

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

- ☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2021
OR
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period from to
Commission File Number 001-16707

Prudential Financial, Inc.
(Exact Name of Registrant as Specified in its Charter)

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

22-3703799
(I.R.S. Employer
Identification Number)

751 Broad Street
Newark, NJ 07102
(973) 802-6000

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

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

<u>Title of Each Class</u>	<u>Trading Symbols(s)</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, Par Value \$.01	PRU	New York Stock Exchange
5.625% Junior Subordinated Notes	PRS	New York Stock Exchange
4.125% Junior Subordinated Notes	PFH	New York Stock Exchange

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

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

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

Large Accelerated Filer	☒	Accelerated Filer	☐
Non-accelerated Filer	☐	Smaller Reporting Company	☐
		Emerging Growth Company	☐

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

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

As of October 31, 2021, 378 million shares of the registrant's Common Stock (par value \$0.01) were outstanding.

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Forward-Looking Statements

Certain of the statements included in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Words such as “expects,” “believes,” “anticipates,” “includes,” “plans,” “assumes,” “estimates,” “projects,” “intends,” “should,” “will,” “shall” or variations of such words are generally part of forward-looking statements. Forward-looking statements are made based on management’s current expectations and beliefs concerning future developments and their potential effects upon Prudential Financial, Inc. and its subsidiaries. There can be no assurance that future developments affecting Prudential Financial, Inc. and its subsidiaries will be those anticipated by management. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and there are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements, including, among others: (1) the ongoing impact of the COVID-19 pandemic on the global economy, financial markets and our business; (2) losses on investments or financial contracts due to deterioration in credit quality or value, or counterparty default; (3) losses on insurance products due to mortality experience, morbidity experience or policyholder behavior experience that differs significantly from our expectations when we price our products; (4) changes in interest rates, equity prices and foreign currency exchange rates that may (a) adversely impact the profitability of our products, the value of separate accounts supporting these products or the value of assets we manage, (b) result in losses on derivatives we use to hedge risk or increase collateral posting requirements and (c) limit opportunities to invest at appropriate returns; (5) guarantees within certain of our products which are market sensitive and may decrease our earnings or increase the volatility of our results of operations or financial position; (6) liquidity needs resulting from (a) derivative collateral market exposure, (b) asset/liability mismatches, (c) the lack of available funding in the financial markets or (d) unexpected cash demands due to severe mortality calamity or lapse events; (7) financial or customer losses, or regulatory and legal actions, due to inadequate or failed processes or systems, external events, and human error or misconduct such as (a) disruption of our systems and data, (b) an information security breach, (c) a failure to protect the privacy of sensitive data, (d) reliance on third-parties or (e) labor and employment matters; (8) changes in the regulatory landscape, including related to (a) financial sector regulatory reform, (b) changes in tax laws, (c) fiduciary rules and other standards of care, (d) U.S. state insurance laws and developments regarding group-wide supervision, capital and reserves, (e) insurer capital standards outside the U.S. and (f) privacy and cybersecurity regulation; (9) technological changes which may adversely impact companies in our investment portfolio or cause insurance experience to deviate from our assumptions; (10) an inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others; (11) ratings downgrades; (12) market conditions that may adversely affect the sales or persistency of our products; (13) competition; (14) reputational damage; (15) the costs, effects, timing, or success of our plans to execute our strategy; and (16) the integration of Assurance IQ, LLC into our strategy. Prudential Financial, Inc. does not undertake to update any particular forward-looking statement included in this document. See “Risk Factors” included in the Annual Report on Form 10-K for the year ended December 31, 2020 for discussion of certain risks relating to our businesses and investment in our securities.

