

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

FORM 8-K

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

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

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

New Jersey
(State or other jurisdiction of
incorporation or organization)

333-18053
(Commission File Number)

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

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

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

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

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

Title of each class
Not Applicable

Trading Symbol
Not Applicable

Name of each exchange on which registered
Not Applicable

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

Emerging growth company ☐

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

Item 8.01 - Other Events

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

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

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

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

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

Item 9.01 - Financial Statements and Exhibits

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

<u>Exhibit No.</u>	<u>Description</u>
23.1	Consent of PricewaterhouseCoopers LLP.
99.1	Updates made related to the adoption of ASU 2018-12 to the Company's Annual Report on Form 10-K for the year ended December 31, 2022: – Updated Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Updated Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Updated Part II, Item 8. Financial Statements and Supplementary Data
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

SIGNATURE

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

Pruco Life Insurance Company of New Jersey

By: /s/ Robert E. Boyle

Name: Robert E. Boyle

Vice President and Chief Financial Officer

(Authorized Signatory and Principal Financial Officer)

Date: July 14, 2023

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-249295, 333-249228, 333-249227 and 333-267233) of Pruco Life Insurance Company of New Jersey of our report dated March 20, 2023, except for the change in the manner in which the Company accounts for long-duration insurance contracts discussed in Note 2 to the financial statements and the *Adoption of the New Accounting Standard for LDTI* Critical Audit Matter, as to which the date is July 14, 2023, relating to the financial statements, which appears in this Current Report on Form 8-K.

/s/ PricewaterhouseCoopers LLP

New York, New York
July 14, 2023

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

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

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.

Annually during the second quarter of each year, we perform a comprehensive review of actuarial assumptions. As part of this review, we may update these assumptions and make refinements to our models based upon emerging experience, future expectations and other data, including any observable market data. For additional information, see "Accounting Policies & Pronouncements—Application of Critical Accounting Estimates" below.

COVID-19

Since the first quarter of 2020, the novel coronavirus ("COVID-19") pandemic has caused extreme stress and disruption in the global economy and financial markets and elevated mortality and morbidity for the global population. The COVID-19 pandemic impacted our results of operations in the current period and could continue to impact our results of operations in future periods.

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

Revenues and Expenses

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

Industry Trends

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

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

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

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

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

Current Market Conditions

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

Impact of Changes in the Interest Rate Environment

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

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

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

Accounting Policies & Pronouncements

Application of Critical Accounting Estimates

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

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

Insurance Liabilities

Future Policy Benefits

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

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

- For some long-duration contracts, we utilize a net premium valuation methodology in measuring the liability for future policy benefits. Under this methodology, the Company accrues a liability for future policy benefits when premium revenue is recognized. The liability represents the present value of expected future benefits to be paid to or on behalf of policyholders and related non-level claim settlement expenses less the present value of expected future net premiums (portion of the gross premium required to provide for all benefits and related non-level claim settlement expenses using current best estimate assumptions). A net-to-gross (“NTG”) ratio is calculated as the ratio of the present value of expected policy benefits and non-level claim settlement expenses divided by the present value of expected gross premiums. The NTG ratio is applied to gross premiums, as premium revenue is recognized, to determine net premiums that are subtracted from the present value of expected benefits and non-level claim settlement expenses to determine the liability for future policy benefits, which cannot be less than zero. The NTG ratio at the cohort measurement unit level cannot exceed 100%, and if it exceeds 100%, the excess benefit expenses are recorded as a charge to current period earnings. The result of the net premium valuation methodology is that the liability at any point in time represents an accumulation of the portion of premiums received to date expected to fund future benefits (i.e., net premiums received to date), less any benefits and expenses already paid. The liability does not necessarily reflect the full policyholder obligation the Company expects to pay at the conclusion of the contract since a portion of that obligation would be funded by net premiums received in the future and would be recognized in the liability at that time. The insurance cash flow projections are updated quarterly to reflect actual experience and are generally updated annually to reflect changes in best estimate future insurance assumptions using a retrospective unlocking method with the impact recorded through current period earnings. At the time of an experience or best estimate assumption unlocking, a revised NTG ratio is calculated using actual historical cash flow experience and updated, if any, best estimate future cash flow projections, discounted using the locked-in discount rate. The revised NTG ratio is then applied to prior period cashflows to derive a cumulative catch-up adjustment as of the beginning of the quarter. The revised NTG ratio is then used going forward to accrue the reserve, until the next unlocking. The liability is also remeasured each quarter using a current discount rate, based on an upper medium grade fixed-income instrument yield, with the impact recorded through accumulated other comprehensive income. Expense assumptions included in the liability only include claim related expenses and exclude acquisition costs and non-claim related costs such as costs relating to investments, general administration, policy maintenance, product development, market research, and general overhead. For limited-payment contracts, a deferred profit liability (“DPL”) is established for the amount of gross premiums received in excess of expected net premiums and is amortized into premium income in relation to the discounted amount of insurance in force for life insurance or expected benefit payments for annuity contracts. The DPL is subject to a retrospective unlocking adjustment consistent with the liability for future policy benefits.
- For certain contract features, such as no-lapse guarantees, a liability is established when associated assessments (which include investment margin on policyholders’ account balances in the general account and policy charges for administration, mortality, expense, surrender, and other charges) are recognized. This liability is established using current best estimate assumptions and is based on the ratio of the present value of total expected excess payments (e.g., payments in excess of account value) over the life of the contract divided by the present value of total expected assessments (i.e., benefit ratio). The liability equals the current benefit ratio multiplied by cumulative assessments recognized to date, plus interest, less cumulative excess payments to date. The liability does not necessarily reflect the full policyholder obligation the Company expects to pay at the conclusion of the contract since a portion of that excess payment would be funded by assessments received in the future and would be recognized in the liability at that time. The reserves are subject to adjustments based on annual reviews of assumptions and quarterly adjustments for experience as described below, including market performance. These adjustments reflect the impact on the benefit ratio of using actual historical experience from the issuance date to the balance sheet date plus updated estimates of future experience. The updated benefit ratio is then applied to all prior periods’ assessments to derive an adjustment to the reserve recognized through a benefit or charge to current period earnings.
- For universal life type contracts and participating contracts, the Company performs premium deficiency tests using best estimate assumptions, at a minimum, on an annual basis, and on a quarterly basis for business whose profitability is closely tied to equity market performance. If the current net reserves are less than the best estimate liability, the existing net reserves are adjusted by first reducing the associated deferred sales inducements (“DSI”) by the amount of the deficiency or to zero through a charge to current period earnings. If the deficiency is more than the DSI for insurance contracts, the net reserves are increased by the excess through a charge to current period earnings. Since investment yields are used as the discount rate, the premium deficiency test is also performed using a discount rate based on the market yield (i.e., assuming what would be the impact if any unrealized gains (losses) were realized as of the testing date). In the event that by using the market yield a deficiency occurs, an adjustment is established for the deficiency and is included in “Accumulated other comprehensive income (loss)” (“AOCI”).

Annual assumptions review and quarterly adjustments

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

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

The quarterly adjustments for market performance referred to above reflect the impact of changes to our estimate of future rates of returns on investments to reflect actual fund performance and market conditions. A portion of returns on investments for our variable life contracts are dependent upon the total rate of return on assets held in separate account investment options. This rate of return influences the fees we earn and expected claims to be paid on variable life contracts, as well as other sources of profit. Returns that are higher than our expectations for a given period produce higher than expected account balances, which increase the future fees we expect to earn on variable life contracts and decrease expected claims to be paid on variable life contracts. The opposite occurs when returns are lower than our expectations.

The weighted average rate of return assumptions used in developing estimated market returns consider many factors specific to each product type, including asset durations, asset allocations and other factors. With regard to equity market assumptions, the near-term future rate of return assumption used in evaluating liabilities for future policy benefits for certain of our products, primarily our domestic variable life insurance products, is generally updated each quarter and is derived using a reversion to the mean approach, a common industry practice. Under this approach, we consider historical equity returns and adjust projected equity returns over an initial future period of five years (the "near-term") so that equity returns converge to the long-term expected rate of return. If the near-term projected future rate of return is greater than our near-term maximum future rate of return of 15.0%, we use our maximum future rate of return. If the near-term projected future rate of return is lower than our near-term minimum future rate of return of 0%, we use our minimum future rate of return. As of December 31, 2022, our variable life insurance businesses assume an 8.0% long-term equity expected rate of return and a 5.5% near-term mean reversion equity expected rate of return.

With regard to interest rate assumptions used in evaluating liabilities for future policy benefits for certain of our products, we generally update the long-term and near-term future rates used to project fixed income returns annually and quarterly, respectively. As a result of our 2022 annual reviews and update of assumptions and other refinements, we kept our long-term expectation of the U.S. Treasury rate unchanged and continue to grade to a rate of 3.25% over ten years. As part of our quarterly market experience updates, we update our near-term projections of interest rates to reflect changes in current rates. For additional information regarding discount rates used to establish the liability for future policy benefits, see Note 2 to the Financial Statements.

Policyholders' Account Balances

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

Market Risk Benefits

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

Sensitivities for Insurance Assets and Liabilities

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

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

	December 31, 2022	
	Increase (Decrease) in Net Income due to changes in Future Policy Benefits, Market Risk Benefits(1), and Policyholders' Account Balances, Net of Reinsurance	
	(in millions)	
Hypothetical change in current assumptions:		
Long-term interest rate:		
Increase by 25 basis points	\$	0
Decrease by 25 basis points	\$	0
Long-term equity expected rate of return:		
Increase by 50 basis points	\$	0
Decrease by 50 basis points	\$	0
Mortality:		
Increase by 1%	\$	5
Decrease by 1%	\$	(5)
Lapse(2)(3):		
Increase by 10%	\$	15
Decrease by 10%	\$	(15)

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

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

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

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

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

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

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

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

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

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

Taxes on Income

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

An increase or decrease in our effective tax rate by one percentage point would have resulted in a decrease or increase in our 2022 "Income tax expense (benefit)" of \$1.0 million.

The CARES Act. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted into law. One provision of the CARES Act amends the Tax Act of 2017 and allows companies with net operating losses ("NOLs") originating in 2018, 2019 or 2020 to carry back those losses up to five years. For 2020, the Company recorded an income tax benefit of \$7 million from carrying the 2020 NOL back to tax years that have a 35% tax rate.

Contingencies

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

Adoption of New Accounting Pronouncements

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

As of the January 1, 2021 transition date, the adoption of the standard resulted in a decrease to "Total equity" of \$67 million, primarily from remeasuring in force contract liabilities using upper-medium grade fixed income instrument yields as of the transition date and from other changes in reserves. As of the January 1, 2023 adoption date, the impact amounted to a decrease to "Total equity" of \$2 million. The changes in the impacts from January 1, 2021 to January 1, 2023 primarily reflect the increase in market interest rates during 2021 and 2022. See Note 2 to the Financial Statements for a more detailed discussion of ASU 2018-12, as well as other accounting pronouncements issued but not yet adopted and newly adopted accounting pronouncements.

Changes in Financial Position

2022 to 2021 Annual Comparison

Total assets decreased \$4.4 billion from \$25.0 billion at December 31, 2021 to \$20.6 billion at December 31, 2022. Significant components were:

- Separate account assets decreased \$4.0 billion primarily driven by unfavorable equity market performance, increase in interest rates and net outflows;
- Market risk benefit assets decreased \$0.4 billion primarily related to the MRB reserves resulting from a decrease in future expected benefit payments from rising interest rates; and

Total liabilities decreased \$4.5 billion from \$24.1 billion at December 31, 2021 to \$19.6 billion at December 31, 2022. Significant components were:

- Separate account liabilities decreased \$4.0 billion, corresponding to the decrease in Separate account assets, as discussed above; and
- Market risk benefit liabilities decreased \$0.4 billion primarily driven by a decrease in MRB reserves, as discussed above.

Total equity increased \$117 million primarily driven by \$325 million of capital contributions from Pruco Life Insurance Company to fund additional reserve requirements, partially offset by a \$138 million decrease in other comprehensive income (loss), net of tax primarily driven by net unrealized losses on fixed maturity investments from rising interest rates, and a net loss of \$70 million.

Results of Operations

Income (loss) from Operations before Income Taxes

2022 to 2021 Annual Comparison

Income (loss) from operations before income taxes decreased \$196 million from income of \$95 million in 2021 to a loss of \$101 million in 2022. This includes an unfavorable comparative net loss of \$15 million from our annual reviews and update of assumptions and other refinements. Excluding the impact of our annual reviews and update of assumptions and other refinements, income decreased \$181 million primarily driven by:

- Lower Change in value of market risk benefits, net of related hedging gain (loss), from ceded NPR.

Revenues, Benefits and Expenses

2022 to 2021 Annual Comparison

Revenues decreased \$183 million from a net gain of \$251 million in 2021 to a net gain of \$68 million in 2022. This includes an unfavorable comparative net decrease of \$1 from our annual reviews and update of assumptions and other refinements, as mentioned above. Excluding the impact of our annual reviews and update of assumptions and other refinements, Revenues decreased \$182 million primarily driven by:

- Lower Change in value of market risk benefits, net of related hedging gain (loss), from ceded NPR.

Benefits and expenses increased \$13 million from an expense of \$156 million in 2021 to an expense of \$169 million in 2022. This includes an unfavorable comparative net increase of \$14 million from our annual reviews and update of assumptions and other refinements, as mentioned above. Excluding the impact of our annual reviews and update of assumptions and other refinements, the decrease was \$1 million primarily driven by:

- Lower Policyholders' benefits driven by favorable impacts from reinsurance on life products.

Mostly offset by:

- Higher General, administrative and other expenses driven by an increase in corporate allocated overhead expenses; and
- Higher Interest credited to policyholders' account balances due to higher crediting rates and business growth.

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. See "Business—Products" section in the Company's Annual Report on Form 10-K for more information about these products.

Product Design Features:

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

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

We employ an ALM strategy that utilizes a combination of both traditional fixed income instruments and derivatives to meet expected liabilities associated with our 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 ("PDI") variable annuity, we utilize fixed income instruments to meet expected liabilities. For the portion of our ALM strategy executed with derivatives, we enter into a range of exchange-traded and over-the-counter equity, interest rate and credit derivatives, including, but not limited to: equity and treasury futures; total return, credit default and interest rate swaps; and options including equity options, swaptions, and floors and caps. The intent of this strategy is to more efficiently manage the capital and liquidity associated with these products while continuing to mitigate fluctuations in net income due to movements in capital markets. To achieve this, we periodically review and recalibrate the ALM strategy by optimizing the mix of derivatives and fixed income instruments to achieve expected outcomes.

Income Taxes

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

	Year Ended December 31,		
	2022	2021	2020
	(\$ in millions)		
Expected federal income tax expense (benefit) at federal statutory rate(1)	\$ (21)	\$ 20	\$ 9
Non-taxable investment income	(6)	(6)	(6)
Tax credits	(3)	(3)	(2)
Changes in tax law	0	0	(7)
Other	0	1	0
Reported income tax expense (benefit)	\$ (31)	\$ 11	\$ (6)
Effective tax rate(1)	30.6 %	11.6 %	(15.1) %

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

Effective Tax Rate

The effective tax rate is the ratio of “Income tax expense (benefit)” divided by “Income (loss) from operations before income taxes.” Our effective tax rate for fiscal years 2022, 2021 and 2020 was 30.6%, 11.6% and (15.1)%, respectively. For a detailed description of the nature of each significant reconciling item, see Note 12 to the Financial Statements.

Unrecognized Tax Benefits

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

Income Tax Expense vs. Income Tax Paid in Cash

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

For additional information regarding income tax related items, see “Business—Regulation” in the Company's Annual Report on Form 10-K and Note 12 to the Financial Statements.

Liquidity and Capital Resources

Overview

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

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

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

Capital

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

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

Captive Reinsurance Companies

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

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

Liquidity

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

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

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

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

Liquid Assets

Liquid assets include cash and cash equivalents, short-term investments, U.S. Treasury fixed maturities, fixed maturities that are not designated as held-to-maturity, and public equity securities. As of December 31, 2022 and 2021, the Company had liquid assets of \$1,987 million and \$2,088 million, respectively. The portion of liquid assets comprised cash and cash equivalents and short-term investments was \$263 million and \$146 million as of December 31, 2022 and 2021, respectively. As of December 31, 2022, \$1,673 million, or 97%, of the fixed maturity investments in the Company's general account portfolios were rated high or highest quality based on NAIC or equivalent rating.

Financing Activities

Term and Universal Life Reserve Financing

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

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

As of December 31, 2022, the affiliated captive reinsurance companies have entered into agreements with external counterparties providing for the issuance of up to an aggregate of \$16,050 million of surplus notes by our affiliated captive reinsurers in return for the receipt of credit-linked notes ("Credit-Linked Note Structures"), of which \$14,070 million of surplus notes was outstanding, compared to an aggregate issuance capacity of \$14,600 million, of which \$12,721 million was outstanding as of December 31, 2021. These amounts reflect an increased Credit Link Note Structure expanded in December 2022 for Guideline AXXX reserves, of which \$2,100 million was outstanding as of December 31, 2022. Under the agreements, the affiliated captive receives in exchange for the surplus notes one or more credit-linked notes issued by a special-purpose affiliate of the Company with an aggregate principal amount equal to the surplus notes outstanding. The affiliated captive holds the credit-linked notes as assets supporting Regulation XXX or Guideline AXXX non-economic reserves, as applicable. The captive can redeem the principal amount of the outstanding credit-linked notes for cash upon the occurrence of, and in an amount necessary to remedy, a specified liquidity stress event affecting the captive. Under the agreements, the external counterparties have agreed to fund any such payments under the credit-linked notes in return for the receipt of fees. Under certain of the transactions, Prudential Financial has agreed to make capital contributions to the captive to reimburse it for investment losses in excess of specified amounts and/or has agreed to reimburse the external counterparties for any payments made under the credit-linked notes. To date, no such payments under the credit-linked notes have been required. Under these transactions, because valid rights of set-off exist, interest and principal payments on the surplus notes and on the credit-linked notes are settled on a net basis, and the surplus notes are reflected in the Company's total consolidated borrowings on a net basis.

As of December 31, 2022, our affiliated captive reinsurance companies had outstanding an aggregate of \$3,025 million of debt issued for the purpose of financing Regulation XXX and Guideline AXXX non-economic reserves, of which approximately \$925 million relates to Regulation XXX reserves and approximately \$2,100 million relates to Guideline AXXX reserves. In addition, as of December 31, 2022, for purposes of financing Guideline AXXX reserves, one of our affiliated captives had approximately \$3,982 million of surplus notes outstanding that were issued to affiliates.

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

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

Effective April 1, 2016, the Company reinsured variable annuity base contracts, along with the living benefit guarantees, to Prudential Insurance under a coinsurance and modified coinsurance agreement. This reinsurance agreement covers new and in-force business. As of December 31, 2020, the Company discontinued the sales of traditional variable annuities with guaranteed living benefit riders which has no impact on the reinsurance agreement. Additionally, the living benefit hedging program related to the living benefit guarantees as well as the product risks for retained and reinsured businesses are being managed within Prudential Insurance.

