally be permitted to exercise rights of offset. For additional information on the Company’s accounting policy for securities repurchase and resale agreements, see Note 2 to the Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

Cash Flow Hedges

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

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

	Three Months Ended March 31, 2021				
	Realized Investment Gains (Losses)	Net Investment Income	Other Income	AOCI(1)	
	(in thousands)				
Derivatives Designated as Hedge Accounting Instruments:					
Cash flow hedges					
Currency/Interest Rate	\$ (8)	\$ 401	\$ 159	\$ 1,545	
Total cash flow hedges	(8)	401	159	1,545	
Derivatives Not Qualifying as Hedge Accounting Instruments:					
Interest Rate	(827)	0	0	0	
Currency	111	0	0	0	
Currency/Interest Rate	3	0	(6)	0	
Credit	(3)	0	0	0	
Equity	1,965	0	0	0	
Embedded Derivatives	14,729	0	0	0	
Total Derivatives Not Qualifying as Hedge Accounting Instruments:	15,978	0	(6)	0	
Total	\$ 15,970	\$ 401	\$ 153	\$ 1,545	

	Three Months Ended March 31, 2020			
	Realized Investment Gains (Losses)	Net Investment Income	Other Income	AOCI(1)
	(in thousands)			
Derivatives Designated as Hedge Accounting Instruments:				
Cash flow hedges				
Currency/Interest Rate	\$ 26	\$ 478	\$ 1,005	\$ 16,011
Total cash flow hedges	26	478	1,005	16,011
Derivatives Not Qualifying as Hedge Accounting Instruments:				
Interest Rate	1,839	0	0	0
Currency	73	0	0	0
Currency/Interest Rate	4,527	0	19	0
Credit	0	0	0	0
Equity	(10,384)	0	0	0
Embedded Derivatives	17,790	0	0	0
Total Derivatives Not Qualifying as Hedge Accounting Instruments:	13,845	0	19	0
Total	\$ 13,871	\$ 478	\$ 1,024	\$ 16,011

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

(1) Net change in AOCI.

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

	(in thousands)
Balance, December 31, 2020	\$ (2,998)
Amount recorded in AOCI	
Currency/Interest Rate	2,097
Total amount recorded in AOCI	2,097
Amount reclassified from AOCI to income	
Currency/Interest Rate	(552)
Total amount reclassified from AOCI to income	(552)
Balance, March 31, 2021	\$ (1,453)

The changes in fair value of cash flow hedges are deferred in AOCI and are included in "Net unrealized investment gains (losses)" in the Unaudited Interim Statements of Operations and Comprehensive Income (Loss); these amounts are then reclassified to earnings when the hedged item affects earnings. Using March 31, 2021 values, it is estimated that a pre-tax gain of \$1.5 million is expected to be reclassified from AOCI to earnings during the subsequent twelve months ending March 31, 2022.

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.

Credit Derivatives

The Company has no exposure from credit derivative positions where it has written credit protection as of March 31, 2021 and December 31, 2020.

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 \$0.7 million reported as of March 31, 2021 and December 31, 2020, respectively with a fair value of \$0 million for both periods.

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

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim 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.

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

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

For a discussion of the Company's valuation methodologies for assets and liabilities measured at fair value and the fair value hierarchy, see Note 5 to the Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim 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.

	March 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	\$ 11,464	\$ 0	\$	11,464
Obligations of U.S. states and their political subdivisions	0	178,462	0		178,462
Foreign government bonds	0	103,496	0		103,496
U.S. corporate public securities	0	892,430	0		892,430
U.S. corporate private securities	0	233,567	433		234,000
Foreign corporate public securities	0	79,005	0		79,005
Foreign corporate private securities	0	133,547	21,898		155,445
Asset-backed securities(2)	0	17,220	0		17,220
Commercial mortgage-backed securities	0	149,312	0		149,312
Residential mortgage-backed securities	0	3,504	0		3,504
Subtotal	0	1,802,007	22,331		1,824,338
Fixed maturities, trading	0	18,639	0		18,639
Equity securities	0	121	5,857		5,978
Cash equivalents	0	63,555	0		63,555
Other invested assets(3)	0	49,949	0	(37,293)	12,656
Reinsurance recoverables	0	0	660,533		660,533
Receivables from parent and affiliates	0	782	0		782
Subtotal excluding separate account assets	0	1,935,053	688,721	(37,293)	2,586,481
Separate account assets(4)(5)	0	15,041,532	0		15,041,532
Total assets	\$ 0	\$ 16,976,585	\$ 688,721	\$ (37,293)	\$ 17,628,013
Future policy benefits(6)	\$ 0	\$ 0	\$ 660,533	\$	660,533
Policyholders' account balances	0	0	136,773		136,773
Payables to parent and affiliates	0	37,293	0	(37,293)	0
Total liabilities	\$ 0	\$ 37,293	\$ 797,306	\$ (37,293)	\$ 797,306

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

	December 31, 2020				
	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	\$ 11,655	\$ 0	\$ 0	\$ 11,655
Obligations of U.S. states and their political subdivisions	0	182,626	0		182,626
Foreign government bonds	0	92,636	0		92,636
U.S. corporate public securities	0	949,585	0		949,585
U.S. corporate private securities	0	245,194	424		245,618
Foreign corporate public securities	0	70,347	0		70,347
Foreign corporate private securities	0	141,734	23,621		165,355
Asset-backed securities(2)	0	17,189	0		17,189
Commercial mortgage-backed securities	0	155,418	0		155,418
Residential mortgage-backed securities	0	3,766	0		3,766
Subtotal	0	1,870,150	24,045		1,894,195
Fixed maturities, trading	0	19,269	0		19,269
Equity securities	0	123	6,095		6,218
Cash equivalents	0	60,879	0		60,879
Other invested assets(3)	0	50,895	0	(36,114)	14,781
Reinsurance recoverables	0	0	1,195,469		1,195,469
Receivables from parent and affiliates	0	815	0		815
Subtotal excluding separate account assets	0	2,002,131	1,225,609	(36,114)	3,191,626
Separate account assets(4)(5)	0	15,044,796	0		15,044,796
Total assets	<u>\$ 0</u>	<u>\$ 17,046,927</u>	<u>\$ 1,225,609</u>	<u>\$ (36,114)</u>	<u>\$ 18,236,422</u>
Future policy benefits(6)	\$ 0	\$ 0	\$ 1,195,469	\$ 0	\$ 1,195,469
Policyholders' account balances	0	0	153,937		153,937
Payables to parent and affiliates	0	36,119	0	(36,119)	0
Total liabilities	<u>\$ 0</u>	<u>\$ 36,119</u>	<u>\$ 1,349,406</u>	<u>\$ (36,119)</u>	<u>\$ 1,349,406</u>

(1) "Netting" amounts represent cash collateral of \$0.0 million as of both March 31, 2021 and December 31, 2020.