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Financial Position September 30, 2021 and December 31, 2020 (in millions, except share amounts)

	September 30, 2021	December 31, 2020
ASSETS		
Fixed maturities, available-for-sale, at fair value (allowance for credit losses: 2021-\$92; 2020-\$133) (amortized cost: 2021-\$332,957; 2020-\$354,470)(1)	\$ 373,252	\$ 412,905
Fixed maturities, held-to-maturity, at amortized cost, net of allowance for credit losses (allowance for credit losses: 2021-\$6; 2020-\$9) (fair value: 2021-\$1,956; 2020-\$2,298)(1)	1,644	1,930
Fixed maturities, trading, at fair value (amortized cost: 2021-\$9,583; 2020-\$3,670)(1)	9,548	3,914
Assets supporting experience-rated contractholder liabilities, at fair value	3,424	24,115
Equity securities, at fair value (cost: 2021-\$5,100; 2020-\$5,968)(1)	7,727	8,135
Commercial mortgage and other loans (net of \$117 and \$235 allowance for credit losses; includes \$1,106 and \$1,092 of loans measured at fair value under the fair value option at September 30, 2021 and December 31, 2020, respectively)(1)	57,786	65,425
Policy loans	10,471	11,271
Other invested assets (net of \$2 and \$2 allowance for credit losses; includes \$6,965 and \$6,407 of assets measured at fair value at September 30, 2021 and December 31, 2020, respectively)(1)	20,205	18,125
Short-term investments (net of allowance for credit losses: 2021-\$0; 2020-\$1)	4,733	7,800
Total investments	488,790	553,620
Cash and cash equivalents(1)	15,605	13,701
Accrued investment income(1)	2,808	3,193
Deferred policy acquisition costs	18,067	19,027
Value of business acquired	815	1,103
Assets held-for-sale(2)	143,910	0
Other assets (net of allowance for credit losses: 2021-\$16; 2020-\$11)(1)	20,735	22,801
Separate account assets	241,852	327,277
TOTAL ASSETS	\$ 932,582	\$ 940,722
LIABILITIES AND EQUITY		
LIABILITIES		
Future policy benefits	\$ 291,721	\$ 306,343
Policyholders' account balances	122,337	161,682
Policyholders' dividends	8,448	9,524
Securities sold under agreements to repurchase	9,899	10,894
Cash collateral for loaned securities	4,382	3,499
Income taxes	10,540	12,022
Short-term debt	909	925
Long-term debt	18,687	19,718
Liabilities held-for-sale(2)	140,736	0
Other liabilities (net of allowance for credit losses: 2021-\$21; 2020-\$20)(1)	20,230	20,323
Notes issued by consolidated variable interest entities(1)	282	305
Separate account liabilities	241,852	327,277
Total liabilities	870,023	872,512
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 14)		
EQUITY		
Preferred Stock (\$0.01 par value; 10,000,000 shares authorized; none issued)	0	0
Common Stock (\$0.01 par value; 1,500,000,000 shares authorized; 666,305,189 shares issued as of both September 30, 2021 and December 31, 2020)	6	6
Additional paid-in capital	25,680	25,584
Common Stock held in treasury, at cost (287,361,658 and 269,867,738 shares at September 30, 2021 and December 31, 2020, respectively)	(21,522)	(19,652)
Accumulated other comprehensive income (loss)	21,836	30,738
Retained earnings	35,887	30,749
Total Prudential Financial, Inc. equity	61,887	67,425
Noncontrolling interests	672	785
Total equity	62,559	68,210
TOTAL LIABILITIES AND EQUITY	\$ 932,582	\$ 940,722

(1) See Note 4 for details of balances associated with variable interest entities.

(2) See Note 1 for details of the assets and liabilities classified as "held-for-sale" as of September 30, 2021.

See Notes to Unaudited Interim Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Operations