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

Market Risk Management

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

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

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

Market Risk Mitigation

Risk mitigation takes three primary forms:

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

Market Risk Related to Interest Rates

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

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

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

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

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

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

	As of December 31, 2022			As of December 31, 2021		
	Notional	Fair Value	Hypothetical Change in Fair Value	Notional	Fair Value	Hypothetical Change in Fair Value
	(in millions)					
Financial assets with interest rate risk:						
Fixed maturities(1)		\$ 1,743	\$ (166)		\$ 1,972	\$ (213)
Policy loans		212	0		211	0
Commercial mortgage and other loans		142	(7)		122	(5)
Derivatives:						
Swaps	\$ 171	16	(2)	\$ 190	9	(1)
Options	509	(20)	0	489	(2)	0
Forwards	8	0	0	5	0	0
Market risk benefits(2)		(398)	216		(797)	430
Indexed universal life contracts		(108)	17		(153)	25
Total embedded derivatives(3)		(506)	233		(950)	455
Financial liabilities with interest rate risk(4):						
Policyholders' account balances-investment contracts		217	1		244	1
Insurance liabilities with interest rate risk:						
Benefit reserves (traditional and limited-payment contracts) (2)(5)		1,151	102		1,420	126
Net estimated potential gain			<u>\$ 161</u>			<u>\$ 363</u>

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

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

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

(4) Excludes \$4 billion and \$3 billion as of December 31, 2022 and 2021, respectively, of certain insurance reserve and deposit liabilities that are not considered financial liabilities. We believe that the interest rate sensitivities of these insurance liabilities would serve as an offset to the net interest rate risk of the financial assets and financial liabilities, including investment contracts.

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

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

Market Risk Related to Equity Prices

We have exposure to equity price risk through our investments in equity securities, equity-based derivatives, MRBs and embedded derivatives associated with index-linked crediting features of indexed universal life contracts. As discussed above, our variable annuity optional living benefits accounted for as MRBs are generally reinsured to an affiliate as part of our risk management strategy. Changes in equity prices may impact other items including, but not limited to, the following:

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

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

We estimate our equity risk from a hypothetical 10% decline in equity benchmark levels. As of December 31, 2022, excluding the MRBs associated with variable annuity contracts (generally reinsured to an affiliate as part of our risk management strategy as discussed above), the impact from this hypothetical scenario was primarily from embedded derivatives associated with indexed universal life contracts of fair value and hypothetical change in fair value of \$(108) million and \$3 million, respectively. While this scenario is for illustrative purposes only and does not reflect our expectations regarding future performance of equity markets, it does represent near-term, reasonably possible hypothetical changes that illustrate the potential impact of such event.

Market Risk Related to Foreign Currency Exchange Rates

The Company does not have significant market risk exposure to foreign exchange rates.

Derivatives

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

Market Risk Related to Certain Variable Annuity Products

The primary risk exposures of our variable annuity contracts relate to actual deviations from, or changes to, the assumptions used in the original pricing of these products, including capital market assumptions, such as equity market returns, interest rates and market volatility, and actuarial assumptions. For our capital market assumptions, we hedge or limit our exposure to the risk created by capital market fluctuations through affiliated reinsurance. Certain variable annuity optional living benefit features are accounted for as MRBs and recorded at fair value.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY FINANCIAL STATEMENTS INDEX

	Page
<u>Report of Independent Registered Public Accounting Firm (PCAOB ID 238)</u>	<u>18</u>
<u>Statements of Financial Position as of December 31, 2022 and 2021</u>	<u>21</u>
<u>Statements of Operations and Comprehensive Income (Loss) for the years ended December 31, 2022, 2021 and 2020</u>	<u>22</u>
<u>Statements of Equity for the years ended December 31, 2022, 2021 and 2020</u>	<u>23</u>
<u>Statements of Cash Flows for the years ended December 31, 2022, 2021 and 2020</u>	<u>24</u>
<u>Notes to Financial Statements:</u>	<u>25</u>
<u>1. Business and Basis of Presentation</u>	<u>26</u>
<u>2. Significant Accounting Policies and Pronouncements</u>	<u>34</u>
<u>3. Investments</u>	<u>53</u>
<u>4. Derivatives and Hedging</u>	<u>63</u>
<u>5. Fair Value of Assets and Liabilities</u>	<u>69</u>
<u>6. Deferred Policy Acquisition Costs and Deferred Reinsurance</u>	<u>82</u>
<u>7. Separate Accounts</u>	<u>83</u>
<u>8. Liability for Future Policy Benefits</u>	<u>84</u>
<u>9. Policyholders' Account Balances</u>	<u>91</u>
<u>10. Market Risk Benefits</u>	<u>95</u>
<u>11. Reinsurance</u>	<u>96</u>
<u>12. Income Taxes</u>	<u>100</u>
<u>13. Equity</u>	<u>102</u>
<u>14. Statutory Net Income and Surplus and Dividend Restriction</u>	<u>104</u>
<u>15. Related Party Transactions</u>	<u>105</u>
<u>16. Commitments and Contingent Liabilities</u>	<u>108</u>

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

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

Changes in Accounting Principles

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

Basis for Opinion

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

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

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

Critical Audit Matters

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

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

As described above and in Notes 1, 2, and 5 to the financial statements, the Company adopted the new LDTI standard effective January 1, 2023, using the modified retrospective transition method for changes to the liability for future policy benefits and deferred acquisition costs (DAC) and related balances, and using the full retrospective transition method for market risk benefits. Management applied the guidance as of the transition date of January 1, 2021 and retrospectively adjusted prior period amounts for the years ended December 31, 2022 and 2021. As of the January 1, 2021 transition date, the adoption of the standard resulted in a decrease to total equity of \$67 million, and a decrease to retained earnings of \$58 million and a decrease to accumulated other comprehensive income of \$9 million, respectively. The adjustments to retrospectively adjust prior period amounts resulted in a decrease to retained earnings of \$154 million and a decrease of \$33 million and an increase to accumulated other comprehensive income of \$152 million and a decrease of \$29 million as of December 31, 2022 and 2021, respectively, and a decrease to net income of \$121 million and an increase of \$25 million for the years ended December 31, 2022 and 2021, respectively. The adjustments as of January 1, 2021 and for the years ended December 31, 2022 and 2021 include the remeasuring of in force contract liabilities using upper-medium grade fixed income instrument yields as reported in future policy benefits. The liability for future policy benefits is determined as the present value of expected future policy benefits and non-level claim settlement expenses less the present value of expected future net premiums. The discount rate assumptions are based on an upper medium grade fixed income instrument yield, which is updated each quarter with the impact recorded through other comprehensive income. The methodology used in constructing the discount rate curve for this liability is intended to be reflective of the characteristics of the applicable insurance liabilities, maximizing the use of relevant observable information and minimizing the use of unobservable information in determining the discount rate assumptions.

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

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the financial statements. These procedures included, among others, (i) evaluating management's process for adopting the LDTI standard and for determining the adjustments as of January 1, 2021 and December 31, 2022 and 2021, (ii) testing the relevance and reliability of the external data used by management to develop the discount rate curve, (iii) evaluating whether the discount rate curve is accurately reflected in the model, and (iv) the use of professionals with specialized skill and knowledge to assist in evaluating the appropriateness of the discount rate methodology and the reasonableness of the discount rate curve based on the Company's historical and actual experience, industry trends, and market conditions, as applicable.

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

As described in Notes 2, 5, 7 and 8 (not presented herein) to the financial statements (appearing under Item 8 of the Company's 2022 Annual Report on Form 10-K), the Company issues certain life insurance products that include certain contract features, including no-lapse guarantees. The liability for no-lapse guarantee features is grouped with guaranteed minimum death benefit ("GMDB") features in Note 8 (as accounted for in the original issuance not presented herein). For GMDB contract features additional policyholder liabilities are established when associated assessments are recognized. As disclosed in the original issuance, the additional liability for these contract features was \$560 million recorded within the liability for future policy benefits as of December 31, 2022. As disclosed by management in the original issuance, this liability is established using current best estimate assumptions, including mortality rates, lapse rates, and premium pattern rates, as well as interest rate and equity market return assumptions, and is based on the ratio of the present value of total expected excess payments (i.e., payments in excess of account value) over the life of the contract divided by the present value of total expected assessments (i.e., benefit ratio). The liability equals the current benefit ratio multiplied by cumulative assessments recognized to date, plus interest, less cumulative excess payments to date. As described above and in Note 2, subsequent to the original issuance of the December 31, 2022 financial statements, the Company adopted the new accounting standard for LDTI. The new standard clarified the definition of assessments used to accrue additional insurance reserves, primarily for no-lapse guarantee features on certain universal life contracts.

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

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

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

As described in Notes 2 and 6 (not presented herein) to the financial statements (appearing under Item 8 of the Company's 2022 Annual Report on Form 10-K), the Company defers acquisition costs that relate directly to the successful acquisition of new and renewal insurance to the extent such costs are deemed recoverable from future profits (as accounted for in the original issuance). As disclosed in the original issuance, a significant portion of the \$364 million of deferred policy acquisition costs ("DAC") as of December 31, 2022 are associated with universal life and variable life products. DAC related to universal life and variable life products is generally amortized over the expected life of the contracts in proportion to gross profits arising principally from investment margins, mortality and expense margins, and surrender charges. These margins are updated periodically based on historical and anticipated future experience. The DAC balance is regularly adjusted with a corresponding charge or credit to current period earnings for the impact of actual gross profits and changes in management's projections of estimated future gross profits. DAC is subject to periodic recoverability testing. As described above and in Note 2, subsequent to the original issuance of the December 31, 2022 financial statements, the Company adopted the new accounting standard for LDTI. As a result of the adoption of this standard, in the reissued financial statements DAC is amortized on a constant level basis over the expected term of the contract.

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

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

/s/ PricewaterhouseCoopers LLP

New York, New York

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

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

Pruco Life Insurance Company of New Jersey
Statements of Financial Position
December 31, 2022 and 2021 (in thousands, except share amounts)

	December 31, 2022	December 31, 2021
ASSETS		
Fixed maturities, available-for-sale, at fair value (allowance for credit losses: 2022 – \$363; 2021 – \$1,558) (amortized cost: 2022 – \$1,990,718; 2021 – \$1,762,211)	\$ 1,719,488	\$ 1,935,598
Fixed maturities, trading, at fair value (amortized cost: 2022 – \$27,566; 2021 – \$36,863)	23,782	36,456
Equity securities, at fair value (cost: 2022 – \$4,614; 2021 – \$4,660)	4,358	5,937
Policy loans	212,063	210,730
Short-term investments	7,000	9,997
Commercial mortgage and other loans (net of \$408 and \$246 allowance for credit losses at December 31, 2022 and December 31, 2021, respectively)	148,179	115,576
Other invested assets (includes \$2,389 and \$10,027 of assets measured at fair value at December 31, 2022 and 2021, respectively)	129,528	124,327
Total investments	2,244,398	2,438,621
Cash and cash equivalents	255,767	136,316
Deferred policy acquisition costs(1)	351,874	308,744
Accrued investment income	25,222	22,539
Reinsurance recoverables(1)	3,098,248	3,175,195
Receivables from parent and affiliates	19,348	21,438
Income tax assets(1)	67,615	22,153
Market risk benefit assets(1)	558,624	940,706
Other assets(1)	48,391	48,867
Separate account assets	13,926,958	17,922,367
TOTAL ASSETS	\$ 20,596,445	\$ 25,036,946
LIABILITIES AND EQUITY		
LIABILITIES		
Policyholders' account balances(1)	\$ 2,774,315	\$ 2,699,934
Future policy benefits(1)	2,130,042	2,361,123
Market risk benefit liabilities(1)	558,624	940,706
Payables to parent and affiliates	7,546	2,432
Other liabilities(1)	172,305	201,033
Separate account liabilities	13,926,958	17,922,367
Total liabilities	19,569,790	24,127,595
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 16)		
EQUITY		
Common stock (\$5 par value; 400,000 shares authorized; issued and outstanding)	2,000	2,000
Additional paid-in capital	775,412	450,102
Retained earnings(1)	285,433	355,262
Accumulated other comprehensive income (loss)(1)	(36,190)	101,987
Total equity	1,026,655	909,351
TOTAL LIABILITIES AND EQUITY	\$ 20,596,445	\$ 25,036,946

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

See Notes to Financial Statements

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

	2022	2021	2020
REVENUES			
Premiums(1)	\$ 33,708	\$ 28,749	\$ 21,660
Policy charges and fee income(1)	57,734	72,162	74,202
Net investment income	98,392	100,491	82,995
Asset administration fees	8,480	8,875	6,744
Other income (loss)	(2,153)	781	6,365
Realized investment gains (losses), net(1)	13,835	515	1,871
Change in value of market risk benefits, net of related hedging gain (loss)(1)	(142,046)	39,670	0
TOTAL REVENUES	67,950	251,243	193,837
BENEFITS AND EXPENSES			
Policyholders' benefits(1)	28,189	40,779	41,887
Change in estimates of liability for future policy benefits(1)	16,631	2,819	0
Interest credited to policyholders' account balances	47,578	43,004	44,096
Amortization of deferred policy acquisition costs(1)	19,290	18,198	18,119
General, administrative and other expenses(1)	56,865	50,727	47,703
TOTAL BENEFITS AND EXPENSES	168,553	155,527	151,805
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES	(100,603)	95,716	42,032
Income tax expense (benefit)(1)	(30,774)	11,093	(6,339)
NET INCOME (LOSS)	\$ (69,829)	\$ 84,623	\$ 48,371
Other comprehensive income (loss), before tax:			
Foreign currency translation adjustments	(336)	(259)	250
Net unrealized investment gains (losses)(1)	(376,485)	(67,261)	126,043
Interest rate remeasurement of future policy benefits(1)	59,867	13,404	0
Gain (loss) from changes in non-performance risk on market risk benefits(1)	142,046	(39,669)	0
Total	(174,908)	(93,785)	126,293
Less: Income tax expense (benefit) related to other comprehensive income (loss)(1)	(36,731)	(19,694)	26,521
Other comprehensive income (loss), net of taxes	(138,177)	(74,091)	99,772
Comprehensive income (loss)	\$ (208,006)	\$ 10,532	\$ 148,143

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

See Notes to Financial Statements

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

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, December 31, 2019	\$ 2,000	\$ 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		(4,398)			(4,398)
Comprehensive income (loss):					
Net income (loss)			48,371		48,371
Other comprehensive income (loss), net of tax				99,772	99,772
Total comprehensive income (loss)					148,143
Balance, December 31, 2020	2,000	348,735	328,450	185,407	864,592
Cumulative effect of adoption of ASU 2018-12			(57,811)	(9,329)	(67,140)
Contributed capital		101,300			101,300
Contributed (distributed) capital- parent/child asset transfers		67			67
Comprehensive income (loss):					
Net income (loss)			84,623		84,623
Other comprehensive income (loss), net of tax				(74,091)	(74,091)
Total comprehensive income (loss)					10,532
Balance, December 31, 2021(2)	2,000	450,102	355,262	101,987	909,351
Contributed capital		326,700			326,700
Contributed (distributed) capital- parent/child asset transfers		(1,390)			(1,390)
Comprehensive income (loss):					
Net income (loss)			(69,829)		(69,829)
Other comprehensive income (loss), net of tax				(138,177)	(138,177)
Total comprehensive income (loss)					(208,006)
Balance, December 31, 2022(2)	\$ 2,000	\$ 775,412	\$ 285,433	\$ (36,190)	\$ 1,026,655

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

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

See Notes to Financial Statements

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

	2022	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)(1)	\$ (69,829)	\$ 84,623	\$ 48,371
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Policy charges and fee income(1)	(3,182)	6,705	(24,935)
Interest credited to policyholders' account balances	47,578	43,004	44,096
Realized investment (gains) losses, net(1)	(13,835)	(515)	(1,871)
Change in value of market risk benefits, net of related hedging (gains) losses(1)	142,046	(39,670)	0
Change in:			
Future policy benefits and other insurance liabilities(1)	422,975	315,782	289,417
Reinsurance recoverables(1)	(365,401)	(116,031)	(272,450)
Accrued investment income	(2,683)	(1,291)	(1,709)
Net payables to/receivables from parent and affiliates	3,073	(4,223)	(8,567)
Deferred policy acquisition costs(1)	(43,130)	(64,526)	(58,425)
Income taxes(1)	(8,362)	4,550	(8,215)
Derivatives, net	4,514	25,229	5,305
Other, net(1)(2)	(102,980)	(123,099)	(9,467)
Cash flows from (used in) operating activities	10,784	130,538	1,550
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from the sale/maturity/prepayment of:			
Fixed maturities, available-for-sale	101,647	101,100	60,422
Fixed maturities, trading	6,251	580	0
Equity securities	45	0	3,591
Policy loans	28,786	28,007	26,439
Ceded policy loans	(1,687)	(1,827)	(1,434)
Short-term investments	9,997	32	0
Commercial mortgage and other loans	18,108	21,360	14,559
Other invested assets	3,014	6,414	1,908
Payments for the purchase/origination of:			
Fixed maturities, available-for-sale	(335,123)	(226,125)	(181,796)
Fixed maturities, trading	0	(19,724)	(3,497)
Equity securities	(182)	0	(2)
Policy loans	(21,782)	(17,769)	(19,774)
Ceded policy loans	2,033	1,770	3,602
Short-term investments	(7,000)	(9,997)	0
Commercial mortgage and other loans	(51,654)	(3,912)	(3,978)
Other invested assets	(16,508)	(23,513)	(11,046)
Notes receivable from parent and affiliates, net	(36)	(33)	1,391
Derivatives, net	3,806	1,301	505
Other, net	4,053	(785)	149
Cash flows from (used in) investing activities	(256,232)	(143,121)	(108,961)

	2022	2021	2020
CASH FLOWS FROM FINANCING ACTIVITIES:			
Policyholders' account deposits	496,074	559,970	529,874
Ceded policyholders' account deposits	(313,962)	(331,276)	(347,786)
Policyholders' account withdrawals	(384,210)	(514,729)	(327,130)
Ceded policyholders' account withdrawals	240,291	248,163	248,680
Net change in securities sold under agreement to repurchase and cash collateral for loaned securities	0	(2,725)	244
Contributed capital	325,400	100,000	0
Contributed (distributed) capital - parent/child asset transfers	(1,759)	85	(165)
Net change in financing arrangements (maturities 90 days or less)	0	0	(89)
Drafts outstanding	5,501	(1,804)	9,111
Other, net	(2,436)	22,688	7,275
Cash flows from (used in) financing activities	364,899	80,372	120,014
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	119,451	67,789	12,603
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	136,316	68,527	55,924
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 255,767	\$ 136,316	\$ 68,527
SUPPLEMENTAL CASH FLOW INFORMATION			
Income taxes paid (refund)	\$ (22,412)	\$ 6,543	\$ 1,880
Interest paid	\$ 0	\$ 18	\$ 18

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

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

Significant Non-Cash Transactions

There were no significant non-cash transactions for the years ended December 31, 2022 and 2021. The Company received \$85 million of non-cash assets from its parent, Pruco Life Insurance Company for the year ended December 31, 2020. See Note 15 for additional information.