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

(3) Other invested assets excluded from the fair value hierarchy include certain hedge funds, private equity funds and other funds for which fair value is measured at net asset value ("NAV") per share (or its equivalent) as a practical expedient. As of both March 31, 2021 and December 31, 2020, the fair values of such investments were \$2.8 million.

(4) 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 March 31, 2021 and December 31, 2020, the fair value of such investments was \$2,110 million and \$2,073 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 Unaudited Interim Statements of Financial Position.

(6) As of March 31, 2021, the net embedded derivative liability position of \$661 million includes \$80 million of embedded derivatives in an asset position and \$741 million of embedded derivatives in a liability position. As of December 31, 2020, the net embedded derivative liability position of \$1,195 million includes \$51 million of embedded derivatives in an asset position and \$1,246 million of embedded derivatives in a liability position.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

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

	March 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)	\$ 22,331	Discounted cash flow	Discount rate	2.31 %	5.06 %	2.71 %	Decrease
Reinsurance recoverables	\$ 660,533	Fair values are determined using the same unobservable inputs as future policy benefits.					
Liabilities:							
Future policy benefits(3)	\$ 660,533	Discounted cash flow	Lapse rate(5)	1 %	20 %		Decrease
			Spread over LIBOR(6)	0.09 %	1.14 %		Decrease
			Utilization rate(7)	39 %	96 %		Increase
			Withdrawal rate		See table footnote (8) below.		
			Mortality rate (9)	0 %	15 %		Decrease
			Equity volatility curve	17 %	25 %		Increase
Policyholders' account balances(4)	\$ 136,773	Discounted cash flow	Lapse rate(5)	1 %	6 %		Decrease
			Spread over LIBOR(6)	0.09 %	1.14 %		Decrease
			Mortality rate (9)	0 %	24 %		Decrease
			Equity volatility curve	14 %	27 %		Increase

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

	December 31, 2020						
	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)	\$ 24,045	Discounted cash flow	Discount rate	1.84 %	6.55 %	2.32 %	Decrease
Reinsurance recoverables	\$ 1,195,469	Fair values are determined using the same unobservable inputs as future policy benefits.					
Liabilities:							
Future policy benefits(3)	\$ 1,195,469	Discounted cash flow	Lapse rate(5)	1 %	20 %		Decrease
			Spread over LIBOR(6)	0.06 %	1.17 %		Decrease
			Utilization rate(7)	39 %	96 %		Increase
			Withdrawal rate		See table footnote(8) below.		
			Mortality rate(9)	0 %	15 %		Decrease
			Equity volatility curve	18 %	26 %		Increase
Policyholders' account balances(4)	\$ 153,937	Discounted cash flow	Lapse rate(5)	1 %	6 %		Decrease
			Spread over LIBOR(6)	0.06 %	1.17 %		Decrease
			Mortality rate (9)	0 %	24 %		Decrease
			Equity volatility curve	15 %	30 %		Increase

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

- (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.
- (3) Future policy benefits primarily represent general account liabilities for the living benefit features of the Company's variable annuity contracts which are accounted for as embedded derivatives. Since the valuation methodology for these liabilities uses a range of inputs that vary at the contract level over the cash flow projection period, presenting a range, rather than a weighted average, is a more meaningful representation of the unobservable inputs used in the valuation.
- (4) Policyholders' account balances primarily represent general account liabilities for the index-linked interest credited on certain of the Company's life 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.
- (5) 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.
- (6) The spread over the London Inter-Bank Offered Rate ("LIBOR") swap curve represents the premium added to the proxy for the risk-free rate (LIBOR) 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. 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.
- (7) 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.
- (8) 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 March 31, 2021 and December 31, 2020, the minimum withdrawal rate assumption is 76% and 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%.
- (9) The range reflects the mortality rates for the vast majority of business with living benefits and other contracts, with policyholders ranging from 45 to 90 years old. While the majority of living benefits have a minimum age requirement, certain other contracts do not have an age restriction. This results in contractholders with mortality rates approaching 0% for certain benefits. Mortality rates may vary by product, age and duration. A mortality improvement assumption is also incorporated into the overall mortality table.

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

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

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

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

Three Months Ended March 31, 2021											
	Fair Value, beginning of period	Total realized and unrealized gains (losses)(1)	Purchases	Sales	Issuances	Settlements	Other	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:											
Corporate securities(3)	\$ 24,045	\$ (1,714)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 22,331	\$ (1,713)
Other assets:											
Equity securities	6,095	(238)	0	0	0	0	0	0	0	5,857	(238)
Reinsurance recoverables	1,195,469	(562,720)	27,784	0	0	0	0	0	0	660,533	(551,773)
Liabilities:											
Future policy benefits	(1,195,469)	562,720	0	0	(27,784)	0	0	0	0	(660,533)	551,773
Policyholders' account balances(4)	(153,937)	14,042	0	0	0	3,122	0	0	0	(136,773)	16,277

Three Months Ended March 31, 2021							
Total realized and unrealized gains (losses)				Unrealized gains (losses) for assets still held(2)			
Realized investment gains (losses), net(1)	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)	
(in thousands)							
Fixed maturities, available-for-sale	\$ 0	\$ 0	(1,714)	\$ 0	\$ 0	\$ 0	(1,713)
Other assets:							
Equity securities	0	(238)	0	0	0	(238)	0
Reinsurance recoverables	(562,720)	0	0	0	(551,773)	0	0
Liabilities:							
Future policy benefits	562,720	0	0	0	551,773	0	0
Policyholders' account balances	14,042	0	0	0	16,277	0	0