Three and Nine Months Ended September 30, 2021 and 2020 (in millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
REVENUES				
Premiums	\$ 13,193	\$ 7,482	\$ 27,515	\$ 22,839
Policy charges and fee income	1,570	1,464	4,460	4,476
Net investment income	4,717	4,446	13,651	12,834
Asset management and service fees	1,229	1,120	3,603	3,144
Other income (loss)	500	992	2,135	(125)
Realized investment gains (losses), net	432	(79)	3,146	(2,164)
Total revenues	<u>21,641</u>	<u>15,425</u>	<u>54,510</u>	<u>41,004</u>
BENEFITS AND EXPENSES				
Policyholders' benefits	14,401	8,312	30,126	25,768
Interest credited to policyholders' account balances	917	1,151	2,759	3,375
Dividends to policyholders	602	554	2,039	1,008
Amortization of deferred policy acquisition costs	529	638	1,662	1,882
General and administrative expenses	3,386	3,323	9,931	10,194
Total benefits and expenses	<u>19,835</u>	<u>13,978</u>	<u>46,517</u>	<u>42,227</u>
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	<u>1,806</u>	<u>1,447</u>	<u>7,993</u>	<u>(1,223)</u>
Total income tax expense (benefit)	259	(50)	1,504	7
INCOME (LOSS) BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	<u>1,547</u>	<u>1,497</u>	<u>6,489</u>	<u>(1,230)</u>
Equity in earnings of operating joint ventures, net of taxes	18	10	63	62
NET INCOME (LOSS)	<u>1,565</u>	<u>1,507</u>	<u>6,552</u>	<u>(1,168)</u>
Less: Income (loss) attributable to noncontrolling interests	35	20	36	25
NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.	<u>\$ 1,530</u>	<u>\$ 1,487</u>	<u>\$ 6,516</u>	<u>\$ (1,193)</u>
EARNINGS PER SHARE				
Basic earnings per share-Common Stock:				
Net income (loss) attributable to Prudential Financial, Inc.	<u>\$ 3.92</u>	<u>\$ 3.72</u>	<u>\$ 16.44</u>	<u>\$ (3.06)</u>
Diluted earnings per share-Common Stock:				
Net income (loss) attributable to Prudential Financial, Inc.	<u>\$ 3.90</u>	<u>\$ 3.70</u>	<u>\$ 16.32</u>	<u>\$ (3.06)</u>

See Notes to Unaudited Interim Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Comprehensive Income
Three and Nine Months Ended September 30, 2021 and 2020 (in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
NET INCOME (LOSS)	\$ 1,565	\$ 1,507	\$ 6,552	\$ (1,168)
Other comprehensive income (loss), before tax:				
Foreign currency translation adjustments for the period	(160)	329	(889)	122
Net unrealized investment gains (losses)	(1,740)	(1,853)	(10,515)	6,894
Defined benefit pension and postretirement unrecognized periodic benefit (cost)	69	74	239	218
Total	(1,831)	(1,450)	(11,165)	7,234
Less: Income tax expense (benefit) related to other comprehensive income (loss)	(397)	(620)	(2,254)	1,265
Other comprehensive income (loss), net of taxes	(1,434)	(830)	(8,911)	5,969
Comprehensive income (loss)	131	677	(2,359)	4,801
Less: Comprehensive income (loss) attributable to noncontrolling interests	42	26	27	32
Comprehensive income (loss) attributable to Prudential Financial, Inc.	<u>\$ 89</u>	<u>\$ 651</u>	<u>\$ (2,386)</u>	<u>\$ 4,769</u>

See Notes to Unaudited Interim Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.
Unaudited Interim Consolidated Statements of Equity
Three and Nine Months Ended September 30, 2021 (in millions)