See Notes to Financial Statements

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

1. BUSINESS AND BASIS OF PRESENTATION

Pruco Life Insurance Company of New Jersey (the "Company" or "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

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

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

Adoption of ASU 2018-12

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

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

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

Statements of Financial Position:

IMPACTED LINES ONLY	December 31, 2022		
	As Previously Reported	Effect of Change	As Currently Reported
	(in thousands)		
Deferred policy acquisition costs	\$ 364,494	\$ (12,620)	\$ 351,874
Reinsurance recoverables	3,258,526	(160,278)	3,098,248
Income tax assets	67,126	489	67,615
Market risk benefit assets	0	558,624	558,624
Other assets	16,207	32,184	48,391
TOTAL ASSETS	\$ 20,178,046	\$ 418,399	\$ 20,596,445
Policyholders' account balances	\$ 2,763,730	\$ 10,585	\$ 2,774,315
Future policy benefits	2,303,407	(173,365)	2,130,042
Market risk benefit liabilities	0	558,624	558,624
Other liabilities	147,908	24,397	172,305
Total liabilities	19,149,549	420,241	19,569,790
Retained earnings	439,236	(153,803)	285,433
Accumulated other comprehensive income (loss)	(188,151)	151,961	(36,190)
Total equity	1,028,497	(1,842)	1,026,655
TOTAL LIABILITIES AND EQUITY	\$ 20,178,046	\$ 418,399	\$ 20,596,445

IMPACTED LINES ONLY	December 31, 2021		
	As Previously Reported	Effect of Change	As Currently Reported
	(in thousands)		
Deferred policy acquisition costs	\$ 290,299	\$ 18,445	\$ 308,744
Reinsurance recoverables	3,601,212	(426,017)	3,175,195
Income tax assets	5,842	16,311	22,153
Market risk benefit assets	0	940,706	940,706
Other assets	17,581	31,286	48,867
TOTAL ASSETS	\$ 24,456,215	\$ 580,731	\$ 25,036,946
Policyholders' account balances	\$ 2,608,640	\$ 91,294	\$ 2,699,934
Future policy benefits	2,757,941	(396,818)	2,361,123
Market risk benefit liabilities	0	940,706	940,706
Other liabilities	194,123	6,910	201,033
Total liabilities	23,485,503	642,092	24,127,595
Retained earnings	387,957	(32,695)	355,262
Accumulated other comprehensive income (loss)	130,653	(28,666)	101,987
Total equity	970,712	(61,361)	909,351
TOTAL LIABILITIES AND EQUITY	\$ 24,456,215	\$ 580,731	\$ 25,036,946

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

Statements of Operations and Comprehensive Income (Loss):

IMPACTED LINES ONLY	Year Ended December 31, 2022		
	As Previously Reported	Effect of Change	As Currently Reported
	(in thousands)		
REVENUES			
Premiums	\$ 34,901	\$ (1,193)	\$ 33,708
Policy charges and fee income	85,416	(27,682)	57,734
Realized investment gains (losses), net	13,416	419	13,835
Change in value of market risk benefits, net of related hedging gain (loss)	0	(142,046)	(142,046)
TOTAL REVENUES	238,452	(170,502)	67,950
BENEFITS AND EXPENSES			
Policyholders' benefits	55,094	(26,905)	28,189
Change in estimates of liability for future policy benefits	0	16,631	16,631
Amortization of deferred policy acquisition costs	24,512	(5,222)	19,290
General, administrative and other expenses	58,570	(1,705)	56,865
TOTAL BENEFITS AND EXPENSES	185,754	(17,201)	168,553
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES	52,698	(153,301)	(100,603)
Income tax expense (benefit)	1,419	(32,193)	(30,774)
NET INCOME (LOSS)	\$ 51,279	\$ (121,108)	\$ (69,829)
Other comprehensive income (loss), before tax:			
Net unrealized investment gains (losses)	(403,214)	26,729	(376,485)
Interest rate remeasurement of future policy benefits	0	59,867	59,867
Gain (loss) from changes in non-performance risk on market risk benefits	0	142,046	142,046
Total	(403,550)	228,642	(174,908)
Less: Income tax expense (benefit) related to other comprehensive income (loss)	(84,746)	48,015	(36,731)
Other comprehensive income (loss), net of taxes	(318,804)	180,627	(138,177)
Comprehensive income (loss)	\$ (267,525)	\$ 59,519	\$ (208,006)

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

<u>IMPACTED LINES ONLY</u>	Year Ended December 31, 2021		
	As Previously Reported	Effect of Change	As Currently Reported
	(in thousands)		
REVENUES			
Premiums	\$ 29,945	\$ (1,196)	\$ 28,749
Policy charges and fee income	89,781	(17,619)	72,162
Realized investment gains (losses), net	1,968	(1,453)	515
Change in value of market risk benefits, net of related hedging gain (loss)	0	39,670	39,670
TOTAL REVENUES	231,841	19,402	251,243
BENEFITS AND EXPENSES			
Policyholders' benefits	48,516	(7,737)	40,779
Change in estimates of liability for future policy benefits	0	2,819	2,819
Amortization of deferred policy acquisition costs	24,203	(6,005)	18,198
General, administrative and other expenses	52,194	(1,467)	50,727
TOTAL BENEFITS AND EXPENSES	167,917	(12,390)	155,527
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES	63,924	31,792	95,716
Income tax expense (benefit)	4,417	6,676	11,093
NET INCOME (LOSS)	\$ 59,507	\$ 25,116	\$ 84,623
Other comprehensive income (loss), before tax:			
Net unrealized investment gains (losses)	(69,049)	1,788	(67,261)
Interest rate remeasurement of future policy benefits	0	13,404	13,404
Gain (loss) from changes in non-performance risk on market risk benefits	0	(39,669)	(39,669)
Total	(69,308)	(24,477)	(93,785)
Less: Income tax expense (benefit) related to other comprehensive income (loss)	(14,554)	(5,140)	(19,694)
Other comprehensive income (loss), net of taxes	(54,754)	(19,337)	(74,091)
Comprehensive income (loss)	\$ 4,753	\$ 5,779	\$ 10,532

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

Statements of Cash Flows:

IMPACTED LINES ONLY	Year Ended December 31, 2022		
	As Previously Reported	Effect of Change	As Currently Reported
	(in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 51,279	\$ (121,108)	\$ (69,829)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Policy charges and fee income	(19,960)	16,778	(3,182)
Realized investment (gains) losses, net	(13,416)	(419)	(13,835)
Change in value of market risk benefits, net of related hedging (gains) losses	0	142,046	142,046
Change in:			
Future policy benefits and other insurance liabilities	222,224	200,751	422,975
Reinsurance recoverables	(268,022)	(97,379)	(365,401)
Deferred policy acquisition costs	(38,058)	(5,072)	(43,130)
Income taxes	23,831	(32,193)	(8,362)
Other, net (1)	424	(103,404)	(102,980)
Cash flows from (used in) operating activities	\$ 10,784	\$ 0	\$ 10,784

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

	Year Ended December 31, 2021		
<u>IMPACTED LINES ONLY</u>	As Previously Reported	Effect of Change	As Currently Reported
	(in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 59,507	\$ 25,116	\$ 84,623
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Policy charges and fee income	(21,724)	28,429	6,705
Realized investment (gains) losses, net	(1,968)	1,453	(515)
Change in value of market risk benefits, net of related hedging (gains) losses	0	(39,670)	(39,670)
Change in:			
Future policy benefits and other insurance liabilities	294,654	21,128	315,782
Reinsurance recoverables	(209,431)	93,400	(116,031)
Deferred policy acquisition costs	(58,421)	(6,105)	(64,526)
Income taxes	(2,127)	6,677	4,550
Other, net (1)	7,329	(130,428)	(123,099)
Cash flows from (used in) operating activities	\$ 130,538	\$ 0	\$ 130,538

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

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

		January 1, 2021
		Retained Earnings
		(in thousands)
Balance after-tax, prior to transition	\$	328,450
Reclassification of market risk benefits non-performance risk to accumulated other comprehensive income(1)		(60,792)
Updates to certain universal life contract liabilities(2)		(20,108)
Other(3)		7,722
Total pre-tax adjustments		(73,178)
Tax impacts		15,367
Balance after-tax, after transition	\$	270,639

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

		January 1, 2021
		Accumulated Other Comprehensive Income
		(in thousands)
Balance after-tax, prior to transition	\$	185,407
Interest rate remeasurement of future policy benefits		(57,440)
Reclassification of market risk benefits non-performance risk to accumulated other comprehensive income(1)		60,792
Unwinding amounts related to unrealized investment gains and losses(2)		(15,161)
Total pre-tax adjustments		(11,809)
Tax impacts		2,480
Balance after-tax, after transition	\$	176,078

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

		January 1, 2021		
			Deferred Policy Acquisition Costs	
			Term Life	Variable/Universal Life
				Total
				(in thousands)
Balance prior to transition	\$	51,526	\$	172,899
Unwinding amounts related to unrealized investment gains and losses		0		21,714
Other(1)		1		(1,922)
Balance after transition	\$	51,527	\$	192,691
				244,218

- (1) Represents miscellaneous model refinements.

		January 1, 2021
		Deferred Reinsurance Losses(1)
		Variable Annuities
		(in thousands)
Balance prior to transition	\$	15,209
Unwinding amounts related to unrealized investment gains and losses		1,187
Effect of change in reserve basis to market risk benefits		4,236
Balance after transition	\$	20,632

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

	January 1, 2021		
	Benefit Reserves(1)		
	Term Life	Fixed Annuities	Total
	(in thousands)		
Balance prior to transition	\$ 1,049,445	\$ 16,468	\$ 1,065,913
Changes in cash flow assumptions and other activity	30	(687)	(657)
Balance after transition, at original discount rate	1,049,475	15,781	1,065,256
Cumulative changes in discount rate assumptions	401,072	2,188	403,260
Balance after transition, at current discount rate	1,450,547	17,969	1,468,516
Less: Reinsurance recoverable	1,264,199	17,944	1,282,143
Balance after transition, net of reinsurance recoverable	\$ 186,348	\$ 25	\$ 186,373

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

	January 1, 2021	
	Deferred Profit Liability(1)	
	Fixed Annuities	
	(in thousands)	
Balance prior to transition	\$	102
Changes in benefit reserves		882
Balance after transition		984
Less: Reinsurance recoverable		984
Balance after transition, net of reinsurance recoverable	\$	0

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

	January 1, 2021		
	Additional Insurance Reserves(1)		
	Variable/Universal Life	Variable Annuities	Total
	(in thousands)		
Balance prior to transition	\$ 513,812	\$ 24,433	\$ 538,245
Unwinding amounts related to unrealized investment gains and losses	(109,355)	(1,698)	(111,053)
Balance prior to transition, excluding amounts related to unrealized investment gains and losses	404,457	22,735	427,192
Reclassification of future policy benefits additional insurance reserves to market risk benefits	0	(22,735)	(22,735)
Updates to certain universal life contract liabilities(2)	142,726	0	142,726
Balance after transition, excluding amounts related to unrealized investment gains and losses	547,183	0	547,183
Amounts related to unrealized investment gains and losses after transition	95,331	0	95,331
Balance after transition	642,514	0	642,514
Less: Reinsurance recoverable	613,009	0	613,009
Balance after transition, net of reinsurance recoverable	\$ 29,505	\$ 0	\$ 29,505

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

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

	January 1, 2021	
	Unearned Revenue Reserves(1)	
	Variable/Universal Life	
	(in thousands)	
Balance prior to transition	\$	94,480
Unwinding amounts related to unrealized investment gains and losses and other activity		92,103
Balance after transition		186,583
Less: Reinsurance recoverable		45,019
Balance after transition, net of reinsurance recoverable	\$	141,564

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

	January 1, 2021	
	Market Risk Benefits(1)	
	Variable Annuities	
	(in thousands)	
Liability for guaranteed benefits recorded at fair value, prior to transition	\$	1,195,470
Additional insurance reserves to be reclassified to market risk benefits, prior to transition, excluding amounts related to unrealized investment gains and losses		22,735
Total liability prior to transition		1,218,205
Change in reserve basis to market risk benefits framework		(12,634)
Market risk benefits after transition, at current non-performance risk value		1,205,571
Less: Reinsured market risk benefits		1,205,571
Market risk benefits after transition, net of reinsurance		0
Market risk benefits after transition, at contract inception non-performance risk value	\$	1,266,363
Cumulative change in non-performance risk		60,792
Market risk benefits after transition, at current non-performance risk value	\$	1,205,571

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

	January 1, 2021	
	Cost of Reinsurance(1)	
	Variable/ Universal Life	
	(in thousands)	
Balance prior to transition	\$	85,773
Unwinding amounts related to unrealized investment gains and losses		(34,617)
Balance prior to transition, excluding amounts related to unrealized investment gains and losses		51,156
Impact from updates to certain universal life contract liabilities(2)		14,045
Balance after transition, excluding amounts related to unrealized investment gains and losses		65,201
Amounts related to unrealized investment gains and losses after transition		27,620
Balance after transition	\$	92,821

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

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

Use of Estimates

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

COVID-19

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

Reclassifications

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

Out of Period Adjustments

In 2022, the Company recorded out of period adjustments resulting in an aggregate net benefit of \$1 million to "Income (loss) from operations before income taxes". These adjustments relate to reserves for certain universal and variable life products and certain portions of reinsurance activity.

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

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

Adoption of ASU 2018-12

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

As of the January 1, 2021 transition date, the adoption of the standard resulted in a decrease to "Total equity" of \$67 million, primarily from remeasuring in force contract liabilities using upper-medium grade fixed income instrument yields as of the transition date and from other changes in reserves. As of the January 1, 2023 adoption date, the impact amounted to a decrease to "Total equity" of \$2 million. The changes in the impacts from January 1, 2021 to January 1, 2023 primarily reflect the increase in market interest rates during 2021 and 2022.

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

(1) Key Accounting Policy Changes

Area of Change	Description	Method of adoption	Effect on the financial statements or other significant matters
<i>Cash flow assumptions used to measure the liability for future policy benefits for non-participating traditional and limited-payment insurance products</i>	Requires an entity to review, and if necessary, update the cash flow assumptions used to measure the liability for future policy benefits, for both changes in future assumptions and actual experience, at least annually using a retrospective update method with a cumulative catch-up adjustment recorded in a separate line item in the Statements of Operations.	Effective January 1, 2023 using the modified retrospective transition method, which includes a cumulative effect adjustment to the balance sheet as of January 1, 2021 (the “transition date”). Under this method, the amendments to contracts in force were applied as of January 1, 2021 on the basis of their existing carrying amounts, adjusted for the removal of any related amounts in AOCI	The impact upon transition reflects the impact on in force contract liabilities in instances where expected net premiums exceeded expected gross premiums at an issue-year cohort level as a result of updating to current best estimate cash flow assumptions as of the transition date. As a result of the modified retrospective transition method, the vast majority of the impact of updating cash flow assumptions to best estimates as of the transition date will be reflected in the pattern of earnings in subsequent periods. See Note 1 for additional information regarding the effect on the financial statements. Adoption of the standard also resulted in additional required disclosures. See Note 8 for additional information.
<i>Discount rate assumption used to measure the liability for future policy benefits for non-participating traditional and limited-payment insurance products</i>	Requires discount rate assumptions to be based on an upper-medium grade fixed income instrument yields, which will be updated each quarter with the impact recorded through OCI. An entity shall maximize the use of relevant observable information and minimize the use of unobservable information in determining the discount rate assumptions.	As noted above, the guidance for the liability for future policy benefits was adopted effective January 1, 2023 using the modified retrospective transition method, which includes a cumulative effect adjustment to the balance sheet as of January 1, 2021. Under this method, for balance sheet remeasurement purposes, the liability for future policy benefits is remeasured using discount rates as of January 1, 2021 with the impact recorded as a cumulative effect adjustment to AOCI.	Adoption of the ASU resulted in a significant impact to AOCI as a result of remeasuring in force contract liabilities using current upper-medium grade fixed income instrument yields. This adjustment largely reflects the difference between discount rates locked-in at contract inception versus current discount rates. See Note 1 for additional information regarding the effect on the financial statements. Adoption of the standard also resulted in additional required disclosures. See Note 8 for additional information.
<i>Amortization of deferred acquisition costs and other balances</i>	Requires DAC and other balances, such as URR 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.	Effective January 1, 2023 using the modified retrospective transition method, which includes a cumulative effect adjustment to the balance sheet as of January 1, 2021. Under this method, the amendments to contracts in force were applied as of January 1, 2021 on the basis of their existing carrying amounts, adjusted for the removal of any related amounts in AOCI.	Adoption of the ASU did not have a significant impact on DAC and other balances upon transition, other than the impact of the removal of any related amounts in AOCI. See Note 1 for additional information regarding the effect on the financial statements. Adoption of the standard also resulted in additional required disclosures. See Note 6 for additional information.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

<i>Market Risk Benefits</i>	Requires an entity to measure all market risk benefits (e.g., living benefit and death benefit guarantees associated with variable annuities) at fair value, and record MRB assets and liabilities separately on the Statements of Financial Position. Changes in the fair value of market risk benefits are recorded in net income, except for the portion attributable to changes in an entity's NPR, which is recognized in OCI. An entity shall maximize the use of relevant observable information and minimize the use of unobservable information in determining the balance of the market risk benefits upon adoption.	Effective January 1, 2023 using the retrospective transition method, which includes a cumulative effect adjustment to the balance sheet as of January 1, 2021.	Adoption of the ASU resulted in an adjustment to retained earnings for the difference between the fair value and carrying value of benefits not measured at fair value prior to the adoption of the ASU (e.g., guaranteed minimum death benefits on variable annuities) and a reclass of the cumulative effect of changes in NPR from retained earnings to AOCI. See Note 1 for additional information regarding the effect on the financial statements. Adoption of the standard also resulted in additional required disclosures. See Note 10 for additional information.
-----------------------------	--	--	---

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

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

(2) Updated Accounting Policies

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

ASSETS

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

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

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

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

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

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

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

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

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

Other assets consists primarily of premiums due and deferred loss on reinsurance which is amortized over the expected life of the reinsured contracts on a constant-level basis.

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

LIABILITIES

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

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

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

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

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

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

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

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

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

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

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

Other liabilities consists primarily of accrued expenses, reinsurance payables and technical overdrafts.

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

REVENUES AND BENEFITS AND EXPENSES

Insurance Revenue and Expense Recognition

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

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

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

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

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

Annual Assumptions Review

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

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

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

ASSETS

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

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

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

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

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

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

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

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

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

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

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

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

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

Effective January 1, 2020, the Company adopted ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and related ASUs, using a modified retrospective method for certain financial assets carried at amortized cost and certain off-balance sheet exposures. Adoption of these ASUs requires an entity to estimate lifetime credit losses for certain financial assets carried at amortized cost and certain off-balance sheet exposures based on relevant information about past events, current conditions, and reasonable and supportable forecasts that may affect the collectability of reported amounts. The most significant impact is from modifications made to the Company's process for measuring credit losses for its commercial mortgage and other loans classified as held for investment. The impact of the standard resulted in a cumulative effect adjustment to opening retained earnings in the amount of \$0.2 million, primarily related to commercial mortgage and other loans. The impact of adoption is not material to the following financial statement line items: income taxes payable and other liabilities. The prospective adoption of the portions of the standard related to fixed maturities, available-for-sale resulted in no impact to opening retained earnings.