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

	Three Months Ended March 31, 2020										
	Fair Value, beginning of period	Total realized and unrealized gains (losses)(1)	Purchases	Sales	Issuances	Settlements	Other	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:											
Corporate securities(3)	\$ 1,178	\$ (1,774)	\$ 0	\$ (860)	\$ 0	\$ 0	\$ 0	\$ 19,730	\$ 0	\$ 18,274	\$ (1,769)
Other assets:											
Equity securities	7,305	(465)	0	0	0	0	0	0	0	6,840	(465)
Reinsurance recoverables	760,558	1,081,663	26,318	0	0	0	0	0	0	1,868,539	1,089,808
Liabilities:											
Future policy benefits	(760,558)	(1,081,663)	0	0	(26,318)	0	0	0	0	(1,868,539)	(1,089,808)
Policyholders' account balances(4)	(133,793)	16,940	0	0	(6,755)	0	0	0	0	(123,608)	17,660

Three Months Ended March 31, 2020							
Total realized and unrealized gains (losses)				Unrealized gains (losses) for assets still held(2)			
Realized investment gains (losses), net(1)	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)	
(in thousands)							
Fixed maturities, available-for-sale	\$ 32	\$ 0	\$ (1,814)	\$ 8	\$ 0	\$ 0	\$ (1,769)
Other assets:							
Equity securities	0	(465)	0	0	0	(465)	0
Reinsurance recoverables	1,081,663	0	0	0	1,089,808	0	0
Liabilities:							
Future policy benefits	(1,081,663)	0	0	0	(1,089,808)	0	0
Policyholders' account balances	16,940	0	0	0	17,660	0	0

- (1) Realized investment gains (losses) on future policy benefits and reinsurance recoverables primarily represent the change in the fair value of the Company's living benefit guarantees on certain of its variable annuity contracts.
- (2) 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 and foreign corporate private securities.
- (4) Issuances and settlements for Policyholders' account balances are presented net in the rollforward.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

Fair Value of Financial Instruments

The table below presents 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 Unaudited Interim Statements of Financial Position. In some cases, as described below, the carrying amount equals or approximates fair value.

March 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	\$ 139,514	\$ 139,514	\$ 132,441
Policy loans	0	0	211,807	211,807	211,807
Cash and cash equivalents	7,650	0	0	7,650	7,650
Accrued investment income	0	21,678	0	21,678	21,678
Reinsurance recoverables	0	0	28,123	28,123	27,309
Receivables from parent and affiliates	0	32,602	0	32,602	32,602
Other assets	0	3,086	0	3,086	3,086
Total assets	<u>\$ 7,650</u>	<u>\$ 57,366</u>	<u>\$ 379,444</u>	<u>\$ 444,460</u>	<u>\$ 436,573</u>
Liabilities:					
Policyholders' account balances - investment contracts	\$ 0	\$ 226,881	\$ 40,410	\$ 267,291	\$ 266,477
Cash collateral for loaned securities	0	2,725	0	2,725	2,725
Payables to parent and affiliates	0	13,596	0	13,596	13,596
Other liabilities	0	69,271	0	69,271	69,271
Total liabilities	<u>\$ 0</u>	<u>\$ 312,473</u>	<u>\$ 40,410</u>	<u>\$ 352,883</u>	<u>\$ 352,069</u>

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

	December 31, 2020					
	Fair Value				Carrying Amount(1)	
	Level 1	Level 2	Level 3	Total	Total	
	(in thousands)					
Assets:						
Commercial mortgage and other loans	\$ 0	\$ 0	\$ 140,921	\$ 140,921	\$ 133,115	
Policy loans	0	0	212,163	212,163	212,163	
Cash and cash equivalents	7,648	0	0	7,648	7,648	
Accrued investment income	0	21,248	0	21,248	21,248	
Reinsurance recoverables	0	0	28,654	28,654	26,915	
Receivables from parent and affiliates	0	30,246	0	30,246	30,246	
Other assets	0	6,205	0	6,205	6,205	
Total assets	\$ 7,648	\$ 57,699	\$ 381,738	\$ 447,085	\$ 437,540	
Liabilities:						
Policyholders' account balances - investment contracts	\$ 0	\$ 220,527	\$ 41,341	\$ 261,868	\$ 260,128	
Cash collateral for loaned securities	0	2,725	0	2,725	2,725	
Payables to parent and affiliates	0	16,250	0	16,250	16,250	
Other liabilities	0	50,335	0	50,335	50,335	
Total liabilities	\$ 0	\$ 289,837	\$ 41,341	\$ 331,178	\$ 329,438	

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

6. REINSURANCE

The Company participates in reinsurance with its affiliates Prudential Arizona Reinsurance Captive Company ("PARCC"), Prudential Arizona Reinsurance Term Company ("PAR Term"), Prudential Arizona Reinsurance Universal Company ("PAR U"), Prudential Term Reinsurance Company ("Term Re") and Dryden Arizona Reinsurance Term Company ("DART"), its parent companies, Pruco Life and 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.

Realized investment gains and losses include the impact of reinsurance agreements, particularly reinsurance agreements involving living benefit guarantees. The Company has entered into a reinsurance agreement to transfer the risk related to living benefit guarantees on variable annuities to Prudential Insurance. These reinsurance agreements are derivatives and have been accounted for in the same manner as embedded derivatives and the changes in the fair value of these derivatives are recognized through "Realized investment gains (losses), net". See Note 4 for additional information related to the accounting for embedded derivatives.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

Reinsurance amounts included in the Company's Unaudited Interim Statements of Financial Position as of March 31, 2021 and December 31, 2020 were as follows:

	March 31, 2021	December 31, 2020
	(in thousands)	
Reinsurance recoverables	\$ 3,331,052	\$ 3,860,612
Policy loans	(21,220)	(21,466)
Deferred policy acquisition costs	(682,421)	(661,732)
Deferred sales inducements	(39,703)	(40,980)
Other assets	14,025	15,172
Other liabilities	117,088	127,234

Reinsurance recoverables by counterparty are broken out below:

	March 31, 2021	December 31, 2020
	(in thousands)	
Prudential Insurance	\$ 1,183,676	\$ 1,726,545
PAR U	1,136,200	1,119,545
PARCC	442,630	448,884
PAR Term	238,713	236,561
Term Re	235,709	232,398
DART	68,162	69,268
Pruco Life	22,253	24,744
Unaffiliated	3,709	2,667
Total reinsurance recoverables	<u>\$ 3,331,052</u>	<u>\$ 3,860,612</u>

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

Reinsurance amounts, included in the Company's Unaudited Interim Statements of Operations and Comprehensive Income (Loss) for the three months ended March 31, were as follows:

	Three Months Ended March 31,	
	2021	2020
	(in thousands)	
Premiums:		
Direct	\$ 64,350	\$ 64,633
Ceded	(56,791)	(59,439)
Net premiums	7,559	5,194
Policy charges and fee income:		
Direct	107,538	109,072
Ceded(1)	(79,220)	(85,103)
Net policy charges and fee income	28,318	23,969
Net investment income:		
Direct	23,753	17,192
Ceded	(208)	(227)
Net investment income	23,545	16,965
Asset administration fees:		
Direct	10,806	9,725
Ceded	(8,780)	(8,160)
Net asset administration fees	2,026	1,565
Realized investment gains (losses), net:		
Direct	577,847	(1,069,448)
Ceded	(562,015)	1,082,513
Realized investment gains (losses), net	15,832	13,065
Policyholders' benefits (including change in reserves):		
Direct	110,163	131,286
Ceded(2)	(91,328)	(114,600)
Net policyholders' benefits (including change in reserves)	18,835	16,686
Interest credited to policyholders' account balances:		
Direct	21,312	22,258
Ceded	(10,601)	(12,067)
Net interest credited to policyholders' account balances	10,711	10,191
Reinsurance expense allowances and general and administrative expenses, net of capitalization and amortization	(36,429)	(75,533)

(1) Includes \$0.0 million of unaffiliated activity for both the three months ended March 31, 2021 and 2020.

(2) Includes \$(1) million and \$1 million of unaffiliated activity for the three months ended March 31, 2021 and 2020, respectively.

The gross and net amounts of life insurance face amount in force as of March 31, 2021 and 2020 were as follows:

	2021	2020
	(in thousands)	
Direct gross life insurance face amount in force	\$ 154,519,117	\$ 149,522,280
Reinsurance ceded	(139,942,682)	(136,956,945)
Net life insurance face amount in force	\$ 14,576,435	\$ 12,565,335

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

Information regarding significant affiliated reinsurance agreements is described below.

Prudential Insurance

The Company has a yearly renewable term reinsurance agreement with Prudential Insurance and reinsures the majority of all mortality risks not otherwise reinsured. Effective July 1, 2017, this agreement was terminated for certain new business, primarily Universal Life business, and such business was reinsured to Pruco Life under a yearly renewable term reinsurance agreement. As of January 1, 2020, the remaining portions of new business (specifically Term policies) ceased being reinsured by the Company to Prudential Insurance, and a separate yearly renewable term reinsurance agreement was established with Pruco Life for Term policies. Effective April 1, 2016, the Company entered into a reinsurance agreement with Prudential Insurance to reinsure its variable annuity base contracts, along with the living benefit guarantees. As of December 31, 2020, the Company discontinued the sales of traditional variable annuities with guaranteed living benefit riders. This discontinuation has no impact on the reinsurance agreement between Prudential Insurance and the Company.

PAR U

Effective July 1, 2012, the Company reinsures an amount equal to 95% of all 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.

PARCC

The Company reinsures 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.

PAR Term

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.

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.

Pruco Life

Effective July 1, 2017, the Company entered into a yearly renewable term reinsurance agreement with Pruco Life for new business, primarily covering Universal Life policies. Effective January 1, 2020, the Company entered in a similar yearly renewable term reinsurance agreement with Pruco Life for new business relating to Term policies. Under these agreements the majority of all mortality risk is ceded to Pruco Life. The Company also reinsures certain Corporate Owned Life Insurance ("COLI") policies with Pruco Life. Through March 31, 2016, the Company reinsured Prudential Defined Income ("PDI") living benefit guarantees with Pruco Life. Effective April 1, 2016, the Company recaptured PDI living benefit guarantees from Pruco Life and reinsured them, together with the related variable annuity base contracts, with Prudential Insurance.

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.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

7. INCOME TAXES

The Company uses a full-year projected effective tax rate approach to calculate year-to-date taxes. In addition, certain items impacting total income tax expense are recorded in the periods in which they occur. The projected effective tax rate is the ratio of projected "Income tax expense (benefit)" divided by projected "Income (loss) from operations before income taxes". The interim period tax expense (or benefit) is the difference between the year-to-date income tax provision and the amounts reported for the previous interim periods of the fiscal year.

The Company's income tax provision amounted to an income tax expense of \$2.1 million, or 8.09% of income (loss) from operations before income taxes in the first three months of 2021, compared to \$1.7 million, or 10.47%, in the first three months of 2020. The Company's current and prior effective tax rates differed from the U.S. statutory tax rate of 21% primarily due to non-taxable investment income and tax credits.

8. EQUITY

Accumulated Other Comprehensive Income (Loss)

AOCI represents the cumulative OCI items that are reported separate from net income and detailed on the Unaudited Interim Statements of Operations and Comprehensive Income (Loss). The balance of and changes in each component of AOCI as of and for the three months ended March 31, 2021 and 2020, are as follows:

	Accumulated Other Comprehensive Income (Loss)		
	Foreign Currency Translation Adjustment	Net Unrealized Investment Gains (Losses)(1)	Total Accumulated Other Comprehensive Income (Loss)
	(in thousands)		
Balance, December 31, 2020	\$ (783)	\$ 186,190	\$ 185,407
Change in OCI before reclassifications	(108)	(113,151)	(113,259)
Amounts reclassified from AOCI	0	(410)	(410)
Income tax benefit (expense)	23	23,848	23,871
Balance, March 31, 2021	<u>\$ (868)</u>	<u>\$ 96,477</u>	<u>\$ 95,609</u>

	Accumulated Other Comprehensive Income (Loss)		
	Foreign Currency Translation Adjustment	Net Unrealized Investment Gains (Losses)(1)	Total Accumulated Other Comprehensive Income (Loss)
	(in thousands)		
Balance, December 31, 2019	\$ (981)	\$ 86,616	\$ 85,635
Change in OCI before reclassifications	(1)	(20,060)	(20,061)
Amounts reclassified from AOCI	0	(908)	(908)
Income tax benefit (expense)	0	4,404	4,404
Balance, March 31, 2020	<u>\$ (982)</u>	<u>\$ 70,052</u>	<u>\$ 69,070</u>

(1) Includes cash flow hedges of \$(1) million and \$(3) million as of March 31, 2021 and December 31, 2020, respectively, and \$19 million and \$3 million as of March 31, 2020 and December 31, 2019, respectively.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

Reclassifications out of Accumulated Other Comprehensive Income (Loss)

	Three Months Ended March 31,	
	2021	2020
	(in thousands)	
<u>Amounts reclassified from AOCI(1)(2):</u>		
Net unrealized investment gains (losses):		
Cash flow hedges - Currency/ Interest rate(3)	\$ 552	\$ 1,509
Net unrealized investment gains (losses) on available-for-sale securities	(142)	(601)
Total net unrealized investment gains (losses)(4)	410	908
Total reclassifications for the period	\$ 410	\$ 908

(1) All amounts are shown before tax.