	Prudential Financial, Inc. Equity							
	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Accumulated Other Comprehensive Income (Loss)	Total Prudential Financial, Inc. Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2020	\$ 6	\$ 25,584	\$ 30,749	\$ (19,652)	\$ 30,738	\$ 67,425	\$ 785	\$ 68,210
Common Stock acquired				(375)		(375)		(375)
Contributions from noncontrolling interests							3	3
Distributions to noncontrolling interests							(6)	(6)
Stock-based compensation programs		(5)		149		144		144
Dividends declared on Common Stock			(467)			(467)		(467)
Comprehensive income:								
Net income (loss)			2,828			2,828	(24)	2,804
Other comprehensive income (loss), net of tax					(11,519)	(11,519)	(18)	(11,537)
Total comprehensive income (loss)						(8,691)	(42)	(8,733)
Balance, March 31, 2021	<u>6</u>	<u>25,579</u>	<u>33,110</u>	<u>(19,878)</u>	<u>19,219</u>	<u>58,036</u>	<u>740</u>	<u>58,776</u>
Common Stock acquired				(875)		(875)		(875)
Contributions from noncontrolling interests							9	9
Distributions to noncontrolling interests							(22)	(22)
Consolidations (deconsolidations) of noncontrolling interests							(118)	(118)
Stock-based compensation programs		65		66		131		131
Dividends declared on Common Stock			(460)			(460)		(460)
Comprehensive income:								
Net income (loss)			2,158			2,158	25	2,183
Other comprehensive income (loss), net of tax					4,058	4,058	2	4,060
Total comprehensive income (loss)						6,216	27	6,243
Balance, June 30, 2021	<u>6</u>	<u>25,644</u>	<u>34,808</u>	<u>(20,687)</u>	<u>23,277</u>	<u>63,048</u>	<u>636</u>	<u>63,684</u>
Common Stock acquired				(875)		(875)		(875)
Contributions from noncontrolling interests							16	16
Distributions to noncontrolling interests							(22)	(22)
Stock-based compensation programs		36		40		76		76
Dividends declared on Common Stock			(451)			(451)		(451)
Comprehensive income:								
Net income (loss)			1,530			1,530	35	1,565
Other comprehensive income (loss), net of tax					(1,441)	(1,441)	7	(1,434)
Total comprehensive income (loss)						89	42	131
Balance, September 30, 2021	<u>\$ 6</u>	<u>\$ 25,680</u>	<u>\$ 35,887</u>	<u>\$ (21,522)</u>	<u>\$ 21,836</u>	<u>\$ 61,887</u>	<u>\$ 672</u>	<u>\$ 62,559</u>

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Equity—Continued
Three and Nine Months Ended September 30, 2020 (in millions)

	Prudential Financial, Inc. Equity							
	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Accumulated Other Comprehensive Income (Loss)	Total Prudential Financial, Inc. Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2019	\$ 6	\$ 25,532	\$ 32,991	\$ (19,453)	\$ 24,039	\$ 63,115	\$ 604	\$ 63,719
Cumulative effect of adoption of accounting changes ⁽¹⁾			(99)			(99)		(99)
Common Stock acquired				(500)		(500)		(500)
Contributions from noncontrolling interests							31	31
Distributions to noncontrolling interests							(11)	(11)
Stock-based compensation programs		(26)		112		86		86
Dividends declared on Common Stock			(445)			(445)		(445)
Comprehensive income:								
Net income (loss)			(271)			(271)	1	(270)
Other comprehensive income (loss), net of tax					(1,439)	(1,439)	0	(1,439)
Total comprehensive income (loss)						(1,710)	1	(1,709)
Balance, March 31, 2020	<u>6</u>	<u>25,506</u>	<u>32,176</u>	<u>(19,841)</u>	<u>22,600</u>	<u>60,447</u>	<u>625</u>	<u>61,072</u>
Common Stock acquired								
Contributions from noncontrolling interests							4	4
Distributions to noncontrolling interests							(23)	(23)
Stock-based compensation programs		7		56		63		63
Dividends declared on Common Stock			(441)			(441)		(441)
Comprehensive income:								
Net income (loss)			(2,409)			(2,409)	4	(2,405)
Other comprehensive income (loss), net of tax					8,237	8,237	1	8,238
Total comprehensive income (loss)						5,828	5	5,833
Balance, June 30, 2020	<u>6</u>	<u>25,513</u>	<u>29,326</u>	<u>(19,785)</u>	<u>30,837</u>	<u>65,897</u>	<u>611</u>	<u>66,508</u>
Common Stock acquired								
Contributions from noncontrolling interests							50	50
Distributions to noncontrolling interests							(14)	(14)
Stock-based compensation programs		50		60		110		110
Dividends declared on Common Stock			(441)			(441)		(441)
Comprehensive income:								
Net income (loss)			1,487			1,487	20	1,507
Other comprehensive income (loss), net of tax					(836)	(836)	6	(830)
Total comprehensive income (loss)						651	26	677
Balance, September 30, 2020	<u>\$ 6</u>	<u>\$ 25,563</u>	<u>\$ 30,372</u>	<u>\$ (19,725)</u>	<u>\$ 30,001</u>	<u>\$ 66,217</u>	<u>\$ 673</u>	<u>\$ 66,890</u>