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

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

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

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

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

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

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

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

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

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

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

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

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

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

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

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

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

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

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

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

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

LIABILITIES

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

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

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

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

REVENUES, BENEFITS AND EXPENSES

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

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

OTHER ACCOUNTING POLICIES

Derivative Financial Instruments

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

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

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

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

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

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

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

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

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

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

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

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

ASSETS

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

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

Reinsurance recoverables include corresponding receivables associated with reinsurance arrangements with affiliates and third-party reinsurers, and are reported on the Statements of Financial Position net of the CECL allowance. The CECL allowance considers the credit quality of the reinsurance counterparty and is generally determined based on the probability of default and loss given default assumptions, after considering any applicable collateral arrangements. The CECL allowance does not apply to reinsurance recoverables with affiliated counterparties under common control. Additions to or releases of the allowance are reported in "Policyholders' benefits." Prior to the adoption of this standard, an allowance for credit losses for reinsurance recoverables was established only when it was deemed probable that a reinsurer may fail to make payments to us in a timely manner. For additional information about these arrangements see Note 11.

Other assets consists primarily of premiums due and deferred loss on reinsurance with affiliates.

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

LIABILITIES

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

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

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

Other liabilities consists primarily of accrued expenses, reinsurance payables and technical overdrafts.

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

REVENUES, BENEFITS AND EXPENSES

Insurance Revenue and Expense Recognition

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

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

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

Changes to U.S. GAAP are established by the Financial Accounting Standards Board (“FASB”) in the form of ASUs to the FASB Accounting Standards Codification (“ASC”). The Company considers the applicability and impact of all ASUs. ASUs listed below include those that have been adopted during the current fiscal year and/or those that have been issued but not yet adopted as of December 31, 2022, and as of the date of this filing. ASUs not listed below were assessed and determined to be either not applicable or not material.

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

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

3. INVESTMENTS

Fixed Maturity Securities

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

December 31, 2022					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
(in thousands)					
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 62,210	\$ 0	\$ 1,074	\$ 0	\$ 61,136
Obligations of U.S. states and their political subdivisions	165,109	421	6,315	0	159,215
Foreign government bonds	87,853	1	15,891	0	71,963
U.S. public corporate securities	1,062,342	1,943	180,880	0	883,405
U.S. private corporate securities	186,123	141	13,465	358	172,441
Foreign public corporate securities	138,717	28	25,783	0	112,962
Foreign private corporate securities	133,074	523	21,562	0	112,035
Asset-backed securities(1)	18,358	272	256	0	18,374
Commercial mortgage-backed securities	124,486	0	8,595	0	115,891
Residential mortgage-backed securities(2)	12,446	92	467	5	12,066
Total fixed maturities, available-for-sale	<u>\$ 1,990,718</u>	<u>\$ 3,421</u>	<u>\$ 274,288</u>	<u>\$ 363</u>	<u>\$ 1,719,488</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.

December 31, 2021					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
(in thousands)					
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 12,832	\$ 673	\$ 0	\$ 0	\$ 13,505
Obligations of U.S. states and their political subdivisions	161,812	17,198	0	0	179,010
Foreign government bonds	93,062	8,731	1,002	0	100,791
U.S. public corporate securities	908,129	117,450	2,994	0	1,022,585
U.S. private corporate securities	190,157	13,128	52	1,558	201,675
Foreign public corporate securities	105,346	8,481	644	0	113,183
Foreign private corporate securities	138,753	6,620	2,015	0	143,358
Asset-backed securities(1)	16,685	596	4	0	17,277
Commercial mortgage-backed securities	132,961	8,401	7	0	141,355
Residential mortgage-backed securities(2)	2,474	385	0	0	2,859
Total fixed maturities, available-for-sale	<u>\$ 1,762,211</u>	<u>\$ 181,663</u>	<u>\$ 6,718</u>	<u>\$ 1,558</u>	<u>\$ 1,935,598</u>

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

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

December 31, 2022						
Less Than Twelve Months			Twelve Months or More		Total	
Fair Value	Gross Unrealized Losses		Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
(in thousands)						
Fixed maturities, available-for-sale:						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 61,136	\$ 1,074	\$ 0	\$ 0	\$ 61,136	\$ 1,074
Obligations of U.S. states and their political subdivisions	113,693	6,315	0	0	113,693	6,315
Foreign government bonds	46,826	5,741	24,746	10,150	71,572	15,891
U.S. public corporate securities	704,906	111,763	155,138	69,117	860,044	180,880
U.S. private corporate securities	149,670	11,857	9,273	1,608	158,943	13,465
Foreign public corporate securities	69,310	11,016	38,996	14,767	108,306	25,783
Foreign private corporate securities	62,044	12,499	33,858	9,063	95,902	21,562
Asset-backed securities	5,570	160	3,289	96	8,859	256
Commercial mortgage-backed securities	110,820	8,398	5,071	197	115,891	8,595
Residential mortgage-backed securities	10,509	467	0	0	10,509	467
Total fixed maturities, available-for-sale	\$ 1,334,484	\$ 169,290	\$ 270,371	\$ 104,998	\$ 1,604,855	\$ 274,288

December 31, 2021						
Less Than Twelve Months			Twelve Months or More		Total	
Fair Value	Gross Unrealized Losses		Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
(in thousands)						
Fixed maturities, available-for-sale:						
Foreign government bonds	\$ 17,306	\$ 928	\$ 2,072	\$ 74	\$ 19,378	\$ 1,002
U.S. public corporate securities	72,360	1,255	42,496	1,739	114,856	2,994
U.S. private corporate securities	2,349	27	979	25	3,328	52
Foreign public corporate securities	9,439	192	6,726	452	16,165	644
Foreign private corporate securities	18,912	596	11,402	1,419	30,314	2,015
Asset-backed securities	3,426	4	0	0	3,426	4
Commercial mortgage-backed securities	3,083	7	0	0	3,083	7
Total fixed maturities, available-for-sale	\$ 126,875	\$ 3,009	\$ 63,675	\$ 3,709	\$ 190,550	\$ 6,718

As of December 31, 2022 and 2021, the gross unrealized losses on fixed maturity available-for-sale securities without an allowance were composed of \$269.6 million and \$5.3 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 \$4.7 million and \$1.4 million, respectively, related to other than high or highest quality securities based on NAIC or equivalent rating. As of December 31, 2022, the \$105.0 million of gross unrealized losses of twelve months or more were concentrated in the Company’s corporate securities within the finance, consumer non-cyclical and capital goods sectors. As of December 31, 2021, the \$3.7 million of gross unrealized losses of twelve months or more were concentrated in the Company’s corporate securities within the consumer non-cyclical, finance and capital goods sectors.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

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

	December 31, 2022	
	Amortized Cost	Fair Value
	(in thousands)	
Fixed maturities, available-for-sale:		
Due in one year or less	\$ 40,526	\$ 39,539
Due after one year through five years	240,259	226,070
Due after five years through ten years	154,492	140,664
Due after ten years	1,400,151	1,166,884
Asset-backed securities	18,358	18,374
Commercial mortgage-backed securities	124,486	115,891
Residential mortgage-backed securities	12,446	12,066
Total fixed maturities, available-for-sale	\$ 1,990,718	\$ 1,719,488

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

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

	Years Ended December 31,		
	2022	2021	2020
	(in thousands)		
Fixed maturities, available-for-sale:			
Proceeds from sales(1)	\$ 37,605	\$ 49,835	\$ 4,085
Proceeds from maturities/prepayments	64,177	49,793	57,837
Gross investment gains from sales and maturities	224	708	(4)
Gross investment losses from sales and maturities	(5,451)	(1,024)	(43)
Write-downs recognized in earnings(2)	0	0	(625)
(Addition to) release of allowance for credit losses	1,195	(1,558)	0

(1) Excludes activity from non-cash related proceeds due to the timing of trade settlements of \$(0.1) million, \$1.5 million and \$(1.5) million for the years ended December 31, 2022, 2021 and 2020, respectively.

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

Year Ended December 31, 2022							
	U.S. Treasury Securities and Obligations of U.S. States	Foreign Government Bonds	U.S. and Foreign Corporate Securities	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Residential Mortgage-Backed Securities	Total
	(in thousands)						
Fixed maturities, available-for-sale:							
Balance, beginning of period	\$ 0	\$ 0	\$ 1,558	\$ 0	\$ 0	\$ 0	\$ 1,558
Additions (reductions) on securities with previous allowance	0	0	(1,200)	0	0	1	(1,199)
Additions to allowance for credit losses not previously recorded	0	0	0	0	0	4	4
Balance, end of period	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 358</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5</u>	<u>\$ 363</u>

Year Ended December 31, 2021							
	U.S. Treasury Securities and Obligations of U.S. States	Foreign Government Bonds	U.S. and Foreign Corporate Securities	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Residential Mortgage-Backed Securities	Total
	(in thousands)						
Fixed maturities, available-for-sale:							
Balance, beginning of period	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Additions to allowance for credit losses not previously recorded	0	0	1,558	0	0	0	1,558
Balance, end of period	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,558</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,558</u>

For the year ended December 31, 2020, there was no activity in the allowance for credit losses for fixed maturity securities.

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

For the year ended December 31, 2022, the net decrease in the allowance for credit losses on available-for-sale securities was primarily related to a net release on restructured private corporate securities within the transportation sector.

For the year ended December 31, 2021, the net increase in the allowance for credit losses for fixed maturity securities was primarily related to adverse projected cash flows on securities in the transportation sector within private corporate securities.

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

Fixed Maturities, Trading

The net change in unrealized gains (losses) from fixed maturities, trading still held at period end, recorded within "Other income (loss)," was \$(3.4) million, \$(2.0) million and \$2.1 million during the years ended December 31, 2022, 2021 and 2020, respectively.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

Equity Securities

The net change in unrealized gains (losses) from equity securities still held at period end, recorded within “Other income (loss),” was \$(1.5) million, \$(0.3) million and \$(0.8) million during the years ended December 31, 2022, 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:

	December 31, 2022		December 31, 2021	
	Amount (in thousands)	% of Total	Amount (in thousands)	% of Total
Commercial mortgage and agricultural property loans by property type:				
Apartments/Multi-Family	\$ 62,434	42.0 %	\$ 42,188	36.4 %
Hospitality	12,996	8.7	13,709	11.8
Industrial	17,132	11.5	17,356	15.0
Office	10,568	7.1	16,880	14.6
Other	7,767	5.2	7,927	6.8
Retail	22,123	14.9	15,511	13.4
Total commercial mortgage loans	133,020	89.4	113,571	98.0
Agricultural property loans	15,567	10.6	2,251	2.0
Total commercial mortgage and agricultural property loans	148,587	100.0 %	115,822	100.0 %
Allowance for credit losses	(408)		(246)	
Total net commercial mortgage and agricultural property loans	\$ 148,179		\$ 115,576	

As of December 31, 2022, the commercial mortgage and agricultural property loans were secured by properties geographically dispersed throughout the United States with the largest concentrations in Florida (12%), New York (10%), Oregon (9%) and included loans secured by properties in Europe (3%) and Mexico (3%).

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

	Commercial Mortgage Loans	Agricultural Property Loans	Total
	(in thousands)		
Balance at December 31, 2019	\$ 164	\$ 1	\$ 165
Cumulative effect of adoption of ASU 2016-13	204	0	204
Addition to (release of) allowance for expected losses	72	(1)	71
Balance at December 31, 2020	\$ 440	\$ 0	\$ 440
Addition to (release of) allowance for expected losses	(194)	0	(194)
Balance at December 31, 2021	\$ 246	\$ 0	\$ 246
Addition to (release of) allowance for expected losses	159	3	162
Balance at December 31, 2022	\$ 405	\$ 3	\$ 408

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

For the year ended December 31, 2022, the net increase in the allowance for credit losses on commercial mortgage and other loans was primarily related to an increase in the general allowance due to declining market conditions and loan originations.

For the year ended December 31, 2021, the net decrease in the allowance for credit losses on commercial mortgage and other loans was primarily related to the improving credit environment.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

December 31, 2022							
Amortized Cost by Origination Year							
	2022	2021	2020	2019	2018	Prior	Total
(in thousands)							
Commercial mortgage loans							
Loan-to-Value Ratio:							
0%-59.99%	\$ 20,000	\$ 792	\$ 0	\$ 9,993	\$ 1,387	\$ 48,812	\$ 80,984
60%-69.99%	15,000	1,615	2,198	18,982	0	1,016	38,811
70%-79.99%	0	347	0	3,855	0	7,213	11,415
80% or greater	0	0	0	0	0	1,810	1,810
Total	<u>\$ 35,000</u>	<u>\$ 2,754</u>	<u>\$ 2,198</u>	<u>\$ 32,830</u>	<u>\$ 1,387</u>	<u>\$ 58,851</u>	<u>\$ 133,020</u>
Debt Service Coverage Ratio:							
Greater or Equal to 1.2x	\$ 35,000	\$ 2,754	\$ 2,198	\$ 27,697	\$ 1,387	\$ 40,285	\$ 109,321
1.0 - 1.2x	0	0	0	0	0	8,809	8,809
Less than 1.0x	0	0	0	5,133	0	9,757	14,890
Total	<u>\$ 35,000</u>	<u>\$ 2,754</u>	<u>\$ 2,198</u>	<u>\$ 32,830</u>	<u>\$ 1,387</u>	<u>\$ 58,851</u>	<u>\$ 133,020</u>
Agricultural property loans							
Loan-to-Value Ratio:							
0%-59.99%	\$ 1,078	\$ 1,092	\$ 0	\$ 0	\$ 0	\$ 1,052	\$ 3,222
60%-69.99%	12,345	0	0	0	0	0	12,345
70%-79.99%	0	0	0	0	0	0	0
80% or greater	0	0	0	0	0	0	0
Total	<u>\$ 13,423</u>	<u>\$ 1,092</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,052</u>	<u>\$ 15,567</u>
Debt Service Coverage Ratio:							
Greater or Equal to 1.2x	\$ 13,423	\$ 1,092	\$ 0	\$ 0	\$ 0	\$ 1,052	\$ 15,567
1.0 - 1.2x	0	0	0	0	0	0	0
Less than 1.0x	0	0	0	0	0	0	0
Total	<u>\$ 13,423</u>	<u>\$ 1,092</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,052</u>	<u>\$ 15,567</u>

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

	December 31, 2021						
	Amortized Cost by Origination Year						
	2021	2020	2019	2018	2017	Prior	Total
	(in thousands)						
Commercial mortgage loans							
Loan-to-Value Ratio:							
0%-59.99%	\$ 360	\$ 0	\$ 7,203	\$ 1,433	\$ 8,836	\$ 50,537	\$ 68,369
60%-69.99%	2,066	2,198	24,368	0	1,016	8,524	38,172
70%-79.99%	347	0	3,855	0	0	1,870	6,072
80% or greater	0	0	0	0	958	0	958
Total	\$ 2,773	\$ 2,198	\$ 35,426	\$ 1,433	\$ 10,810	\$ 60,931	\$ 113,571
Debt Service Coverage Ratio:							
Greater or Equal to 1.2x	\$ 2,773	\$ 2,198	\$ 30,009	\$ 1,433	\$ 5,671	\$ 42,469	\$ 84,553
1.0 - 1.2x	0	0	0	0	958	9,186	10,144
Less than 1.0x	0	0	5,417	0	4,181	9,276	18,874
Total	\$ 2,773	\$ 2,198	\$ 35,426	\$ 1,433	\$ 10,810	\$ 60,931	\$ 113,571
Agricultural property loans							
Loan-to-Value Ratio:							
0%-59.99%	\$ 1,126	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,125	\$ 2,251
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	\$ 1,126	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,125	\$ 2,251
Debt Service Coverage Ratio:							
Greater or Equal to 1.2x	\$ 1,126	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,125	\$ 2,251
1.0 - 1.2x	0	0	0	0	0	0	0
Less than 1.0x	0	0	0	0	0	0	0
Total	\$ 1,126	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,125	\$ 2,251

See Note 2 for additional information about the Company's commercial mortgage and other loans credit quality monitoring process.

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

	December 31, 2022					
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due(1)	Total Loans	Non-Accrual Status(2)
	(in thousands)					
Commercial mortgage loans	\$ 133,020	\$ 0	\$ 0	\$ 0	\$ 133,020	\$ 0
Agricultural property loans	15,567	0	0	0	15,567	0
Total	\$ 148,587	\$ 0	\$ 0	\$ 0	\$ 148,587	\$ 0

- (1) As of December 31, 2022, there were no loans in this category accruing interest.
(2) For additional information regarding the Company's policies for accruing interest on loans, see Note 2.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

	December 31, 2021					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	\$ 113,571	\$ 0	\$ 0	\$ 0	\$ 113,571	\$ 0	
Agricultural property loans	2,251	0	0	0	2,251	0	
Total	<u>\$ 115,822</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 115,822</u>	<u>\$ 0</u>	

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

(2) For additional information regarding the Company's policies for accruing interest on loans, see Note 2.

For the year ended December 31, 2022, there were \$3.4 million of commercial mortgage and other loans acquired, other than those through direct origination, and there were \$3.8 million of commercial mortgage and other loans sold.

For the year ended December 31, 2021, 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.

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

Other Invested Assets

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

	December 31,	
	2022	2021
	(in thousands)	
Company's investment in separate accounts	\$ 0	\$ 4,053
LPs/LLCs:		
Equity method:		
Private equity	74,468	63,705
Hedge funds	42,472	38,216
Real estate-related	10,199	8,326
Subtotal equity method	127,139	110,247
Fair value:		
Private equity	279	400
Hedge funds	55	66
Real estate-related	2,055	2,374
Subtotal fair value	2,389	2,840
Total LPs/LLCs	129,528	113,087
Derivative instruments	0	7,187
Total other invested assets	<u>\$ 129,528</u>	<u>\$ 124,327</u>

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

Equity Method Investments

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

	December 31,	
	2022	2021
	(in thousands)	
STATEMENTS OF FINANCIAL POSITION		
Total assets(1)	\$ 2,012,092	\$ 1,950,577
Total liabilities	\$ 0	\$ 0
Partners' capital	2,012,092	1,950,577
Total liabilities and partners' capital	\$ 2,012,092	\$ 1,950,577
Total liabilities and partners' capital included above	\$ 37,626	\$ 36,671
Equity in LP/LLC interests not included above	89,513	73,576
Carrying value	\$ 127,139	\$ 110,247

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

	Years Ended December 31,		
	2022	2021	2020
	(in thousands)		
STATEMENTS OF OPERATIONS			
Total revenue(1)	\$ 51,084	\$ 154,144	\$ 168,120
Total expenses	0	0	0
Net earnings (losses)	\$ 51,084	\$ 154,144	\$ 168,120
Equity in net earnings (losses) included above	\$ 955	\$ 2,898	\$ 3,144
Equity in net earnings (losses) of LP/LLC interests not included above	5,836	16,814	3,858
Total equity in net earnings (losses)	\$ 6,791	\$ 19,712	\$ 7,002

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

Accrued Investment Income

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

	December 31,	
	2022	2021
	(in thousands)	
Fixed maturities	\$ 18,653	\$ 16,561
Equity securities	1	1
Commercial mortgage and other loans	352	301
Policy loans	5,612	5,670
Short-term investments and cash equivalents	604	6
Total accrued investment income	\$ 25,222	\$ 22,539

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

Net Investment Income

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

	Years Ended December 31,		
	2022	2021	2020
	(in thousands)		
Fixed maturities, available-for-sale	\$ 73,656	\$ 65,882	\$ 61,250
Fixed maturities, trading	1,012	827	542
Equity securities	364	363	363
Commercial mortgage and other loans	4,609	5,654	5,485
Policy loans	10,427	11,414	11,597
Other invested assets	8,873	20,660	7,509
Short-term investments and cash equivalents	3,384	46	431
Gross investment income	102,325	104,846	87,177
Less: investment expenses	(3,933)	(4,355)	(4,182)
Net investment income	<u>\$ 98,392</u>	<u>\$ 100,491</u>	<u>\$ 82,995</u>

There were no non-income producing assets as of December 31, 2022. Non-income producing assets represent investments that had not produced income for the twelve months preceding December 31, 2022.