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

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

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

Net Unrealized Investment Gains (Losses)

Net unrealized investment gains (losses) on available-for-sale fixed maturity securities and certain other invested assets and other assets are included in the Company's Unaudited Interim Statements of Financial Position as a component of AOCI. Changes in these amounts include reclassification adjustments to exclude from OCI those items that are included as part of "Net income" for a period that had been part of OCI in earlier periods. There are no amounts related to net unrealized investment gains (losses) on available-for-sale fixed maturity securities on which an allowance for credit losses has been recognized as of March 31, 2021. The amounts for the periods indicated below represent all other net unrealized investment gains (losses):

All Other Net Unrealized Investment Gains (Losses) in AOCI

	Net Unrealized Gains (Losses) on Investments(1)	DAC and Other Costs(2)	Future Policy Benefits, Policyholders' Account Balances and Other Liabilities(3)	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
Balance, December 31, 2020	\$ 255,724	\$ 28,241	\$ (48,283)	\$ (49,492)	\$ 186,190
Net investment gains (losses) on investments arising during the period	(123,751)	0	0	25,988	(97,763)
Reclassification adjustment for (gains) losses included in net income	(410)	0	0	86	(324)
Impact of net unrealized investment (gains) losses on DAC and other costs	0	(8,631)	0	1,813	(6,818)
Impact of net unrealized investment (gains) losses on future policy benefits, policyholders' account balances and other liabilities	0	0	19,231	(4,039)	15,192
Balance, March 31, 2021	\$ 131,563	\$ 19,610	\$ (29,052)	\$ (25,644)	\$ 96,477

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

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

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

9. RELATED PARTY TRANSACTIONS

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

Expense Charges and Allocations

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

The Company's general and administrative expenses are charged to the Company using allocation methodologies based on business production processes. Management believes that the methodology is reasonable and reflects costs incurred by Prudential Insurance to process transactions on behalf of the Company. The Company operates under service and lease agreements whereby services of officers and employees, supplies, use of equipment and office space are provided by Prudential Insurance. The Company reviews its allocation methodology periodically which it may adjust accordingly. General and administrative expenses include allocations of stock compensation expenses related to a stock-based awards program and a deferred compensation program issued by Prudential Financial. The expense charged to the Company for the stock-based awards program was \$0.0 million for both the three months ended March 31, 2021 and 2020. The expense charged to the Company for the deferred compensation program was \$0.2 million and \$0.3 million for the three months ended March 31, 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 \$0.3 million and \$0.6 million for the three months ended March 31, 2021 and 2020, respectively.

The Company is also charged for its share of the costs associated with welfare plans issued by Prudential Insurance. These expenses include costs related to medical, dental, life insurance and disability. The Company's share of net expense for the welfare plans was \$0.4 million and \$0.7 million for the three months ended March 31, 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 \$0.1 million and \$0.2 million for the three months ended March 31, 2021 and 2020, respectively.

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

The Company pays commissions and certain other fees to Prudential Annuities Distributors, Inc. ("PAD") in consideration for PAD's marketing and underwriting of the Company's annuity products. Commissions and fees are paid by PAD to broker-dealers who sell the Company's annuity products. Commissions and fees paid by the Company to PAD were \$9 million and \$17 million for the three months ended March 31, 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 \$2 million for both the three months ended March 31, 2021 and 2020.

Corporate-Owned Life Insurance

The Company has sold three 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 \$3,168 million at March 31, 2021 and \$3,071 million at December 31, 2020. Fees related to these COLI policies were \$7 million and \$8 million for the three months ended March 31, 2021 and 2020, respectively. The Company retains 10% of the mortality risk associated with these COLI policies up to \$0.1 million per individual policy.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

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 \$0.7 million and \$0.6 million for the three months ended March 31, 2021 and 2020, respectively. These expenses are recorded as "Net investment income" in the Company's Unaudited Interim Statements of Operations and Comprehensive Income (Loss).

Derivative Trades

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

Joint Ventures

The Company has made investments in joint ventures with certain subsidiaries of Prudential Financial. "Other invested assets" includes \$42 million and \$41 million as of March 31, 2021 and December 31, 2020, respectively. "Net investment income" related to these ventures includes a gain of \$0.8 million and a loss of \$1.7 million for the three months ended March 31, 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 \$9 million and \$8 million for the three months ended March 31, 2021 and 2020, respectively. These revenues are recorded as "Asset administration fees" in the Company's Unaudited Interim Statements of Operations and Comprehensive Income (Loss).

The Company has a revenue sharing agreement with PGIM Investments, whereby the Company receives fee income based on policyholders' separate account balances invested in The Prudential Series Fund. Income received from PGIM Investments related to this agreement was \$2 million and \$1 million for the three months ended March 31, 2021 and 2020, respectively. These revenues are recorded as "Asset administration fees" in the Company's Unaudited Interim Statements of Operations and Comprehensive Income (Loss).

Affiliated Notes Receivable

Affiliated notes receivable included in "Receivables from parent and affiliates" at March 31, 2021 and December 31, 2020 were as follows:

	<u>Maturity Date</u>	<u>Interest Rates</u>			<u>March 31, 2021</u>	<u>December 31, 2020</u>
					<u>(in thousands)</u>	
U.S. dollar fixed rate notes	2027	0.00%	-	14.85 %	\$ 782	\$ 815
Total long-term notes receivable - affiliated(1)					<u>\$ 782</u>	<u>\$ 815</u>

(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 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 \$0.0 million at both March 31, 2021 and December 31, 2020 and is included in "Other assets". Revenues related to these loans were \$0.0 million for both the three months ended March 31, 2021 and 2020, and are included in "Other income".

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim 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 three months ended March 31, 2021 and for the year ended December 31, 2020.

Affiliate	Date	Transaction	Security Type	Fair Value	Book Value	APIC, Net of Tax Increase/(Decrease)	Realized Investment Gain (Loss)
(in thousands)							
Prudential Insurance	April 2020	Purchase	Fixed Maturities	\$ 3,485	\$ 3,320	\$ (130)	\$ 0

Debt Agreements

The Company is authorized to borrow funds up to \$200 million from affiliates to meet its capital and other funding needs. As of March 31, 2021 and December 31, 2020, there was no debt outstanding.