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

See Notes to Unaudited Interim Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

**Unaudited Interim Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2021 and 2020 (in millions)**

	Nine Months Ended September 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 6,552	\$ (1,168)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Realized investment (gains) losses, net	(3,146)	2,164
Policy charges and fee income	(1,730)	(1,995)
Interest credited to policyholders' account balances	2,759	3,375
Depreciation and amortization	87	448
(Gains) losses on assets supporting experience-rated contractholder liabilities, net	167	(393)
Change in:		
Deferred policy acquisition costs	(287)	(206)
Future policy benefits and other insurance liabilities	5,779	7,656
Income taxes	506	(331)
Derivatives, net	(2,893)	6,477
Other, net	(1,315)	(3,146)
Cash flows from (used in) operating activities	6,479	12,881
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	48,950	31,989
Fixed maturities, held-to-maturity	155	76
Fixed maturities, trading	2,357	444
Assets supporting experience-rated contractholder liabilities	13,878	22,534
Equity securities	3,463	1,974
Commercial mortgage and other loans	5,506	3,629
Policy loans	1,591	1,862
Other invested assets	2,151	1,376
Short-term investments	24,692	35,401
Payments for the purchase/origination of:		
Fixed maturities, available-for-sale	(46,831)	(39,692)
Fixed maturities, trading	(5,525)	(869)
Assets supporting experience-rated contractholder liabilities	(15,187)	(24,390)
Equity securities	(2,959)	(2,025)
Commercial mortgage and other loans	(5,624)	(3,913)
Policy loans	(924)	(1,700)
Other invested assets	(2,434)	(2,089)
Short-term investments	(21,641)	(40,009)
Dispositions, net of cash disposed	132	1,454
Derivatives, net	(622)	434
Other, net	(531)	(225)
Cash flows from (used in) investing activities	597	(13,739)
CASH FLOWS FROM FINANCING ACTIVITIES		
Policyholders' account deposits	23,582	33,268
Policyholders' account withdrawals	(22,131)	(26,944)
Net change in securities sold under agreements to repurchase and cash collateral for loaned securities	(110)	50
Cash dividends paid on Common Stock	(1,374)	(1,325)
Net change in financing arrangements (maturities 90 days or less)	108	(56)
Common Stock acquired	(2,097)	(500)
Common Stock reissued for exercise of stock options	150	106
Proceeds from the issuance of debt (maturities longer than 90 days)	73	2,948
Repayments of debt (maturities longer than 90 days)	(1,167)	(2,113)
Repayments of notes issued by consolidated VIEs	0	(19)
Other, net	(561)	(349)
Cash flows from (used in) financing activities	(3,527)	5,066
Effect of foreign exchange rate changes on cash balances	(252)	122
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, RESTRICTED CASH AND RESTRICTED CASH EQUIVALENTS INCLUDING BALANCES CLASSIFIED AS HELD-FOR-SALE	3,297	4,330
NET CHANGE IN CASH BALANCES CLASSIFIED AS HELD-FOR-SALE	1,499	0
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, RESTRICTED CASH AND RESTRICTED CASH EQUIVALENTS	1,798	4,330
CASH, CASH EQUIVALENTS, RESTRICTED CASH AND RESTRICTED CASH EQUIVALENTS, BEGINNING OF YEAR	13,855	16,474
CASH, CASH EQUIVALENTS, RESTRICTED CASH AND RESTRICTED CASH EQUIVALENTS, END OF PERIOD	\$ 15,653	\$ 20,804

PRUDENTIAL FINANCIAL, INC.
Unaudited Interim Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2021 and 2020 (in millions)