Realized Investment Gains (Losses), Net

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

	Years Ended December 31,		
	2022	2021	2020
	(in thousands)		
Fixed maturities(1)	\$ (4,032)	\$ (1,874)	\$ (672)
Commercial mortgage and other loans	(153)	194	(71)
Other invested assets	(51)	625	(51)
Derivatives(2)	18,123	1,549	2,721
Short-term investments and cash equivalents	(52)	21	(56)
Realized investment gains (losses), net(2)	<u>\$ 13,835</u>	<u>\$ 515</u>	<u>\$ 1,871</u>

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

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

Net Unrealized Gains (Losses) on Investments within AOCI

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

	December 31,		
	2022	2021	2020
	(in thousands)		
Fixed maturity securities, available-for-sale without an allowance	\$ (270,867)	\$ 174,945	\$ 258,325
Derivatives designated as cash flow hedges(1)	14,102	5,407	(2,998)
Affiliated notes	59	194	254
Other investments	122	260	143
Net unrealized gains (losses) on investments	<u>\$ (256,584)</u>	<u>\$ 180,806</u>	<u>\$ 255,724</u>

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

Repurchase Agreements and Securities Lending

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

Securities Pledged, Restricted Assets and Special Deposits

The Company pledges as collateral investment securities it owns to unaffiliated parties through certain transactions, including securities lending, securities sold under agreements to repurchase, collateralized borrowings and postings of collateral with derivative counterparties.

In the normal course of its business activities, the Company accepts collateral that can be sold or repledged. The primary sources of this collateral are securities purchased under agreements to resell. As of both December 31, 2022 and 2021, there were no collateral that could be sold or repledged.

As of December 31, 2022 and 2021, there were available-for-sale fixed maturities of \$0.0 million and \$0.5 million, respectively, on deposit with governmental authorities or trustees as required by certain insurance laws.

4. DERIVATIVES AND HEDGING

Types of Derivative Instruments and Derivative Strategies

Interest Rate Contracts

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

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

Equity Contracts

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

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

Foreign Exchange Contracts

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

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

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

Credit Contracts

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

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

Embedded Derivatives

The Company offers certain products (for example, index-linked universal life), which may include features that are accounted for as embedded derivatives. Related to certain of these derivatives, the Company has entered into reinsurance agreements with an affiliate, Prudential Insurance, effective April 1, 2016. See Note 11 for additional information on the reinsurance agreements.

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

Primary Risks Managed by Derivatives

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

Primary Underlying Risk/Instrument Type	December 31, 2022			December 31, 2021		
	Gross Notional	Fair Value		Gross Notional	Fair Value	
		Assets	Liabilities		Assets	Liabilities
(in thousands)						
Derivatives Designated as Hedge Accounting Instruments:						
Currency/Interest Rate						
Foreign Currency Swaps	\$ 117,015	\$ 14,281	\$ (516)	\$ 124,950	\$ 4,416	\$ (291)
Total Derivatives Designated as Hedge Accounting Instruments:	<u>\$ 117,015</u>	<u>\$ 14,281</u>	<u>\$ (516)</u>	<u>\$ 124,950</u>	<u>\$ 4,416</u>	<u>\$ (291)</u>
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate						
Interest Rate Swaps	\$ 30,200	\$ 0	\$ (383)	\$ 30,200	\$ 2,757	\$ 0
Credit						
Credit Default Swaps	0	0	0	0	0	0
Currency/Interest Rate						
Foreign Currency Swaps	24,035	2,957	0	35,204	2,685	(637)
Foreign Currency						
Foreign Currency Forwards	7,520	3	(368)	4,667	66	(9)
Equity						
Equity Options	509,200	555	(20,562)	488,850	18,761	(20,561)
Total Derivatives Not Qualifying as Hedge Accounting Instruments:	<u>\$ 570,955</u>	<u>\$ 3,515</u>	<u>\$ (21,313)</u>	<u>\$ 558,921</u>	<u>\$ 24,269</u>	<u>\$ (21,207)</u>
Total Derivatives(1)(2)	<u>\$ 687,970</u>	<u>\$ 17,796</u>	<u>\$ (21,829)</u>	<u>\$ 683,871</u>	<u>\$ 28,685</u>	<u>\$ (21,498)</u>

- (1) Excludes embedded derivatives which contain multiple underlying risks. The fair value of these embedded derivatives was a net liability of \$108 million and \$153 million as of December 31, 2022 and 2021, respectively included in "Policyholders' account balances".
- (2) Recorded in "Other invested assets" and "Payables to parent and affiliates" on the Statements of Financial Position.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

Offsetting Assets and Liabilities

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

December 31, 2022					
	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	\$ 17,796	\$ (17,796)	\$ 0	\$ 0	\$ 0
Securities purchased under agreements to resell	0	0	0	0	0
Total Assets	<u>\$ 17,796</u>	<u>\$ (17,796)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Offsetting of Financial Liabilities:					
Derivatives	\$ 21,829	\$ (17,796)	\$ 4,033	\$ (4,033)	\$ 0
Securities sold under agreements to repurchase	0	0	0	0	0
Total Liabilities	<u>\$ 21,829</u>	<u>\$ (17,796)</u>	<u>\$ 4,033</u>	<u>\$ (4,033)</u>	<u>\$ 0</u>

December 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	\$ 28,685	\$ (21,498)	\$ 7,187	\$ (7,187)	\$ 0
Securities purchased under agreements to resell	0	0	0	0	0
Total Assets	<u>\$ 28,685</u>	<u>\$ (21,498)</u>	<u>\$ 7,187</u>	<u>\$ (7,187)</u>	<u>\$ 0</u>
Offsetting of Financial Liabilities:					
Derivatives	\$ 21,498	\$ (21,498)	\$ 0	\$ 0	\$ 0
Securities sold under agreements to repurchase	0	0	0	0	0
Total Liabilities	<u>\$ 21,498</u>	<u>\$ (21,498)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

For information regarding the rights of offset associated with the derivative assets and liabilities in the table above see “Credit Risk” below and Note 15. For securities purchased under agreements to resell and securities sold under agreements to repurchase, the Company monitors the value of the securities and maintains collateral, as appropriate, to protect against credit exposure. Where the Company has entered into repurchase and resale agreements with the same counterparty, in the event of default, the Company would generally be permitted to exercise rights of offset. For additional information on the Company’s accounting policy for securities repurchase and resale agreements, see Note 2 to the Financial Statements.

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.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

Year Ended December 31, 2022				
	Realized Investment Gains (Losses) (1)	Net Investment Income	Other Income	Change in AOCI
(in thousands)				
Derivatives Designated as Hedge Accounting Instruments:				
Cash flow hedges				
Currency/Interest Rate	\$ 1,802	\$ 1,891	\$ 1,202	\$ 8,695
Total cash flow hedges	1,802	1,891	1,202	8,695
Derivatives Not Qualifying as Hedge Accounting Instruments:				
Interest Rate	(2,666)	0	0	0
Currency	493	0	0	0
Currency/Interest Rate	2,100	0	35	0
Credit	0	0	0	0
Equity	(13,420)	0	0	0
Embedded Derivatives	29,814	0	0	0
Total Derivatives Not Qualifying as Hedge Accounting Instruments	16,321	0	35	0
Total	\$ 18,123	\$ 1,891	\$ 1,237	\$ 8,695

Year Ended December 31, 2021				
	Realized Investment Gains (Losses) (1)	Net Investment Income	Other Income	Change in AOCI
(in thousands)				
Derivatives Designated as Hedge Accounting Instruments:				
Cash flow hedges				
Currency/Interest Rate	\$ 245	\$ 1,583	\$ 464	\$ 8,405
Total cash flow hedges	245	1,583	464	8,405
Derivatives Not Qualifying as Hedge Accounting Instruments:				
Interest Rate	(815)	0	0	0
Currency	252	0	0	0
Currency/Interest Rate	2,519	0	6	0
Credit	(4)	0	0	0
Equity	8,334	0	0	0
Embedded Derivatives	(8,982)	0	0	0
Total Derivatives Not Qualifying as Hedge Accounting Instruments	1,304	0	6	0
Total	\$ 1,549	\$ 1,583	\$ 470	\$ 8,405

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

	Year Ended December 31, 2020			
	Realized Investment Gains (Losses)	Net Investment Income	Other Income	Change in AOCI
	(in thousands)			
Derivatives Designated as Hedge Accounting Instruments:				
Cash flow hedges				
Currency/Interest Rate	\$ 106	\$ 1,868	\$ (1,016)	\$ (6,191)
Total cash flow hedges	106	1,868	(1,016)	(6,191)
Derivatives Not Qualifying as Hedge Accounting Instruments:				
Interest Rate	1,919	0	0	0
Currency	(174)	0	0	0
Currency/Interest Rate	(894)	0	(25)	0
Credit	(88)	0	0	0
Equity	4,603	0	0	0
Embedded Derivatives	(2,751)	0	0	0
Total Derivatives Not Qualifying as Hedge Accounting Instruments	2,615	0	(25)	0
Total	\$ 2,721	\$ 1,868	\$ (1,041)	\$ (6,191)

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

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

	(in thousands)
Balance, December 31, 2019	\$ 3,193
Amount recorded in AOCI	
Currency/Interest Rate	(5,233)
Total amount recorded in AOCI	(5,233)
Amount reclassified from AOCI to income	
Currency/Interest Rate	(958)
Total amount reclassified from AOCI to income	(958)
Balance, December 31, 2020	\$ (2,998)
Amount recorded in AOCI	
Currency/Interest Rate	10,697
Total amount recorded in AOCI	10,697
Amount reclassified from AOCI to income	
Currency/Interest Rate	(2,292)
Total amount reclassified from AOCI to income	(2,292)
Balance, December 31, 2021	\$ 5,407
Amount recorded in AOCI	
Currency/Interest Rate	13,590
Total amount recorded in AOCI	13,590
Amount reclassified from AOCI to income	
Currency/Interest Rate	(4,895)
Total amount reclassified from AOCI to income	(4,895)
Balance, December 31, 2022	\$ 14,102

The changes in fair value of cash flow hedges are deferred in AOCI and are included in “Net unrealized investment gains (losses)” in the Statements of Operations and Comprehensive Income (Loss); these amounts are then reclassified to earnings when the hedged item affects earnings. Using December 31, 2022 values, it is estimated that a pre-tax gain of \$1.8 million is expected to be reclassified from AOCI to earnings during the subsequent twelve months ending December 31, 2023.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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 or purchased credit protection as of December 31, 2022 and 2021.

Counterparty Credit Risk

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

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

5. FAIR VALUE OF ASSETS AND LIABILITIES

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

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities. The Company’s Level 1 assets and liabilities primarily include short-term investments.

Level 2 - Fair value is based on significant inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities, and other market observable inputs. The Company’s Level 2 assets and liabilities include: fixed maturities (corporate public and private bonds, most government securities, certain asset-backed and mortgage-backed securities, etc.), certain equity securities (mutual funds, which do not trade in active markets because they are not publicly available), certain cash equivalents (primarily commercial paper), short-term investments and certain OTC derivatives.

Level 3 - Fair value is based on at least one significant unobservable input for the asset or liability. The assets and liabilities in this category may require significant judgment or estimation in determining the fair value. The Company’s Level 3 assets and liabilities primarily include: certain private fixed maturities and equity securities, certain manually priced public fixed maturities, certain highly structured OTC derivative contracts, contracts or contract features pertaining to living benefit features (market risk benefits) of the Company’s variable annuity contracts and embedded derivatives associated with the index-linked features of certain universal life and annuity products.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

	December 31, 2022				
	Level 1	Level 2	Level 3	Netting(1)	Total
	(in thousands)				
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 0	\$ 61,136	\$ 0	\$	\$ 61,136
Obligations of U.S. states and their political subdivisions	0	159,215	0		159,215
Foreign government bonds	0	71,963	0		71,963
U.S. corporate public securities	0	883,405	0		883,405
U.S. corporate private securities	0	168,638	3,803		172,441
Foreign corporate public securities	0	112,962	0		112,962
Foreign corporate private securities	0	112,035	0		112,035
Asset-backed securities(2)	0	18,374	0		18,374
Commercial mortgage-backed securities	0	95,190	20,701		115,891
Residential mortgage-backed securities	0	12,066	0		12,066
Subtotal	0	1,694,984	24,504		1,719,488
Market risk benefit assets(3)	0	0	558,624		558,624
Fixed maturities, trading	0	23,782	0		23,782
Equity securities	0	67	4,291		4,358
Short-term investments	0	3,000	0		3,000
Cash equivalents	0	245,302	0		245,302
Other invested assets(4)	0	17,796	0	(17,796)	0
Receivables from parent and affiliates	0	688	0		688
Subtotal excluding separate account assets	0	1,985,619	587,419	(17,796)	2,555,242
Separate account assets(5)(6)	0	12,014,623	0		12,014,623
Total assets	\$ 0	\$ 14,000,242	\$ 587,419	\$ (17,796)	\$ 14,569,865
Market risk benefit liabilities(3)	\$ 0	\$ 0	\$ 558,624	\$	\$ 558,624
Policyholders' account balances	0	0	108,144		108,144
Payables to parent and affiliates	0	21,829	0	(17,796)	4,033
Total liabilities	\$ 0	\$ 21,829	\$ 666,768	\$ (17,796)	\$ 670,801

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

	December 31, 2021				
	Level 1	Level 2	Level 3	Netting(1)	Total
	(in thousands)				
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 0	\$ 13,505	\$ 0	\$	\$ 13,505
Obligations of U.S. states and their political subdivisions	0	179,010	0		179,010
Foreign government bonds	0	100,791	0		100,791
U.S. corporate public securities	0	1,022,585	0		1,022,585
U.S. corporate private securities	0	199,070	2,605		201,675
Foreign corporate public securities	0	113,183	0		113,183
Foreign corporate private securities	0	121,644	21,714		143,358
Asset-backed securities(2)	0	17,277	0		17,277
Commercial mortgage-backed securities	0	114,081	27,274		141,355
Residential mortgage-backed securities	0	2,859	0		2,859
Subtotal	0	1,884,005	51,593		1,935,598
Market risk benefit assets(3)	0	0	940,706		940,706
Fixed maturities, trading	0	36,456	0		36,456
Equity securities	0	125	5,812		5,937
Short-term investments	9,997	0	0		9,997
Cash equivalents	0	128,719	0		128,719
Other invested assets(4)	0	28,685	0	(21,498)	7,187
Receivables from parent and affiliates	0	788	0		788
Subtotal excluding separate account assets	9,997	2,078,778	998,111	(21,498)	3,065,388
Separate account assets(5)(6)	0	15,731,959	0		15,731,959
Total assets	\$ 9,997	\$ 17,810,737	\$ 998,111	\$ (21,498)	\$ 18,797,347
Market risk benefit liabilities(3)	\$ 0	\$ 0	\$ 940,706	\$	\$ 940,706
Policyholders' account balances	0	0	153,127		153,127
Payables to parent and affiliates	0	21,498	0	(21,498)	0
Total liabilities	\$ 0	\$ 21,498	\$ 1,093,833	\$ (21,498)	\$ 1,093,833

(1) "Netting" amounts represent cash collateral of \$0 million as of both December 31, 2022 and 2021.

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

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

(4) Other invested assets excluded from the fair value hierarchy include certain hedge funds, private equity funds and other funds for which fair value is measured at net asset value ("NAV") per share (or its equivalent) as a practical expedient. At December 31, 2022 and 2021, the fair values of such investments were \$2.4 million and \$2.8 million, respectively.

(5) Separate account assets included in the fair value hierarchy exclude investments in entities that calculate NAV per share (or its equivalent) as a practical expedient. Such investments excluded from the fair value hierarchy include investments in real estate, hedge funds and a corporate owned life insurance fund, for which fair value is measured at NAV per share (or its equivalent). At December 31, 2022 and 2021, the fair value of such investments was \$1,912 million and \$2,190 million, respectively.

(6) 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 Statements of Financial Position.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

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

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

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

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

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

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

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

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

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

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

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

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

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

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

Capital market inputs and actual policyholders' account values are updated each quarter based on capital market conditions as of the end of the quarter, including interest rates, equity markets and volatility. In the risk neutral valuation, the initial swap curve drives the total return used to grow the policyholders' account values. The Company's discount rate assumption is based on the SOFR swap curve adjusted for an additional spread relative to SOFR to reflect the Company's market-perceived NPR, which is the risk that the obligation will not be fulfilled by the Company. NPR is primarily estimated by utilizing the credit spreads associated with the Company issued funding agreements, adjusted for any illiquidity risk premium. In order to reflect the financial strength ratings of the Company, credit spreads associated with funding agreements, as opposed to credit spread associated with debt, are utilized in developing this estimate because funding agreements, living benefit guarantees, and index-linked interest crediting guarantees are insurance liabilities and are therefore senior to debt.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

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

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

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

December 31, 2022							
	Fair Value (in thousands)	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Weighted Average	Impact of Increase in Input on Fair Value(1)
Assets:							
Corporate securities(2)	\$ 3,803	Discounted cash flow	Discount rate	10.18 %	10.18 %	10.18 %	Decrease
Commercial mortgage-backed securities	\$ 20,701	Discounted cash flow	Liquidity premium	60 %	75 %	69.05%	Decrease
Market risk benefit assets(3)(4)	\$ 558,624	Discounted cash flow	Lapse rate(5)	1 %	20 %		Increase
			Spread over SOFR(6)	0.50 %	2.20 %		Increase
			Utilization rate(7)	38 %	95 %		Decrease
			Withdrawal rate	See table footnote (8) below.			
			Mortality rate(9)	0 %	15 %		Increase
			Equity volatility curve	18 %	26 %		Decrease
Liabilities:							
Market risk benefit liabilities(3)(4)	\$ 558,624	Discounted cash flow	Lapse rate(5)	1 %	20 %		Decrease
			Spread over SOFR(6)	0.50 %	2.20 %		Decrease
			Utilization rate(7)	38 %	95 %		Increase
			Withdrawal rate	See table footnote (8) below.			
			Mortality rate(9)	0 %	15 %		Decrease
			Equity volatility curve	18 %	26 %		Increase
Policyholders' account balances(10)	\$ 108,144	Discounted cash flow	Lapse rate(5)	1 %	6 %		Decrease
			Spread over SOFR(6)	0.53 %	2.26 %		Decrease
			Mortality rate(9)	0 %	23 %		Decrease
			Equity volatility curve	18 %	28 %		Increase

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

December 31, 2021

	Fair Value (in thousands)	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Weighted Average	Impact of Increase in Input on Fair Value(1)
Assets:							
Corporate securities(2)	\$ 24,319	Discounted cash flow	Discount rate	2.41 %	3.99 %	2.62 %	Decrease
		Liquidation	Liquidation value	62.58 %	62.58 %	62.58 %	Increase
Market risk benefit assets(3)(4)	\$ 940,706	Discounted cash flow	Lapse rate(5)	1 %	20 %		Increase
			Spread over LIBOR(6)	0.03 %	1.13 %		Increase
			Utilization rate(7)	39 %	96 %		Decrease
			Withdrawal rate	See table footnote (8) below.			
			Mortality rate(9)	0 %	15 %		Increase
			Equity volatility curve	16 %	25 %		Decrease
Liabilities:							
Market risk benefit liabilities(3)							
(4)	\$ 940,706	Discounted cash flow	Lapse rate(5)	1 %	20 %		Decrease
			Spread over LIBOR(6)	0.03 %	1.13 %		Decrease
			Utilization rate(7)	39 %	96 %		Increase
			Withdrawal rate	See table footnote (8) below.			
			Mortality rate(9)	0 %	15 %		Decrease
			Equity volatility curve	16 %	25 %		Increase
Policyholders' account balances(10)	\$ 153,127	Discounted cash flow	Lapse rate(5)	1 %	6 %		Decrease
			Spread over LIBOR(6)	0.03 %	1.13 %		Decrease
			Mortality rate(9)	0 %	23 %		Decrease
			Equity volatility curve	12 %	27 %		Increase

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

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

(3) Market risk benefits primarily represent fair value for all living benefit guarantees including accommodation, withdrawal and income benefits. Since the valuation methodology for these assets and liabilities uses a range of inputs that vary at the contract level over the cash flow projection period, presenting a range, rather than weighted average, is a more meaningful representation of the unobservable inputs used in the valuation.