The total interest expense to the Company related to loans payable to affiliates was \$0.0 million for both the three months ended March 31, 2021 and 2020.

Contributed Capital and Dividends

In March 2021, the Company received a capital contribution in the amount of \$1 million from Pruco Life. In March 2020, the Company received a capital contribution in the amount of \$85 million from Pruco Life.

Through March 2021 and December 2020, the Company did not pay any dividends to Pruco Life.

Reinsurance with Affiliates

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

10. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

The Company has made commitments to fund commercial mortgage loans. As of March 31, 2021, the outstanding balance on these commitments was \$2 million and no outstanding balance as of December 31, 2020. These amounts include unfunded commitments that are not unconditionally cancellable. For related credit exposure, there was no allowance for credit losses as of March 31, 2021 or December 31, 2020. For the three months ended March 31, 2021, there was no change in allowance and a change of \$0.0 million for the three months ended March 31, 2020. The Company has made commitments to purchase or fund investments, mostly private fixed maturities. As of March 31, 2021 and December 31, 2020, \$69 million and \$74 million, respectively, of these commitments were outstanding. The amounts include unfunded commitments that are not unconditionally cancellable. There were no related charges for credit losses for the three months ended March 31, 2021 or 2020.

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.

For additional discussion of these matters, see "Litigation and Regulatory Matters" below.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

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.

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 March 31, 2021, 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 \$10 million. This estimate is not an indication of expected loss, if any, or the Company's maximum possible loss exposure on such matters. The Company reviews relevant information with respect to its litigation and regulatory matters on a quarterly and annual basis and updates its accruals, disclosures and estimates of reasonably possible loss based on such reviews.

The following discussion of litigation and regulatory matters provides an update of those matters discussed in Note 14 to the Company's Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, and should be read in conjunction with the complete descriptions provided in the Form 10-K.

Regulatory

Variable Products

The Company has received regulatory inquiries and requests for information from state and federal regulators, including a subpoena 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.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") addresses the financial condition of Pruco Life Insurance Company of New Jersey, or the "Company," as of March 31, 2021, compared with December 31, 2020, and its results of operations for the three months ended March 31, 2021 and 2020. You should read the following analysis of our financial condition and results of operations in conjunction with the MD&A, the "Risk Factors" section, and the audited Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, as well as the statements under "Forward-Looking Statements", and the Unaudited Interim Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.

Overview

The Company is licensed to sell variable annuities, universal life insurance, variable life insurance and term life insurance in New Jersey and New York. The Company only sells such products in New York primarily through affiliated and unaffiliated distributors. As of December 31, 2020, the Company discontinued the sales of traditional variable annuities with guaranteed living benefit riders.

COVID-19

Beginning in the first quarter of 2020, the outbreak of the novel coronavirus ("COVID-19") created extreme stress and disruption in the global economy and financial markets and elevated mortality and morbidity experience for the global population. The pandemic continues to impact our results of operations in the current period and is expected to continue to be a driver of future impacts to our results of operations. The Company has taken several measures to manage the impacts of this crisis. The actual and expected impacts of these events and other items are included in the following update:

- *Outlook.* We expect COVID-19 to continue to contribute to elevated levels of mortality, resulting in increased life insurance claims in the near-term. In addition, while we have seen strong sales of key products, social distancing associated with COVID-19 could adversely impact sales prospects in the near-term.
- *Results of Operations.* For the three months ended March 31, 2021 we reported a net income of \$24 million. See "Results of Operations" for a discussion of results for the first quarter of 2021.
- *Risk Factors.* The COVID-19 pandemic has adversely impacted our results of operations, financial position, investment portfolio, new business opportunities and operations, and these impacts are expected to continue. For additional information on the risks to our business posed by the COVID-19 pandemic, see "Risk Factors" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.
- *Business Continuity.* Throughout the COVID-19 pandemic, we have been executing Prudential Financial Inc.'s ("Prudential Financial") and our business continuity protocols to ensure our employees are safe and able to serve our customers. This included effectively transitioning the vast majority of our employees to remote work arrangements.

We believe we can sustain remote work and social distancing for an indefinite period while ensuring that critical business operations are sustained. In addition, we are managing COVID-19-related impacts on third-party provided services, and do not anticipate significant interruption in critical operations.

Impact of a Low Interest Rate Environment

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

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

For more information on interest rate risks, see “Risk Factors—Market Risk” included in our Annual Report on Form 10-K for the year ended December 31, 2020.

Revenues and Expenses

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

Accounting Policies & Pronouncements

Application of Critical Accounting Estimates

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

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

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

Market Performance - Equity and Interest Rate Assumptions

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

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

The weighted average rate of return assumptions used in developing estimated market returns consider many factors specific to each product type, including asset durations, asset allocations and other factors. With regard to equity market assumptions, the near-term future rate of return assumption used in evaluating DAC, other costs and liabilities for future policy benefits for certain of our products, primarily our domestic variable annuity and variable life insurance products, is generally updated each quarter and is derived using a reversion to the mean approach, a common industry practice. Under this approach, we consider historical equity returns and adjust projected equity returns over an initial future period of five years (the “near-term”) so that equity returns converge to the long-term expected rate of return. If the near-term projected future rate of return is greater than our near-term maximum future rate of return of 15.0%, we use our maximum future rate of return. If the near-term projected future rate of return is lower than our near-term minimum future rate of return of 0%, we use our minimum future rate of return. As of March 31, 2021, our variable annuities and variable life insurance businesses assume an 8.0% long-term equity expected rate of return and a 0.7% near-term mean reversion equity expected rate of return.

With regard to interest rate assumptions used in evaluating DAC, DSI and liabilities for future policy benefits for certain of our products, we generally update the long-term and near-term future rates used to project fixed income returns annually and quarterly, respectively. As a result of our 2020 annual reviews and update of assumptions and other refinements, which were performed in the second quarter, we reduced our long-term expectation of the 10-year U.S. Treasury rate by 50 basis points and now 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 a discussion of the impact that could result from changes in certain key assumptions, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Accounting Policies and Pronouncements—Sensitivities for Insurance Assets and Liabilities” in our Annual Report on Form 10-K for the year ended December 31, 2020.