	Nine Months Ended September 30,	
	2021	2020
HELD-FOR-SALE CLASSIFICATION(1)		
Assets classified as held-for-sale	\$ 143,910	\$ 0
Liabilities classified as held-for-sale	140,736	0
Net assets classified as held-for-sale	<u>\$ 3,174</u>	<u>\$ 0</u>
NON-CASH TRANSACTIONS DURING THE PERIOD		
Treasury Stock shares issued for stock-based compensation programs	\$ 135	\$ 147
Significant Pension Risk Transfer transactions:		
Assets received, excluding cash and cash equivalents	\$ 5,377	\$ 317
Liabilities assumed	6,397	584
Net cash received	<u>\$ 1,020</u>	<u>\$ 267</u>
RECONCILIATION TO THE UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION		
Cash and cash equivalents	\$ 15,605	\$ 20,658
Restricted cash and restricted cash equivalents (included in "Other assets")	48	146
Total cash, cash equivalents, restricted cash and restricted cash equivalents	<u>\$ 15,653</u>	<u>\$ 20,804</u>

(1) See Note 1 for details of the assets and liabilities classified as "held-for-sale" as of September 30, 2021.

See Notes to Unaudited Interim Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements

1. BUSINESS AND BASIS OF PRESENTATION

Prudential Financial, Inc. (“Prudential Financial”) and its subsidiaries (collectively, “Prudential” or the “Company”) provide a wide range of insurance, investment management, and other financial products and services to both individual and institutional customers throughout the United States and in many other countries. Principal products and services provided include life insurance, annuities, retirement-related services, mutual funds and investment management.

The Company’s principal operations consist of PGIM (the Company’s global investment management business), the U.S. Businesses (consisting of the Retirement, Group Insurance, Individual Annuities, Individual Life and Assurance IQ businesses), the International Businesses, the Closed Block division, and the Company’s Corporate and Other operations. The Closed Block division is accounted for as a divested business that is reported separately from the Divested and Run-off Businesses that are included in Corporate and Other operations. Divested and Run-off Businesses consist of businesses that have been, or will be, sold or exited, including businesses that have been placed in wind-down status that do not qualify for “discontinued operations” accounting treatment under U.S. GAAP. The Company’s Corporate and Other operations include corporate items and initiatives that are not allocated to business segments as well as the Divested and Run-off Businesses described above.

Basis of Presentation

The Unaudited Interim Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) on a basis consistent with reporting interim financial information in accordance with instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission (“SEC”). The Unaudited Interim Consolidated Financial Statements include the accounts of Prudential Financial, entities over which the Company exercises control, including majority-owned subsidiaries and minority-owned entities such as limited partnerships in which the Company is the general partner and variable interest entities (“VIEs”) in which the Company is considered the primary beneficiary. See Note 4 for additional information on the Company’s consolidated variable interest entities. Intercompany balances and transactions have been eliminated.

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

Use of Estimates

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

The most significant estimates include those used in determining deferred policy acquisition costs (“DAC”) and related amortization; policyholders’ account balances related to the fair value of embedded derivative instruments associated with the index-linked features of certain universal life and annuity products; value of business acquired (“VOBA”) and its amortization; amortization of deferred sales inducements (“DSI”); measurement of goodwill and any related impairment; valuation of investments including derivatives, measurement of allowance for credit losses, and the recognition of other-than-temporary impairments (“OTTI”); future policy benefits including guarantees; pension and other postretirement benefits; 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.

Reclassifications

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

COVID-19

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

Business Dispositions

Prudential Annuities Life Assurance Corporation, Representing a Portion of Individual Annuities’ Traditional Variable Annuity Block of Business

In September 2021, the Company entered into a definitive agreement to sell its equity interest in Prudential Annuities Life Assurance Corporation (“PALAC”), which represents a portion of its in-force traditional variable annuity block of business, to Fortitude Group Holdings, LLC. The transaction has a total value of approximately \$2.2 billion, comprising the sales price for PALAC, a pre-closing net capital release to the Company and the expected tax impact from the sale. The PALAC block primarily consists of non-New York traditional variable annuities with guaranteed living benefits that were issued prior to 2011, which constitute approximately \$30 billion or 18% of Prudential’s total in-force individual annuity account values as of September 30, 2021. The Company will retain, through a reinsurance agreement, its interest in all FlexGuard products and all fixed annuities and fixed indexed annuities remaining in PALAC.