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

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

(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.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

- (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 December 31, 2022 and 2021, the minimum withdrawal rate assumption is 77% and 76%, respectively. As of December 31, 2022 and 2021, the maximum withdrawal rate assumption may be greater than 100%. The fair value of the liability will generally increase the closer the withdrawal rate is to 100% and decrease as the withdrawal rate moves further away from 100%.
- (9) The range reflects the mortality rates for the vast majority of business with living benefits and other contracts, with policyholders ranging from 50 to 90 years old. While the majority of living benefits have a minimum age requirement, certain other contracts do not have an age restriction. This results in contractholders with mortality rates approaching 0% for certain benefits. Mortality rates may vary by product, age and duration. A mortality improvement assumption is also incorporated into the overall mortality table.
- (10) 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.

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.

Commercial Mortgage-backed Securities - Interrelationships may exist between the prepayment rate, the default rate and/or loss severity, depending on specific market conditions. In stronger economic cycles, prepayment rates are generally driven by underlying property appreciation and subsequent cash-out refinances, while default rates and loss severity may be lower. During weaker economic cycles, prepayment rates may decline, while default rates and loss severity increase. Generally, a change in the assumption used for the probability of default would have been accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates. The impact of these factors on average life and economics varies with the deal structure and tranche subordination.

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

Changes in Level 3 Assets and Liabilities – The following tables describe changes in fair values of Level 3 assets and liabilities as of the dates indicated, as well as the portion of gains or losses included in income attributable to unrealized gains or losses related to those assets and liabilities still held at the end of their respective periods (excluding MRBs disclosed in Note 10). When a determination is made to classify assets and liabilities within Level 3, the determination is based on significance of the unobservable inputs in the overall fair value measurement. All transfers are based on changes in the observability of the valuation inputs, including the availability of pricing service information that the Company can validate. Transfers into Level 3 are generally the result of unobservable inputs utilized within valuation methodologies and the use of indicative broker quotes for assets that were previously valued using observable inputs. Transfers out of Level 3 are generally due to the use of observable inputs in valuation methodologies as well as the availability of pricing service information for certain assets that the Company can validate.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

Year Ended December 31, 2022(5)(8)											
	Fair Value, beginning of period	Total realized and unrealized gains (losses)	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(1)
(in thousands)											
Fixed maturities, available-for-sale:											
Corporate securities(2)	\$ 24,319	\$ (1,665)	\$ 0	\$ 0	\$ 0	\$ (632)	\$ 0	\$ 0	\$ (18,219)	\$ 3,803	\$ (1,622)
Structured securities(3)	27,274	(6,168)	320	0	0	(405)	0	0	(320)	20,701	(6,144)
Other assets:											
Equity securities	5,812	(1,521)	0	0	0	0	0	0	0	4,291	(1,522)
Liabilities:											
Policyholders' account balances(4)	(153,127)	29,130	0	0	15,853	0	0	0	0	(108,144)	24,845

Year Ended December 31, 2022(5)							
Total realized and unrealized gains (losses)				Unrealized gains (losses) for assets still held(1)			
Realized investment gains (losses), net	Other income (loss)	Included in other comprehensive income (loss)	Net investment income	Realized investment gains (losses), net	Other income (loss)	Included in other comprehensive income (loss)(7)	
(in thousands)							
Fixed maturities, available-for-sale	\$ 1,198	\$ 0	\$ (9,008)	\$ (23)	\$ 1,200	\$ 0	\$ (8,966)
Other assets:							
Equity securities	0	(1,521)	0	0	0	(1,522)	0
Liabilities:							
Policyholders' account balances	29,130	0	0	0	24,845	0	0

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

	Year Ended December 31, 2021(5)(8)										
	Fair Value, beginning of period	Total realized and unrealized gains (losses)	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(1)
	(in thousands)										
Fixed maturities, available-for-sale:											
Corporate securities(2)	\$ 24,045	\$ (3,330)	\$ 0	\$ 0	\$ 0	\$ (502)	\$ 0	\$ 4,106	\$ 0	\$ 24,319	\$ (3,327)
Structured securities(3)	0	1,132	0	(10)	0	(113)	0	26,265	0	27,274	1,134
Other assets:											
Equity securities	6,095	(283)	0	0	0	0	0	0	0	5,812	(283)
Liabilities:											
Policyholders' account balances(4)	(153,937)	(8,983)	0	0	0	9,793	0	0	0	(153,127)	(11)

Year Ended December 31, 2021(5)							
Total realized and unrealized gains (losses)				Unrealized gains (losses) for assets still held(1)			
Realized investment gains (losses), net	Other income (loss)	Included in other comprehensive income (loss)	Net investment income	Realized investment gains (losses), net	Other income (loss)	Included in other comprehensive income (loss)(7)	
(in thousands)							
Fixed maturities, available-for-sale	\$ (1,404)	\$ 0	\$ (783)	\$ (11)	\$ (1,557)	\$ 0	(636)
Other assets:							
Equity securities	0	(283)	0	0	0	(283)	0
Liabilities:							
Policyholders' account balances	(8,983)	0	0	0	(11)	0	0

Year Ended December 31, 2020							
Total realized and unrealized gains (losses)				Unrealized gains (losses) for assets still held(1)			
Realized investment gains (losses), net(6)	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)(7)	
(in thousands)							
Fixed maturities, available-for-sale	\$ 34	\$ 0	\$ 3,275	\$ 8	\$ 0	\$ 0	3,320
Other assets:							
Equity securities	0	2,290	0	0	0	1,100	0
Reinsurance recoverables	326,083	0	0	0	349,277	0	0
Liabilities:							
Future policy benefits	(326,083)	0	0	0	(349,277)	0	0
Policyholders' account balances	(3,200)	0	0	0	1,307	0	0

(1) 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.

(2) Includes U.S. corporate private, foreign corporate public, and foreign corporate private securities.

(3) Includes asset backed and commercial mortgage-backed securities.

(4) Issuances and settlements for Policyholders' account balances are presented net in the rollforward.

(5) Effective January 1, 2021, Future policy benefits and Reinsurance recoverables previously included in "Changes in level 3 assets and liabilities" are reported in Note 10 Market Risk Benefits.

(6) 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.

(7) Effective January 1, 2020, the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period were added prospectively due to adoption of ASU 2018-13.

(8) Excludes MRB assets of \$559 million and \$941 million and MRB liabilities of \$559 million and \$941 million for period ending December 31, 2022 and 2021, respectively. See Note 10 for additional information.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

Fair Value of Financial Instruments

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

December 31, 2022						
	Fair Value				Carrying Amount(1)	
	Level 1	Level 2	Level 3	Total	Total	
	(in thousands)					
Assets:						
Commercial mortgage and other loans	\$ 0	\$ 0	\$ 141,513	\$ 141,513	\$ 148,179	
Policy loans	0	0	212,063	212,063	212,063	
Short-term investments	4,000	0	0	4,000	4,000	
Cash and cash equivalents	10,465	0	0	10,465	10,465	
Accrued investment income	0	25,222	0	25,222	25,222	
Reinsurance recoverables	0	0	25,127	25,127	27,183	
Receivables from parent and affiliates	0	18,660	0	18,660	18,660	
Other assets	0	3,852	0	3,852	3,852	
Total assets	\$ 14,465	\$ 47,734	\$ 378,703	\$ 440,902	\$ 449,624	
Liabilities:						
Policyholders' account balances - investment contracts	\$ 0	\$ 180,576	\$ 36,746	\$ 217,322	\$ 219,378	
Payables to parent and affiliates	0	3,513	0	3,513	3,513	
Other liabilities	0	51,312	0	51,312	51,312	
Total liabilities	\$ 0	\$ 235,401	\$ 36,746	\$ 272,147	\$ 274,203	
December 31, 2021						
	Fair Value				Carrying Amount(1)	
	Level 1	Level 2	Level 3	Total	Total	
	(in thousands)					
Assets:						
Commercial mortgage and other loans	\$ 0	\$ 0	\$ 121,594	\$ 121,594	\$ 115,576	
Policy loans	0	0	210,730	210,730	210,730	
Cash and cash equivalents	7,597	0	0	7,597	7,597	
Accrued investment income	0	22,539	0	22,539	22,539	
Reinsurance recoverables	0	0	29,931	29,931	28,883	
Receivables from parent and affiliates	0	20,650	0	20,650	20,650	
Other assets	0	3,013	0	3,013	3,013	
Total assets	\$ 7,597	\$ 46,202	\$ 362,255	\$ 416,054	\$ 408,988	
Liabilities:						
Policyholders' account balances - investment contracts	\$ 0	\$ 201,955	\$ 41,939	\$ 243,894	\$ 242,846	
Payables to parent and affiliates	0	2,432	0	2,432	2,432	
Other liabilities	0	49,130	0	49,130	49,130	
Total liabilities	\$ 0	\$ 253,517	\$ 41,939	\$ 295,456	\$ 294,408	

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

Commercial Mortgage and Other Loans

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

Policy Loans

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

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

The Company believes that due to the short-term nature of certain assets, the carrying value approximates fair value. These assets include: certain short-term investments, which are not securities, recorded at amortized cost and include quality loans; cash and cash equivalent instruments; accrued investment income; and other assets that meet the definition of financial instruments, including receivables, unsettled trades and accounts receivable.

Reinsurance Recoverables

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

Policyholders' Account Balances - Investment Contracts

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

Cash Collateral for Loaned Securities

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

Other Liabilities and Payables to Parent and Affiliates

Other liabilities and payables to parent and affiliates are primarily payables, such as unsettled trades, drafts, escrow deposits and accrued expense payables. Due to the short term until settlement of most of these liabilities, the Company believes that carrying value approximates fair value.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

6. DEFERRED POLICY ACQUISITION COSTS AND DEFERRED REINSURANCE

Deferred Policy Acquisition Costs

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

	Term Life	Variable / Universal Life	Total
	(in thousands)		
Balance, January 1, 2021	\$ 51,527	\$ 192,691	\$ 244,218
Capitalization	17,427	65,297	82,724
Amortization expense	(6,863)	(11,335)	(18,198)
Other	0	0	0
Balance, December 31, 2021	\$ 62,091	\$ 246,653	\$ 308,744
Capitalization	14,911	47,531	62,442
Amortization expense	(6,737)	(12,553)	(19,290)
Other	(52)	30	(22)
Balance, December 31, 2022	\$ 70,213	\$ 281,661	\$ 351,874

	2020
	(in thousands)
Balance, beginning of year	\$ 178,813
Capitalization of commissions, sales and issue expenses	76,544
Amortization-Impact of assumption and experience unlocking and true-ups	(6,688)
Amortization-All other	(11,431)
Change due to unrealized investment gains and losses	(12,813)
Balance, end of year	224,425
Transition adjustments(1)	19,793
Balance after transition, January 1, 2021	\$ 244,218

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

Deferred Reinsurance Losses

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

	December 31, 2022
	Variable Annuities
	(in thousands)
Balance, beginning of period	\$ 18,977
Amortization expense	(1,547)
Other	(5)
Balance, end of period	\$ 17,425

	December 31, 2021
	Variable Annuities
	(in thousands)
Balance, beginning of period	\$ 20,632
Amortization expense	(1,655)
Balance, end of period	\$ 18,977

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

7. SEPARATE ACCOUNTS

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

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

Separate Account Assets

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

	December 31, 2022	December 31, 2021
	(in thousands)	
Asset Type:		
Mutual funds:		
Equity	\$ 7,430,452	\$ 10,668,762
Fixed Income	3,973,001	4,306,815
Other	611,170	756,382
Other invested assets	1,912,335	2,190,408
Total	<u>\$ 13,926,958</u>	<u>\$ 17,922,367</u>

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

Separate Account Liabilities

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

	December 31, 2022		
	Variable Annuities	Variable Life	Total
	(in thousands)		
Balance, beginning of period	\$ 11,982,322	\$ 5,940,045	\$ 17,922,367
Deposits	67,216	200,686	267,902
Investment performance	(2,113,606)	(925,970)	(3,039,576)
Policy charges	(238,173)	(100,968)	(339,141)
Surrenders and withdrawals	(764,069)	(42,118)	(806,187)
Benefit payments	(5,622)	(42,934)	(48,556)
Net transfers (to) from general account	(895)	(37,577)	(38,472)
Other	1,395	7,226	8,621
Balance, end of period	<u>\$ 8,928,568</u>	<u>\$ 4,998,390</u>	<u>\$ 13,926,958</u>
Cash surrender value(1)	\$ 8,747,915	\$ 4,897,409	\$ 13,645,324

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

	December 31, 2021		
	Variable Annuities	Variable Life	Total
	(in thousands)		
Balance, beginning of period	\$ 11,963,399	\$ 5,154,111	\$ 17,117,510
Deposits	99,941	236,158	336,099
Investment performance	1,171,547	797,051	1,968,598
Policy charges	(277,346)	(98,839)	(376,185)
Surrenders and withdrawals	(972,834)	(58,845)	(1,031,679)
Benefit payments	(7,378)	(61,608)	(68,986)
Net transfers (to) from general account	4,108	(33,480)	(29,372)
Other	885	5,497	6,382
Balance, end of period	<u>\$ 11,982,322</u>	<u>\$ 5,940,045</u>	<u>\$ 17,922,367</u>
Cash surrender value(1)	\$ 11,749,197	\$ 5,850,808	\$ 17,600,005

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

8. LIABILITY FOR FUTURE POLICY BENEFITS

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

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

Benefit Reserves

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

	December 31, 2022		
	Present Value of Expected Net Premiums		
	Term Life	Fixed Annuities	Total
	(in thousands)		
Balance, beginning of period	\$ 1,641,933	\$ 0	\$ 1,641,933
Effect of cumulative changes in discount rate assumptions, beginning of period	(253,752)	0	(253,752)
Balance at original discount rate, beginning of period	1,388,181	0	1,388,181
Effect of assumption update	174,263	0	174,263
Effect of actual variances from expected experience and other activity	(29,416)	(746)	(30,162)
Adjusted balance, beginning of period	1,533,028	(746)	1,532,282
Issuances	58,215	2,110	60,325
Net premiums / considerations collected	(170,297)	(1,364)	(171,661)
Interest accrual	69,424	0	69,424
Balance at original discount rate, end of period	1,490,370	0	1,490,370
Effect of cumulative changes in discount rate assumptions, end of period	(73,563)	0	(73,563)
Balance, end of period	\$ 1,416,807	\$ 0	\$ 1,416,807

	December 31, 2022		
	Present Value of Expected Future Policy Benefits		
	Term Life	Fixed Annuities	Total
	(in thousands)		
Balance, beginning of period	\$ 3,041,562	\$ 19,314	\$ 3,060,876
Effect of cumulative changes in discount rate assumptions, beginning of period	(561,455)	(1,459)	(562,914)
Balance at original discount rate, beginning of period	2,480,107	17,855	2,497,962
Effect of assumption update	255,336	0	255,336
Effect of actual variances from expected experience and other activity	(60,049)	149	(59,900)
Adjusted balance, beginning of period	2,675,394	18,004	2,693,398
Issuances	58,215	2,111	60,326
Interest accrual	129,657	627	130,284
Benefit payments	(173,998)	(2,308)	(176,306)
Other adjustments	(115)	(75)	(190)
Balance at original discount rate, end of period	2,689,153	18,359	2,707,512
Effect of cumulative changes in discount rate assumptions, end of period	(137,962)	(1,899)	(139,861)
Balance, end of period	\$ 2,551,191	\$ 16,460	\$ 2,567,651

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

	December 31, 2022		
	Net Liability for Future Policy Benefits (Benefit Reserves)		
	Term Life	Fixed Annuities	Total
	(in thousands)		
Balance, end of period, pre-flooring	\$ 1,134,384	\$ 16,460	\$ 1,150,844
Flooring impact, end of period	0	0	0
Balance, end of period, post-flooring	1,134,384	16,460	1,150,844
Less: Reinsurance recoverable	1,002,277	16,460	1,018,737
Balance after reinsurance recoverable, end of period, post-flooring	\$ 132,107	\$ 0	\$ 132,107

	December 31, 2021		
	Present Value of Expected Net Premiums		
	Term Life	Fixed Annuities	Total
	(in thousands)		
Balance, beginning of period	\$ 1,762,111	\$ 0	\$ 1,762,111
Effect of cumulative changes in discount rate assumptions, beginning of period	(352,891)	0	(352,891)
Balance at original discount rate, beginning of period	1,409,220	0	1,409,220
Effect of assumption update	5,651	0	5,651
Effect of actual variances from expected experience and other activity	(13,285)	0	(13,285)
Adjusted balance, beginning of period	1,401,586	0	1,401,586
Issuances	75,944	3,763	79,707
Net premiums / considerations collected	(155,282)	(3,763)	(159,045)
Interest accrual	65,933	0	65,933
Balance at original discount rate, end of period	1,388,181	0	1,388,181
Effect of cumulative changes in discount rate assumptions, end of period	253,752	0	253,752
Balance, end of period	\$ 1,641,933	\$ 0	\$ 1,641,933