Future Adoption of New Accounting Pronouncements

ASU 2018-12, *Financial Services - Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*, was issued by the Financial Accounting Standards Board (“FASB”) on August 15, 2018 and is expected to have a significant impact on the Financial Statements and Notes to the Financial Statements. In October 2019, the FASB issued ASU 2019-09, *Financial Services - Insurance (Topic 944): Effective Date* to affirm its decision to defer the effective date of ASU 2018-12 to January 1, 2022 (with early adoption permitted), representing a one year extension from the original effective date of January 1, 2021. As a result of the COVID-19 pandemic, in November 2020 the FASB issued ASU 2020-11, *Financial Services—Insurance (Topic 944): Effective Date and Early Application* to defer for an additional one year the effective date of ASU 2018-12 from January 1, 2022 to January 1, 2023, and to provide transition relief to facilitate the early adoption of the ASU. The transition relief would allow large calendar-year public companies that early adopt ASU 2018-12 to apply the guidance either as of January 1, 2020 or January 1, 2021 (and record transition adjustments as of January 1, 2020 or January 1, 2021, respectively) in the 2022 financial statements. Companies that do not early adopt ASU 2018-12 would apply the guidance as of January 1, 2021 (and record transition adjustments as of January 1, 2021) in the 2023 financial statements. The Company currently intends to adopt ASU 2018-12 effective January 1, 2023. ASU 2018-12 will impact, at least to some extent, the accounting and disclosure requirements for all long-duration insurance and investment contracts issued by the Company. In addition to the impacts to the balance sheet upon transition, the Company also expects an impact to the pattern of earnings emergence following the transition date. See Note 2 to the Unaudited Interim Financial Statements for a more detailed discussion of ASU 2018-12, as well as other accounting pronouncements issued but not yet adopted and newly adopted accounting pronouncements.

Changes in Financial Position

Total assets decreased \$0.5 billion from \$23.7 billion at December 31, 2020 to \$23.2 billion at March 31, 2021. Significant components were:

- Reinsurance recoverables decreased \$530 million primarily related to the variable annuity reinsured living benefit liabilities resulting from rising interest rates and favorable equity market performance;

Partially offset by:

- Separate account assets increased \$34 million primarily driven by favorable equity market performance offset by net outflows and policy charges.

Total liabilities decreased \$0.4 billion from \$22.8 billion at December 31, 2020 to \$22.4 at March 31, 2021. Significant components were:

- Future policy benefits decreased \$545 million primarily driven by a decrease in reserves related to our variable annuity living benefit liabilities, as discussed above;

Partially offset by:

- Separate account liabilities increased \$34 million, corresponding to the increase in Separate account assets, as discussed above.

Total equity decreased \$65 million from \$865 million at December 31, 2020 to \$800 million at March 31, 2021 primarily driven by unrealized losses on fixed maturity investments driven by rising interest rates reflected in accumulated other comprehensive income, partially offset by an after-tax net income of \$24 million.

Results of Operations

Income (loss) from Operations before Income Taxes

Three Months Comparison

Income (loss) from operations before income taxes increased \$10 million from \$16 million for the three months ended March 31, 2020 to \$26 million for the three months ended March 31, 2021 primarily driven by:

- Higher Net investment income due to higher invested assets from the retained Life business, partially offset by lower reinvestment yields; and
- Higher Policy charges and fee income due to favorable equity markets driving increased variable life account values and higher amortization from unearned revenue reserves due to business growth;

Partially offset by:

- Higher Policyholders' benefits from continued growth in retained products driving higher mortality; and
- Higher Amortization of deferred policy acquisition costs driven by business growth primarily from variable life sales.

Revenues, Benefits and Expenses

Three Months Comparison

Revenues increased \$18 million from a gain of \$59 million for the three months ended March 31, 2020 to a gain of \$77 million for the three months ended March 31, 2021 primarily driven by:

- Higher Net investment income due to higher invested assets from the retained Life business, partially offset by lower reinvestment yields; and
- Higher Policy charges and fee income due to favorable equity markets driving increased variable life account values and higher amortization from unearned revenue reserves due to business growth.

Benefits and expenses increased \$8 million from an expense of \$43 million for the three months ended March 31, 2020 to an expense of \$51 million for the three months ended March 31, 2021 primarily driven by:

- Higher General, administrative and other expenses driven by an unfavorable comparative impact from commission and expense allowance ceded due to lower sales partially offset by lower expenses due to company initiatives; and
- Higher Policyholders' benefits from continued growth in retained products driving higher mortality.

Risks and Risk Mitigants

Variable Annuity Risks and Risk Mitigants:

The primary risk exposures of our variable annuity contracts relate to actual deviations from, or changes to, the assumptions used in the original pricing of these products, including capital markets assumptions such as equity market returns, interest rates and market volatility, along with actuarial assumptions such as contractholder mortality, the timing and amount of annuitization and withdrawals, and contract lapses. For these risk exposures, achievement of our expected returns is subject to the risk that actual experience will differ from the assumptions used in the original pricing of these products. Prudential Financial manages our exposure to certain risks driven by fluctuations in capital markets primarily through a combination of Product Design Features and an Asset Liability Management Strategy ("ALM"), as discussed below. Sales of traditional variable annuities with guaranteed living benefit riders have been discontinued as of December 31, 2020.

Product Design Features:

A portion of the variable annuity contracts that we offered 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 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):

Prudential Insurance employs an ALM strategy that utilizes a combination of both traditional fixed income instruments and derivatives to meet expected liabilities associated with our variable annuity living benefit guarantees. The economic liability we manage with this ALM strategy consists of expected living benefit claims under less severe market conditions, which are managed using fixed income instruments, derivatives, or a combination thereof, and potential living benefit claims resulting from more severe market conditions, which are hedged using derivative instruments. For 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, Prudential Insurance enters into a range of exchange-traded and over-the-counter equity and interest rate derivatives, including, but not limited to: equity and treasury futures; total return 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. Since the ALM strategy is conducted in Prudential Insurance, the results of the strategy do not directly impact the Company's results of operations or financial condition.

Income Taxes

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

Liquidity and Capital Resources

This section supplements and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" included in our Annual Report on Form 10-K for the year ended December 31, 2020.

Overview

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

Effective and prudent liquidity and capital management is a priority across the organization. Management monitors the liquidity of the Company on a daily basis and projects borrowing and capital needs over a multi-year time horizon. We use a Risk Appetite Framework ("RAF") to ensure that all risks taken by the Company aligns 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, leverage, liquidity, stress-testing, overall risk management, credit exposure reporting and credit concentration. For information on these regulatory initiatives and their potential impact on us, see "Business—Regulation" and "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2020.