The Company expects to record a gain on the sale of the business upon the closing of the transaction, which is expected to occur in the first half of 2022, subject to the receipt of regulatory approvals and the satisfaction of customary closing conditions.

Beginning with the third quarter of 2021, the Company is reporting the assets and liabilities of this block of business as “held-for-sale” with results continuing to be reported within the Individual Annuities segment.

Full Service Retirement Business

In July 2021, the Company entered into a definitive agreement with Great-West Life & Annuity Insurance Company (“Great-West”) pursuant to which the Company has agreed to sell to Great-West the Company’s Full Service Retirement business, primarily through a combination of (i) the sale of all of the outstanding equity interests of certain legal entities, including Prudential Retirement Insurance and Annuity Company (“PRIAC”); (ii) the ceding of certain insurance policies through reinsurance; and (iii) the sale, transfer and/or novation of certain in-scope contracts and brokerage accounts.

The Company expects to record a gain on the sale of the business upon the closing of the transaction, which is expected to occur by the end of the first quarter of 2022, subject to the receipt of regulatory approvals and the satisfaction of customary closing conditions.

Total proceeds from the sale are expected to be approximately \$2.8 billion, which includes cash consideration for the sale of PRIAC, ceding commission for the reinsured business and capital available to be released from PICA. Separately, the Company expects to incur approximately \$400 million of taxes and transaction related costs.

Beginning with the third quarter of 2021, the Company is reporting the assets and liabilities of the Full Service Retirement business as “held-for-sale” and has transferred the results of this business to Divested and Run-off Businesses within Corporate and Other operations. All prior period amounts have been restated, which impacts both segment reporting and adjusted operating income, but does not impact results reported under GAAP. The Full Service Retirement business generated pre-tax income of \$18 million and \$117 million for the three and nine months ended September 30, 2021, respectively, and pre-tax income of \$49 million and \$158 million for the three and nine months ended September 30, 2020, respectively. These amounts exclude the impacts of overhead costs, retained in the Company’s Corporate and Other operations, that will not be transferred to the buyer or eliminated with the sale.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The table below reflects the carrying amounts of assets and liabilities held-for-sale related to the pending dispositions described above:

	September 30, 2021		
	Retirement Full Service	Individual Annuities PALAC	Total
	(in millions)		
Assets held-for-sale(1):			
Fixed maturities, available-for-sale, at fair value	\$ 5,062	\$ 10,581	\$ 15,643
Fixed maturities, trading, at fair value	383	342	725
Assets supporting experience-rated contractholder liabilities, at fair value	18,031	0	18,031
Equity securities	0	236	236
Commercial mortgage and other loans(2)	5,503	2,036	7,539
Policy loans	0	12	12
Other invested assets	64	96	160
Short-term investments	6	91	97
Cash and cash equivalents	86	1,413	1,499
Accrued investment income	159	74	233
Deferred policy acquisition costs	102	1,051	1,153
Value of business acquired	186	29	215
Other assets	812	1,179	1,991
Separate account assets	64,460	31,916	96,376
Total assets held-for-sale	<u>\$ 94,854</u>	<u>\$ 49,056</u>	<u>\$ 143,910</u>
Liabilities held-for-sale(1):			
Future policy benefits	\$ 111	\$ 4,651	\$ 4,762
Policyholders' account balances	28,186	10,719	38,905
Cash collateral for loaned securities	3	0	3
Other liabilities	414	276	690
Separate account liabilities	64,460	31,916	96,376
Total liabilities held-for-sale	<u>\$ 93,174</u>	<u>\$ 47,562</u>	<u>\$ 140,736</u>

(1) Under the terms of the sales agreements, certain of these assets and liabilities held-for-sale may be subject to capital transactions or substituted for other similar items prior to the closing of each transaction.