	December 31, 2021		
	Present Value of Expected Future Policy Benefits		
	Term Life	Fixed Annuities	Total
	(in thousands)		
Balance, beginning of period	\$ 3,212,658	\$ 17,969	\$ 3,230,627
Effect of cumulative changes in discount rate assumptions, beginning of period	(753,963)	(2,188)	(756,151)
Balance at original discount rate, beginning of period	2,458,695	15,781	2,474,476
Effect of assumption update	5,817	0	5,817
Effect of actual variances from expected experience and other activity	(9,219)	(297)	(9,516)
Adjusted balance, beginning of period	2,455,293	15,484	2,470,777
Issuances	75,944	3,763	79,707
Interest accrual	120,981	620	121,601
Benefit payments	(171,572)	(2,012)	(173,584)
Other adjustments	(539)	0	(539)
Balance at original discount rate, end of period	2,480,107	17,855	2,497,962
Effect of cumulative changes in discount rate assumptions, end of period	561,455	1,459	562,914
Balance, end of period	\$ 3,041,562	\$ 19,314	\$ 3,060,876

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

	December 31, 2021		
	Net Liability for Future Policy Benefits (Benefit Reserves)		
	Term Life	Fixed Annuities	Total
	(in thousands)		
Balance, end of period, pre-flooring	\$ 1,399,629	\$ 19,314	\$ 1,418,943
Flooring impact, end of period	899	0	899
Balance, end of period, post-flooring	1,400,528	19,314	1,419,842
Less: Reinsurance recoverable	1,216,756	19,314	1,236,070
Balance after reinsurance recoverable, end of period, post-flooring	\$ 183,772	\$ 0	\$ 183,772

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

	December 31, 2022			
	Term Life		Fixed Annuities	
	(\$ in thousands)			
Undiscounted expected future gross premiums	\$	3,073,048	\$	0
Discounted expected future gross premiums (at original discount rate)	\$	2,069,441	\$	0
Discounted expected future gross premiums (at current discount rate)	\$	1,973,031	\$	0
Undiscounted expected future benefits and expenses	\$	4,352,500	\$	24,056
Interest accrual	\$	60,233	\$	627
Gross premiums	\$	242,406	\$	1,700
Weighted-average duration of the liability in years (at original discount rate)		11		7
Weighted-average duration of the liability in years (at current discount rate)		10		6
Weighted-average interest rate (at original discount rate)		5.33	%	3.56
Weighted-average interest rate (at current discount rate)		5.40	%	5.30

	December 31, 2021			
	Term Life		Fixed Annuities	
	(\$ in thousands)			
Undiscounted expected future gross premiums	\$	3,309,037	\$	0
Discounted expected future gross premiums (at original discount rate)	\$	2,185,726	\$	0
Discounted expected future gross premiums (at current discount rate)	\$	2,597,734	\$	0
Undiscounted expected future benefits and expenses	\$	4,023,185	\$	23,747
Interest accrual	\$	55,048	\$	620
Gross premiums	\$	241,783	\$	4,553
Weighted-average duration of the liability in years (at original discount rate)		11		7
Weighted-average duration of the liability in years (at current discount rate)		11		7
Weighted-average interest rate (at original discount rate)		5.37	%	3.56
Weighted-average interest rate (at current discount rate)		2.54	%	2.48
			%	%

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

In 2022, there was an \$11 million charge to net income for nonparticipating traditional and limited-payment products, where net premiums exceeded gross premiums for certain issue-year cohorts, mostly offset by a \$10 million gain, reflecting the impact of ceded reinsurance on the affected cohorts. The unfavorable impact in 2022 was primarily due to unfavorable assumption updates related to individual term life products.

In 2021, there was a \$6 million charge to net income for nonparticipating traditional and limited-payment products, where net premiums exceeded gross premiums for certain issue-year cohorts, mostly offset by a \$5 million gain, reflecting the impact of ceded reinsurance on the affected cohorts. The unfavorable impact in 2021 was primarily due to unfavorable mortality experience related to individual term life products.

Deferred Profit Liability

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

	December 31, 2022	December 31, 2021
	Fixed Annuities	
	(in thousands)	
Balance, beginning of period	\$ 1,726	\$ 984
Effect of actual variances from expected experience and other activity	(169)	98
Adjusted balance, beginning of period	1,557	1,082
Profits deferred	309	771
Interest accrual	60	60
Amortization	(222)	(187)
Other adjustments	(20)	0
Balance, end of period	1,684	1,726
Less: Reinsurance recoverable	1,684	1,726
Balance after reinsurance recoverable	\$ 0	\$ 0

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

	December 31, 2022	December 31, 2021
	Fixed Annuities	
	(in thousands)	
Revenue(1)	\$ 42	\$ (742)
Interest accrual	60	60

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

Additional Insurance Reserves

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

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

	December 31, 2022		December 31, 2021	
	(in thousands)			
Balance including amounts in AOCI, beginning of period, post-flooring	\$	703,968	\$	642,514
Flooring impact and amounts in AOCI		(71,467)		(95,331)
Balance, excluding amounts in AOCI, beginning of period, pre-flooring		632,501		547,183
Effect of assumption update		180,404		369
Effect of actual variances from expected experience and other activity		(39,475)		8,089
Adjusted balance, beginning of period		773,430		555,641
Assessments collected(1)		134,822		62,891
Interest accrual		27,479		20,039
Benefits paid		(17,138)		(6,070)
Balance, excluding amounts in AOCI, end of period, pre-flooring		918,593		632,501
Flooring impact and amounts in AOCI		(91,115)		71,467
Balance, including amounts in AOCI, end of period, post-flooring		827,478		703,968
Less: Reinsurance recoverable		793,577		666,813
Balance after reinsurance recoverable, including amounts in AOCI, end of period	\$	33,901	\$	37,155

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

	December 31, 2022		December 31, 2021	
	(\$ in thousands)			
Interest accrual	\$	27,479	\$	20,039
Gross assessments	\$	303,979	\$	215,741
Weighted-average duration of the liability in years (at original discount rate)		28		26
Weighted-average interest rate (at original discount rate)		3.41 %		3.44 %

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

Future Policy Benefits Reconciliation

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

	December 31, 2022	December 31, 2021
	(in thousands)	
Benefit reserves, end of period, post-flooring	\$ 1,150,844	\$ 1,419,842
Additional insurance reserves, including amounts in AOCI, end of period, post-flooring	827,478	703,968
Deferred profit liability, end of period, post-flooring	1,684	1,726
Subtotal of amounts disclosed above	1,980,006	2,125,536
Other Future policy benefits reserves(1)	150,036	235,587
Total Future policy benefits	<u>\$ 2,130,042</u>	<u>\$ 2,361,123</u>

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

Revenue and Interest Expense

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

	December 31, 2022			
	Revenues(1)			
	Fixed Annuities	Term Life	Variable and Universal Life	Total
	(in thousands)			
Benefit reserves	\$ 1,700	\$ 242,406	\$ 0	\$ 244,106
Additional insurance reserves	0	0	303,979	303,979
Deferred profit liability	42	0	0	42
Total	<u>\$ 1,742</u>	<u>\$ 242,406</u>	<u>\$ 303,979</u>	<u>\$ 548,127</u>

	December 31, 2021			
	Revenues(1)			
	Fixed Annuities	Term Life	Variable and Universal Life	Total
	(in thousands)			
Benefit reserves	\$ 4,553	\$ 241,783	\$ 0	\$ 246,336
Additional insurance reserves	0	0	215,741	215,741
Deferred profit liability	(742)	0	0	(742)
Total	<u>\$ 3,811</u>	<u>\$ 241,783</u>	<u>\$ 215,741</u>	<u>\$ 461,335</u>

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

December 31, 2022				
Interest Expense				
	Fixed Annuities	Term Life	Variable and Universal Life	Total
	(in thousands)			
Benefit reserves	\$ 627	\$ 60,233	\$ 0	\$ 60,860
Additional insurance reserves	0	0	27,479	27,479
Deferred profit liability	60	0	0	60
Total	\$ 687	\$ 60,233	\$ 27,479	\$ 88,399

December 31, 2021				
Interest Expense				
	Fixed Annuities	Term Life	Variable and Universal Life	Total
	(in thousands)			
Benefit reserves	\$ 620	\$ 55,048	\$ 0	\$ 55,668
Additional insurance reserves	0	0	20,039	20,039
Deferred profit liability	60	0	0	60
Total	\$ 680	\$ 55,048	\$ 20,039	\$ 75,767

9. POLICYHOLDERS' ACCOUNT BALANCES

Policyholders' Account Balances

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

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

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

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

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

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

	December 31, 2022		
	Variable Annuities	Variable Life / Universal Life	Total
	(\$ in thousands)		
Balance, beginning of period	\$ 344,945	\$ 2,052,065	\$ 2,397,010
Deposits	1,066	227,017	228,083
Interest credited	6,174	64,979	71,153
Policy charges	(234)	(145,194)	(145,428)
Surrenders and withdrawals	(22,412)	(125,011)	(147,423)
Benefit payments	(3,310)	2,378	(932)
Net transfers (to) from separate account	895	37,577	38,472
Change in market value and other adjustments	0	(29,131)	(29,131)
Balance, end of period	327,124	2,084,680	2,411,804
Less: Reinsurance and other recoverables(1)	323,981	759,273	1,083,254
Policyholders' account balance net of reinsurance and other recoverables	<u>\$ 3,143</u>	<u>\$ 1,325,407</u>	<u>\$ 1,328,550</u>
Unearned revenue reserve			313,710
Other			48,801
Total Policyholders' account balance			<u>\$ 2,774,315</u>
Weighted-average crediting rate	1.84 %	3.14 %	2.96 %
Net amount at risk(2)	\$ 0	\$ 33,702,745	\$ 33,702,745
Cash surrender value(3)	\$ 305,239	\$ 1,750,451	\$ 2,055,690

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

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

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

	December 31, 2021		
	Variable Annuities	Variable Life / Universal Life	Total
	(\$ in thousands)		
Balance, beginning of period	\$ 365,751	\$ 2,023,030	\$ 2,388,781
Deposits	1,610	279,102	280,712
Interest credited	6,524	55,457	61,981
Policy charges	(169)	(141,977)	(142,146)
Surrenders and withdrawals	(18,111)	(133,669)	(151,780)
Benefit payments	(6,552)	(72,340)	(78,892)
Net transfers (to) from separate account	(4,108)	33,480	29,372
Change in market value and other adjustments	0	8,982	8,982
Balance, end of period	344,945	2,052,065	2,397,010
Less: Reinsurance and other recoverables(1)	340,527	732,293	1,072,820
Policyholders' account balance net of reinsurance and other recoverables	<u>\$ 4,418</u>	<u>\$ 1,319,772</u>	<u>\$ 1,324,190</u>
Unearned revenue reserve			251,573
Other			51,351
Total Policyholders' account balance			<u>\$ 2,699,934</u>
Weighted-average crediting rate	1.84 %	2.72 %	2.59 %
Net amount at risk(2)	\$ 0	\$ 32,380,414	\$ 32,380,414
Cash surrender value(3)	\$ 323,406	\$ 1,676,529	\$ 1,999,935

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

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

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

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

Range of Guaranteed Minimum Crediting Rate(1)	December 31, 2022				
	At guaranteed minimum	1 - 50 bps above guaranteed minimum	51 - 150 bps above guaranteed minimum	Greater than 150 bps above guaranteed minimum	Total
	(\$ in thousands)				
Variable Annuities					
Less than 1.00%	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
1.00% - 1.99%	192,551	1,593	0	0	194,144
2.00% - 2.99%	1,812	0	0	0	1,812
3.00% - 4.00%	132,969	231	0	0	133,200
Greater than 4.00%	125	0	0	0	125
Total	<u>\$ 327,457</u>	<u>\$ 1,824</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 329,281</u>
Variable Life / Universal Life					
Less than 1.00%	\$ 705	\$ 0	\$ 0	\$ 0	\$ 705
1.00% - 1.99%	56,396	0	105,883	286,496	448,775
2.00% - 2.99%	4,433	15,602	203,101	136,109	359,245
3.00% - 4.00%	156,567	633	435,220	0	592,420
Greater than 4.00%	377,674	0	0	0	377,674
Total	<u>\$ 595,775</u>	<u>\$ 16,235</u>	<u>\$ 744,204</u>	<u>\$ 422,605</u>	<u>\$ 1,778,819</u>

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

Range of Guaranteed Minimum Crediting Rate(1)	December 31, 2021				
	At guaranteed minimum	1 - 50 bps above guaranteed minimum	51 - 150 bps above guaranteed minimum	Greater than 150 bps above guaranteed minimum	Total
	(\$ in thousands)				
Variable Annuities					
Less than 1.00%	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
1.00% - 1.99%	202,917	1,627	0	0	204,544
2.00% - 2.99%	1,901	0	0	0	1,901
3.00% - 4.00%	142,452	0	0	0	142,452
Greater than 4.00%	120	0	0	0	120
Total	<u>\$ 347,390</u>	<u>\$ 1,627</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 349,017</u>
Variable Life / Universal Life					
Less than 1.00%	\$ 1,143	\$ 0	\$ 0	\$ 0	\$ 1,143
1.00% - 1.99%	48,298	0	0	362,043	410,341
2.00% - 2.99%	679	0	288,371	53,031	342,081
3.00% - 4.00%	142,942	390,853	62,559	0	596,354
Greater than 4.00%	362,150	0	0	0	362,150
Total	<u>\$ 555,212</u>	<u>\$ 390,853</u>	<u>\$ 350,930</u>	<u>\$ 415,074</u>	<u>\$ 1,712,069</u>

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

Unearned Revenue Reserve

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

	December 31, 2022	December 31, 2021
	Variable Life / Universal Life	
	(in thousands)	
Balance, beginning of period	\$ 251,573	\$ 186,582
Unearned revenue	75,757	76,179
Amortization expense	(13,681)	(11,188)
Other adjustments	61	0
Balance, end of period	313,710	251,573
Less: Reinsurance recoverables	81,256	63,830
Unearned revenue reserve net of reinsurance recoverables	<u>\$ 232,454</u>	<u>\$ 187,743</u>

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

10. MARKET RISK BENEFITS

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

	December 31, 2022		
	Variable Annuities	Less: Reinsured Market Risk Benefits	Total, Net of Reinsurance
	(in thousands)		
Balance, beginning of period	\$ 796,913	\$ (796,913)	\$ 0
Effect of cumulative changes in non-performance risk	21,123	0	21,123
Balance, beginning of period, before effect of changes in non-performance risk	818,036	(796,913)	21,123
Attributed fees collected	117,867	(117,867)	0
Claims paid	(3,456)	3,456	0
Interest accrual	12,950	(12,950)	0
Actual in force different from expected	10,199	(10,199)	0
Effect of changes in interest rates	(642,920)	642,920	0
Effect of changes in equity markets	266,177	(266,177)	0
Effect of assumption update	(17,430)	17,430	0
Effect of changes in current period counterparty non-performance risk	0	142,046	142,046
Balance, end of period, before effect of changes in non-performance risk	561,423	(398,254)	163,169
Effect of cumulative changes in non-performance risk	(163,169)	0	(163,169)
Balance, end of period	\$ 398,254	\$ (398,254)	\$ 0

	December 31, 2021		
	Variable Annuities	Less: Reinsured Market Risk Benefits	Total, Net of Reinsurance
	(in thousands)		
Balance, beginning of period	\$ 1,205,571	\$ (1,205,571)	\$ 0
Effect of cumulative changes in non-performance risk	60,792	0	60,792
Balance, beginning of period, before effect of changes in non-performance risk	1,266,363	(1,205,571)	60,792
Attributed fees collected	129,583	(129,583)	0
Claims paid	(199)	199	0
Interest accrual	2,200	(2,200)	0
Actual in force different from expected	934	(934)	0
Effect of changes in interest rates	(324,926)	324,926	0
Effect of changes in equity markets	(235,734)	235,734	0
Effect of assumption update	(20,185)	20,185	0
Effect of changes in current period counterparty non-performance risk	0	(39,669)	(39,669)
Balance, end of period, before effect of changes in non-performance risk	818,036	(796,913)	21,123
Effect of cumulative changes in non-performance risk	(21,123)	0	(21,123)
Balance, end of period	\$ 796,913	\$ (796,913)	\$ 0

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

	December 31, 2022	December 31, 2021
	Variable Annuities	
	(\$ in thousands)	
Net amount at risk(1)	\$ 1,050,063	\$ 128,292
Weighted-average attained age of contractholders	68	65

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

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

	December 31, 2022	December 31, 2021
	Variable Annuities	
	(in thousands)	
Market risk benefit assets	\$ 558,624	\$ 940,706
Market risk benefit liabilities	558,624	940,706
Net liability	\$ 0	\$ 0

11. REINSURANCE

The Company participates in reinsurance with its affiliates Prudential Arizona Reinsurance Captive Company ("PARCC"), Prudential Arizona Reinsurance Term Company ("PAR Term"), Prudential Arizona Reinsurance Universal Company ("PAR U"), Prudential 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.

Change in value of market risk benefits, net of related hedging gain (loss) include the impact of reinsurance agreements, particularly reinsurance agreements involving living benefit guarantees. The Company has entered into a reinsurance agreement to transfer the risk related to living benefit guarantees on variable annuities to Prudential Insurance. These reinsurance agreements are market risk benefits and have been accounted for in the same manner. See Note 4 for additional information related to the accounting for market risk benefits.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

	2022	2021
	(in thousands)	
Reinsurance recoverables(1)	\$ 3,098,248	\$ 3,175,195
Policy loans	(22,999)	(22,028)
Deferred policy acquisition costs(1)	(646,737)	(691,795)
Deferred sales inducements(1)	(38,146)	(41,346)
Market risk benefit assets(1)	478,439	868,810
Other assets(1)	42,265	44,226
Market risk benefit liabilities(1)	80,185	71,896
Other liabilities(1)	115,351	147,160

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

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

	2022	2021
	(in thousands)	
Prudential Insurance(1)	\$ 456,633	\$ 484,807
PAR U(1)	1,575,260	1,385,187
PARCC(1)	464,142	510,618
PAR Term(1)	258,169	329,514
Term Re(1)	232,796	313,481
DART(1)	73,702	105,596
Pruco Life(1)	34,720	40,804
Unaffiliated	2,826	5,188
Total reinsurance recoverables(1)	\$ 3,098,248	\$ 3,175,195

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

	2022	2021	2020
	(in thousands)		
Premiums:			
Direct(1)	\$ 245,525	\$ 249,162	\$ 249,426
Ceded(1)	(211,817)	(220,413)	(227,766)
Net premiums(1)	<u>33,708</u>	<u>28,749</u>	<u>21,660</u>
Policy charges and fee income:			
Direct(1)	370,855	395,576	407,449
Ceded(1)(2)	(313,121)	(323,414)	(333,247)
Net policy charges and fee income(1)	<u>57,734</u>	<u>72,162</u>	<u>74,202</u>
Net investment income:			
Direct	99,164	101,279	83,800
Ceded	(772)	(788)	(805)
Net investment income	<u>98,392</u>	<u>100,491</u>	<u>82,995</u>
Asset administration fees:			
Direct	38,061	44,882	39,773
Ceded	(29,581)	(36,007)	(33,029)
Net asset administration fees	<u>8,480</u>	<u>8,875</u>	<u>6,744</u>
Realized investment gains (losses), net:			
Direct(1)	12,855	465	(324,737)
Ceded(1)	980	50	326,608
Realized investment gains (losses), net(1)	<u>13,835</u>	<u>515</u>	<u>1,871</u>
Change in value of market risk benefits, net of related hedging gain (loss):			
Direct(1)	256,613	448,327	0
Ceded(1)	(398,659)	(408,657)	0
Net change in value of market risk benefits, net of related hedging gain (loss)(1)	<u>(142,046)</u>	<u>39,670</u>	<u>0</u>
Policyholders' benefits (including change in reserves):			
Direct(1)	472,033	391,308	470,557
Ceded(1)(3)	(443,844)	(350,529)	(428,670)
Net policyholders' benefits (including change in reserves)(1)	<u>28,189</u>	<u>40,779</u>	<u>41,887</u>
Change in estimates of liability for future policy benefits:			
Direct(1)	208,188	14,590	0
Ceded(1)	(191,557)	(11,771)	0
Net change in estimates of liability for future policy benefits(1)	<u>16,631</u>	<u>2,819</u>	<u>0</u>
Interest credited to policyholders' account balances:			
Direct(1)	82,469	73,809	75,609
Ceded(1)	(34,891)	(30,805)	(31,513)
Net interest credited to policyholders' account balances	<u>47,578</u>	<u>43,004</u>	<u>44,096</u>
Reinsurance expense allowances and general and administrative expenses, net of capitalization and amortization(1)	<u>\$ (128,013)</u>	<u>\$ (135,863)</u>	<u>\$ (176,420)</u>

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

(2) Includes \$(5) million of unaffiliated activity for each of the years ended December 31, 2022 and 2021, and \$(4) million for 2020.