Capital

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

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

Captive Reinsurance Companies:

See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources-Capital-Affiliated Captive Reinsurance Companies" included in our Annual Report on Form 10-K for the year ended December 31, 2020, for a discussion of our use of captive reinsurance companies.

Liquidity

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

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

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

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

Liquid Assets

Liquid assets include cash and cash equivalents, short-term investments, U.S. Treasury fixed maturities, and fixed maturities that are not designated as held-to-maturity and public equity securities. As of March 31, 2021 and December 31, 2020, the Company had liquid assets of \$1,920 million and \$1,988 million, respectively. The portion of liquid assets comprised cash and cash equivalents was \$71 million and \$69 million as of March 31, 2021 and December 31, 2020, respectively. As of March 31, 2021, \$1,750 million, or 96%, of the fixed maturity investments in the Company's general account portfolios, were rated high or highest quality based on NAIC or equivalent rating.

Term and Universal Life Reserve Financing

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

As of March 31, 2021, the affiliated captive reinsurance companies have entered into agreements with external counterparties providing for the issuance of up to an aggregate of \$14,700 million of surplus notes by our affiliated captive reinsurers in return for the receipt of credit-linked notes ("Credit-Linked Note Structures"), of which \$12,644 million of surplus notes was outstanding, compared to an aggregate issuance capacity of \$14,825 million, of which \$12,919 million was outstanding as of December 31, 2020. Under the agreements, the affiliated captive receives in exchange for the surplus notes one or more credit-linked notes issued by a special-purpose affiliate of the Company with an aggregate principal amount equal to the surplus notes outstanding. The affiliated captive holds the credit-linked notes as assets supporting Regulation XXX or Guideline AXXX non-economic reserves, as applicable. For more information on our Credit-Linked Note Structures, see "Management's Discussion and Analysis of Financial Condition and Results of Operation—Liquidity and Capital Resources—Financing Activities" in the Annual Report on Form 10-K for the year ended December 31, 2020.

As of March 31, 2021, our affiliated captive reinsurance companies had outstanding an aggregate of \$2,775 million of debt issued for the purpose of financing Regulation XXX and Guideline AXXX non-economic reserves, of which approximately \$1,175 million relates to Regulation XXX reserves and approximately \$1,600 million relates to Guideline AXXX reserves. In addition, as of March 31, 2021, 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. Certain elements of the implementation of principle-based reserving are yet to be finalized by the NAIC and may have a material impact on statutory reserves. The Company continues to assess the impact of the implementation of principle-based reserving on projected statutory reserve levels, product pricing and the use of financing.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY
Notes to Unaudited Interim Financial Statements—(Continued)

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of fluctuations in the value of financial instruments as a result of absolute or relative changes in interest rates, foreign currency exchange rates, equity prices or commodity prices. To varying degrees, our products and services, and the investment activities supporting them, generate exposure to market risk. The market risk incurred, and our strategies for managing this risk, vary by product. As of March 31, 2021, there have been no material changes in our economic exposure to market risk from December 31, 2020, a description of which may be found in our Annual Report on Form 10-K, for the year ended December 31, 2020, Item 7A, “Quantitative and Qualitative Disclosures about Market Risk,” filed with the Securities and Exchange Commission. See Item 1A, “Risk Factors” included in the Annual Report on Form 10-K for the year ended December 31, 2020, for a discussion of how difficult conditions in the financial markets and the economy generally may materially adversely affect our business and results of our operations.

Item 4. Controls and Procedures

In order to ensure that the information we must disclose in our filings with the SEC is recorded, processed, summarized, and reported on a timely basis, the Company’s management, including our Chief Executive Officer and Chief Financial Officer, have reviewed and evaluated the effectiveness of our disclosure controls and procedures, as defined in Securities Exchange Act of 1934, as amended (“Exchange Act”) Rule 13a-15(e), as of March 31, 2021. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2021, our disclosure controls and procedures were effective. No change in our internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), occurred during the quarter ended March 31, 2021, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

You should carefully consider the risks described under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2020. These risks could materially affect our business, results of operations or financial condition, cause the trading price of our Common Stock to decline materially or cause our actual results to differ materially from those expected or those expressed in any forward-looking statements made by, or on behalf of, the Company. These risks are not exclusive, and additional risks to which we are subject include, but are not limited to, the factors mentioned under “Forward-Looking Statements” and the risks of our businesses described elsewhere in this Quarterly Report on Form 10-Q.

Item 6. Exhibits

EXHIBIT INDEX

[31.1 Section 302 Certification of the Chief Executive Officer](#)

[31.2 Section 302 Certification of the Chief Financial Officer](#)

[32.1 Section 906 Certification of the Chief Executive Officer](#)

[32.2 Section 906 Certification of the Chief Financial Officer](#)

101.INS - XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

101.SCH - XBRL Taxonomy Extension Schema Document.

101.CAL - XBRL Taxonomy Extension Calculation Linkbase Document

101.LAB - XBRL Taxonomy Extension Label Linkbase Document

101.PRE - XBRL Taxonomy Extension Presentation Linkbase Document

101.DEF - XBRL Taxonomy Extension Definition Linkbase Document

104.Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

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

Pruco Life Insurance Company of New Jersey

By:	<u>/s/ Susan M. Mann</u>
Name:	Susan M. Mann
	Vice President and Chief Financial Officer
	(Authorized Signatory and Principal Financial Officer)

Date: May 12, 2021

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

I, Dylan J. Tyson, certify that:

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

Date: May 12, 2021

/s/ Dylan J. Tyson

Dylan J. Tyson

President and Chief Executive Officer

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER

I, Susan M. Mann, certify that:

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

Date: May 12, 2021

/s/ Susan M. Mann

Susan M. Mann

Vice President and Chief Financial Officer

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

Pursuant to 18 U.S.C. § 1350, I, Dylan J. Tyson, President and Chief Executive Officer of Pruco Life Insurance Company of New Jersey (the “Company”), hereby certify that the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2021 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 12, 2021

/s/ Dylan J. Tyson

Dylan J. Tyson
President and Chief Executive Officer

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

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER

Pursuant to 18 U.S.C. § 1350, I, Susan M. Mann, Vice President and Chief Financial Officer of Pruco Life Insurance Company of New Jersey (the “Company”), hereby certify that the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2021 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 12, 2021

/s/ Susan M. Mann

Susan M. Mann

Vice President and Chief Financial Officer

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