(3) Includes \$2 million, \$(2) million and \$(1) million of unaffiliated activity for the years ended December 31, 2022, 2021 and 2020, respectively.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

	2022	2021	2020
	(in thousands)		
Direct gross life insurance face amount in force	\$ 154,382,891	\$ 156,103,597	\$ 154,173,267
Reinsurance ceded	(140,370,532)	(140,856,353)	(139,478,523)
Net life insurance face amount in force	<u>\$ 14,012,359</u>	<u>\$ 15,247,244</u>	<u>\$ 14,694,744</u>

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 Financial Statements—(Continued)

12. INCOME TAXES

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

	Year Ended December 31,		
	2022	2021	2020
	(in thousands)		
Current tax expense (benefit):			
U.S. federal	\$ (22,713)	\$ 10,969	\$ (34,698)
State and local	(103)	137	0
Total	(22,816)	11,106	(34,698)
Deferred tax expense (benefit):			
U.S. federal(1)	(7,958)	(13)	28,359
Total	(7,958)	(13)	28,359
Income tax expense (benefit) from operations	(30,774)	11,093	(6,339)
Income tax expense (benefit) reported in equity related to:			
Other comprehensive income (loss)(1)	(36,731)	(19,694)	26,521
Total income tax expense (benefit)	\$ (67,505)	\$ (8,601)	\$ 20,182

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

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

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

	Year Ended December 31,		
	2022	2021	2020
	(\$ in thousands)		
Expected federal income tax expense (benefit)(1)	\$ (21,126)	\$ 20,100	\$ 8,827
Non-taxable investment income	(6,259)	(6,371)	(5,819)
Tax credits	(3,393)	(3,478)	(2,451)
Changes in tax law	0	67	(6,941)
Other	4	775	45
Reported income tax expense (benefit)	\$ (30,774)	\$ 11,093	\$ (6,339)
Effective tax rate(1)	30.6 %	11.6 %	(15.1) %

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

The effective tax rate is the ratio of “Income tax expense (benefit)” divided by “Income (loss) from operations before income taxes.” The Company’s effective tax rate for fiscal years 2022, 2021 and 2020 was 30.6%, 11.6% and (15.1)%, respectively. The following is a description of items that had a significant impact on the difference between the Company’s statutory U.S. federal income tax rate of 21% applicable for 2022, 2021 and 2020, and the Company’s effective tax rate during the periods presented:

Non-Taxable Investment Income. The U.S. Dividends Received Deduction (“DRD”) reduces the amount of dividend income subject to U.S. tax and is included in the non-taxable investment income shown in the table above. More specifically, the U.S. DRD constitutes \$5 million of the total \$6 million of 2022 non-taxable investment income, \$6 million of the total \$6 million of 2021 non-taxable investment income, and \$5 million of the total \$6 million of 2020 non-taxable investment income. The DRD for the current period was estimated using information from 2021, current year investment results, and current year’s equity market performance. The actual current year DRD can vary based on factors such as, but not limited to, changes in the amount of dividends received that are eligible for the DRD, changes in the amount of distributions received from fund investments, changes in the account balances of variable life and annuity contracts, and the Company’s taxable income before the DRD.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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

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

The CARES Act. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted into law. One provision of the CARES Act amends the Tax Act of 2017 and allows companies with net operating losses ("NOLs") originating in 2020, 2019 or 2018 to carry back those losses for up to five years. For 2020, the Company recorded an income tax benefit of \$7 million from carrying the 2020 NOL back to tax years that have a 35% tax rate.

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

Schedule of Deferred Tax Assets and Deferred Tax Liabilities

	As of December 31,	
	2022	2021
	(in thousands)	
Deferred tax assets:		
Insurance reserves(1)	\$ 1,677	\$ 49,117
Net unrealized loss on securities	56,805	0
Other	465	398
Deferred tax assets	58,947	49,515
Deferred tax liabilities:		
Deferred policy acquisition cost(1)	15,078	8,639
Net unrealized gain on securities	0	36,834
Investments(1)	4,149	9,381
Deferred tax liabilities	19,227	54,854
Net deferred tax asset (liability)	\$ 39,720	\$ (5,339)

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

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

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

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

The Company's "Income (loss) from operations before income taxes" includes income from domestic operations of \$(101) million, \$96 million and \$42 million for the years ended December 31, 2022, 2021 and 2020, respectively.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

Tax Audit and Unrecognized Tax Benefits

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

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

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

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

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

13. EQUITY

Accumulated Other Comprehensive Income (Loss)

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

	Accumulated Other Comprehensive Income (Loss)				
	Foreign Currency Translation Adjustment	Net Unrealized Investment Gains (Losses)(1)	Interest Rate Remeasurement of Future Policy Benefits	Gain (loss) from Changes in Non-Performance Risk on Market Risk Benefits	Total Accumulated Other Comprehensive Income (Loss)
	(in thousands)				
Balance, December 31, 2019	\$ (981)	\$ 86,616	\$	\$	\$ 85,635
Change in OCI before reclassifications	250	126,329			126,579
Amounts reclassified from AOCI	0	(286)			(286)
Income tax benefit (expense)	(52)	(26,469)			(26,521)
Balance, December 31, 2020	(783)	186,190			185,407
Cumulative effect of adoption of ASU 2018-12	0	(11,979)	(45,378)	48,028	(9,329)
Change in OCI before reclassifications(2)	(259)	(66,843)	13,404	(39,669)	(93,367)
Amounts reclassified from AOCI	0	(418)	0	0	(418)
Income tax benefit (expense)(2)	54	14,125	(2,814)	8,329	19,694
Balance, December 31, 2021	(988)	121,075	(34,788)	16,688	101,987
Change in OCI before reclassifications(2)	(336)	(375,622)	59,865	142,048	(174,045)
Amounts reclassified from AOCI	0	(863)	0	0	(863)
Income tax benefit (expense)(2)	110	79,024	(12,573)	(29,830)	36,731
Balance, December 31, 2022	<u>\$ (1,214)</u>	<u>\$ (176,386)</u>	<u>\$ 12,504</u>	<u>\$ 128,906</u>	<u>\$ (36,190)</u>

(1) Includes cash flow hedges of \$14 million, \$5 million and \$(3) million as of December 31, 2022, 2021 and 2020, respectively.

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

Reclassifications out of Accumulated Other Comprehensive Income (Loss)

	Year Ended December 31,		
	2022	2021	2020
	(in thousands)		
<u>Amounts reclassified from AOCI(1)(2):</u>			
Net unrealized investment gains (losses):			
Cash flow hedges - Currency/Interest rate(3)	\$ 4,895	\$ 2,292	\$ 958
Net unrealized investment gains (losses) on available-for-sale securities	(4,032)	(1,874)	(672)
Total net unrealized investment gains (losses)(4)	863	418	286
Total reclassifications for the period	\$ 863	\$ 418	\$ 286

(1) All amounts are shown before tax.

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

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

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

Net Unrealized Investment Gains (Losses)

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

	Net Unrealized Gains (Losses) on Available-for-Sale Fixed Maturity Securities on which an OTTI Loss has been Recognized	Net Unrealized Gains (Losses) on All Other Investments(1)	Other Costs(2)	Future Policy Benefits, Policyholders' Account Balances and Other Liabilities(3)	Income Tax Benefit (Expense)	Accumulated Other Comprehensive Income (Loss) Related to Net Unrealized Investment Gains (Losses)
(in thousands)						
Balance, December 31, 2019	\$ 51	\$ 115,988	\$ 8,973	\$ (15,373)	\$ (23,023)	\$ 86,616
Reclassification due to implementation of ASU 2016-13 (4)	(51)	51	0	0	0	0
Net investment gains (losses) on investments arising during the period	0	139,971	0	0	(29,394)	110,577
Reclassification adjustment for (gains) losses included in net income	0	(286)	0	0	61	(225)
Impact of net unrealized investment (gains) losses	0	0	19,268	(32,910)	2,864	(10,778)
Balance, December 31, 2020	0	255,724	28,241	(48,283)	(49,492)	186,190
Cumulative effect of adoption of ASU 2018-12	0	0	59,506	(74,668)	3,183	(11,979)
Net investment gains (losses) on investments arising during the period	0	(74,500)	0	0	15,644	(58,856)
Reclassification adjustment for (gains) losses included in net income	0	(418)	0	0	88	(330)
Impact of net unrealized investment (gains) losses(5)	0	0	(22,975)	30,632	(1,607)	6,050
Balance, December 31, 2021	0	180,806	64,772	(92,319)	(32,184)	121,075
Net investment gains (losses) on investments arising during the period	0	(436,527)	0	0	91,638	(344,889)
Reclassification adjustment for (gains) losses included in net income	0	(863)	0	0	181	(682)
Impact of net unrealized investment (gains) losses(5)	0	0	(148,484)	209,389	(12,795)	48,110
Balance, December 31, 2022	\$ 0	\$ (256,584)	\$ (83,712)	\$ 117,070	\$ 46,840	\$ (176,386)

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

(2) "Other costs" primarily includes reinsurance recoverables.

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

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

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

14. STATUTORY NET INCOME AND SURPLUS AND DIVIDEND RESTRICTIONS

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

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

The following table summarizes certain statutory financial information for the Company for the periods indicated:

	Year Ended December 31,		
	2022	2021	2020
	(in millions)		
Statutory net income (loss)	\$ (134)	\$ 52	\$ (70)
Statutory capital and surplus	851	592	337

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

The Company is subject to New Jersey law, which limits the amount of dividends that insurance companies can pay to stockholders without approval of the New Jersey Department of Banking and Insurance. The maximum dividend, which may be paid in any twelve-month period without notification or approval, is limited to the greater of 10% of statutory surplus as of December 31 of the preceding year or the net gain from operations of the preceding calendar year. Cash dividends may only be paid out of surplus derived from realized net profits. Based on these limitations, there is a capacity to pay a dividend of \$13 million in 2023 without prior approval. The Company did not pay dividends to Pruco Life in 2022, 2021, and 2020.

15. RELATED PARTY TRANSACTIONS

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

Expense Charges and Allocations

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

The Company's general and administrative expenses are charged to the Company using allocation methodologies based on business production processes. Management believes that the methodology is reasonable and reflects costs incurred by Prudential Insurance to process transactions on behalf of the Company. The Company operates under service and lease agreements whereby services of officers and employees, supplies, use of equipment and office space are provided by Prudential Insurance. The Company reviews its allocation methodology periodically which it may adjust accordingly. General and administrative expenses include allocations of stock compensation expenses related to a stock-based awards program and a deferred compensation program issued by Prudential Financial. The expense charged to the Company for the stock based-awards program was \$0.1 million for each of the years ended December 31, 2022, 2021 and 2020. The expense charged to the Company for the deferred compensation program was \$0.4 million, \$0.4 million and \$0.6 million for the years ended December 31, 2022, 2021 and 2020, respectively.

The Company is charged for its share of employee benefit expenses. These expenses include costs for funded and non-funded, non-contributory defined benefit pension plans. Some of these benefits are based on final earnings and length of service while others are based on an account balance, which takes into consideration age, service and earnings during a career. The Company's share of net expense for the pension plans was \$1 million, \$1 million and \$2 million for each of the years ended December 31, 2022, 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 \$1 million, \$1 million and \$2 million for the years ended December 31, 2022, 2021 and 2020, respectively.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

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 \$0.5 million, \$0.5 million and \$1.0 million for the years ended December 31, 2022, 2021 and 2020, respectively.

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

The Company pays commissions and certain other fees to Prudential Annuities Distributors, Inc. ("PAD") in consideration for PAD's marketing and underwriting of the Company's annuity products. Commissions and fees are paid by PAD to broker-dealers who sell the Company's annuity products. Commissions and fees paid by the Company to PAD were \$29 million, \$37 million and \$53 million for the years ended December 31, 2022, 2021 and 2020, respectively.

The Company is charged for its share of corporate expenses incurred by Prudential Financial to benefit its businesses, such as advertising, executive oversight, external affairs and philanthropic activity. The Company's share of corporate expenses was \$12 million, \$10 million and \$9 million for the years ended December 31, 2022, 2021 and 2020, respectively.

Corporate-Owned Life Insurance

The Company has sold three COLI policies to Prudential Insurance and one to Prudential Financial. The cash surrender value included in separate accounts for these COLI policies was \$2,946 million at December 31, 2022 and \$3,465 million at December 31, 2021. Fees related to these COLI policies were \$27 million, \$30 million and \$27 million for the years ended December 31, 2022, 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.

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 \$3 million for the years ended December 31, 2022, 2021 and 2020. These expenses are recorded as "Net investment income" in the Statements of Operations and Comprehensive Income.

Derivative Trades

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

Joint Ventures

The Company has made investments in joint ventures with certain subsidiaries of Prudential Financial. "Other invested assets" includes \$51 million and \$48 million as of December 31, 2022 and 2021, respectively. "Net investment income" related to these ventures includes gains of \$2 million, \$4 million and \$4 million for the years ended December 31, 2022, 2021 and 2020, respectively.

Affiliated Asset Administration Fee Income

The Company has a revenue sharing agreement with AST Investment Services, Inc. ("ASTISI") and PGIM Investments LLC ("PGIM Investments") whereby the Company receives fee income based on policyholders' separate account balances invested in the Advanced Series Trust. Income received from ASTISI and PGIM Investments related to this agreement was \$30 million, \$36 million and \$33 million for the years ended December 31, 2022, 2021 and 2020, respectively. These revenues are recorded as "Asset administration fees" in the Statements of Operations and Comprehensive Income.

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 \$7 million, \$8 million and \$6 million for the years ended December 31, 2022, 2021 and 2020, respectively. These revenues are recorded as "Asset administration fees" in the Statements of Operations and Comprehensive Income.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

Affiliated Notes Receivable

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

	Maturity Dates	Interest Rates		2022	2021
				(in thousands)	
U.S. dollar fixed rate notes	2027	0.00% - 14.85 %	\$	688	788
Total long-term notes receivable - affiliated(1)			\$	688	788

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

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

There was no accrued interest receivable related to these loans as of December 31, 2022 and 2021. Revenues were \$0.0 million, \$0.0 million and \$0.1 million for the years ended December 31, 2022, 2021 and 2020, respectively, and are included in “Other income (loss).”

Affiliated Asset Transfers

The Company participates in affiliated asset trades with parent and sister companies. Book and market value differences for trades with a parent and sister are recognized within "Additional paid-in capital" ("APIC") and "Realized investment gains (losses), net," respectively. The table below shows affiliated asset trades for the years ended December 31, 2022 and 2021:

Affiliate	Date	Transaction	Security Type	Fair Value	Book Value	APIC, Net of Tax Increase/(Decrease)	Realized Investment Gain (Loss)
(in thousands)							
Prudential Insurance	September 2021	Purchase	Fixed Maturities	\$ 10,810	\$ 10,520	\$ (229)	\$ 0
Prudential Insurance	September 2021	Sale	Fixed Maturities	\$ 7,356	\$ 6,477	\$ 695	\$ 0
Prudential Retirement Insurance & Annuity Co	September 2021	Purchase	Fixed Maturities	\$ 19,724	\$ 19,724	\$ 0	\$ 0
Prudential Retirement Insurance & Annuity Co	September 2021	Sale	Fixed Maturities	\$ 22,557	\$ 22,038	\$ 0	\$ 519
Prudential Insurance	September 2021	Purchase	Derivatives	\$ 715	\$ 213	\$ (396)	\$ 0
Prudential Retirement Insurance & Annuity Co	September 2021	Purchase	Derivatives	\$ 21	\$ 21	\$ 0	\$ 0
Prudential Retirement Insurance & Annuity Co	September 2021	Sale	Derivatives	\$ 816	\$ 233	\$ 0	\$ 583
Prudential Insurance	August 2022	Purchase	Fixed Maturities	\$ 21,389	\$ 19,630	\$ (1,390)	\$ 0

Debt Agreements

The Company is authorized to borrow funds up to \$200 million from affiliates to meet its capital and other funding needs. There was no debt outstanding for both 2022 and 2021.

The total interest expense to the Company related to loans payable to affiliates was \$0.0 million for each of the years ended December 31, 2022, 2021 and 2020.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

Contributed Capital and Dividends

In February 2023, the Company received a capital contribution in the amount of \$175 million from Pruco Life. In February, March, September and December 2022 the Company received capital contributions in the amount of \$100 million, \$2 million, \$100 million and \$125 million from Pruco Life, respectively. In March 2021 and December 2021, the Company received capital contributions in the amounts of \$1 million and \$100 million from Pruco Life, respectively. In March 2020, the Company received a capital contribution in the amount of \$85 million from Pruco Life.

There was no return of capital in 2022, 2021 and 2020.

The Company did not pay any dividends in 2022, 2021 and 2020.

Reinsurance with Affiliates

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

16. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

The Company has made commitments to fund commercial mortgage loans. As of December 31, 2022 and 2021, the outstanding balances on these commitments were \$15 million and \$1 million, respectively. These amounts do not include unfunded commitments that are not unconditionally cancellable. For related credit exposure, there was no allowance for credit losses as of either December 31, 2022 or 2021. There was no change in allowance for credit losses for both the years ended December 31, 2022 and 2021. The Company has made commitments to purchase or fund investments, mostly private fixed maturities. As of December 31, 2022 and 2021, \$62 million and \$61 million, respectively, of these commitments were outstanding. These amounts include unfunded commitments that are not unconditionally cancellable. There were no related charges for credit losses for both the years ended December 31, 2022 and 2021.

Contingent Liabilities

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

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

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

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.

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

Notes to Financial Statements—(Continued)

The Company establishes accruals for litigation and regulatory matters when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. For litigation and regulatory matters where a loss may be reasonably possible, but not probable, or is probable but not reasonably estimable, no accrual is established, but the matter, if material, is disclosed. The Company estimates that as of December 31, 2022, the aggregate range of reasonably possible losses in excess of accruals established for those litigation and regulatory matters for which such an estimate currently can be made is less than \$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.

Regulatory

Variable Products

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

Summary

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