(2) Net of allowance for credit losses of \$12 million as of September 30, 2021.

The Prudential Life Insurance Company of Taiwan Inc.

In June 2021, Prudential International Insurance Holdings, Ltd. ("PIIH"), a subsidiary of Prudential Financial, completed the sale of The Prudential Life Insurance Company of Taiwan Inc. ("POT") to Taishin Financial Holding Co, Ltd. (the "Buyer") for cash consideration of approximately NT\$5.5 billion, equal to approximately \$200 million at then current exchange rates, and contingent consideration with a fair value of approximately \$21 million as of September 30, 2021. The fair value of the contingent consideration is tied to the level of yields for the 10-year Taiwanese Government bond for two years after the signing of the transaction and can result in a maximum payout of \$100 million if yields increase by 40 basis points. In connection with the transaction, the Company recognized a liability with a fair value of approximately \$34 million as of September 30, 2021, representing its financial guarantee of certain insurance obligations of POT.

The after-tax loss on the sale of POT was approximately \$400 million, of which approximately \$350 million was recorded during 2020, and approximately \$40 million and \$10 million were recorded during the first and second quarters of 2021, respectively.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Prior to the sale, in the third quarter of 2020, the Company transferred the results of POT and the anticipated impact of its sale from the International Businesses segment to Divested and Run-off Businesses within Corporate & Other operations. Prior period amounts were restated at that time, which impacted both segment reporting and adjusted operating income, but did not impact results reported under GAAP. Results for the nine months ended September 30, 2020 contained herein reflect this restatement.

Pramerica SGR (PGIM Italy Joint Venture)

In March 2021, the Company sold its 35% ownership stake in Pramerica SGR, PGIM's asset management joint venture in Italy, to its partner UBI Banca, which was acquired in 2020 by Intesa Sanpaolo Group. The after-tax gain on the sale of Pramerica SGR was approximately \$330 million, which was recognized in adjusted operating income in the first quarter of 2021.

The Prudential Life Insurance Company of Korea, Ltd.

In August 2020, PIH completed the sale of The Prudential Life Insurance Company of Korea, Ltd. ("POK") to KB Financial Group Inc., for cash consideration of approximately ₩2.3 trillion, equal to approximately \$1.9 billion. The Company recognized an approximate \$800 million after-tax loss on the transaction in 2020.

Prior to the sale, in the second quarter of 2020, the Company transferred the results of POK and the anticipated impact of its sale from the International Businesses segment to Divested and Run-off Businesses within Corporate & Other operations. Prior period amounts were restated at that time, which impacted both segment reporting and adjusted operating income, but did not impact results reported under GAAP. Results for the nine months ended September 30, 2020 contained herein reflect this restatement.

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

Recent Accounting Pronouncements

Changes to U.S. GAAP are established by the Financial Accounting Standards Board ("FASB") in the form of Accounting Standards Updates ("ASUs") to the FASB Accounting Standards Codification ("ASC"). The Company considers the applicability and impact of all ASUs. ASUs listed below include those that have been adopted during the current fiscal year and/or those that have been issued but not yet adopted as of September 30, 2021, and as of the date of this filing. ASUs not listed below were assessed and determined to be either not applicable or not material.

ASU issued but not yet adopted as of September 30, 2021 — ASU 2018-12

ASU 2018-12, *Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*, was issued by the FASB on August 15, 2018. In October 2019, the FASB issued ASU 2019-09, *Financial Services - Insurance (Topic 944): Effective Date* to affirm its decision to defer the effective date of ASU 2018-12 to January 1, 2022 (with early adoption permitted), representing a one year extension from the original effective date of January 1, 2021. As a result of the COVID-19 pandemic, in November 2020 the FASB issued ASU 2020-11, *Financial Services—Insurance (Topic 944): Effective Date and Early Application* to defer for an additional one year the effective date of ASU 2018-12 from January 1, 2022 to January 1, 2023, and to provide transition relief to facilitate the early adoption of the ASU. The transition relief would allow large calendar-year public companies that early adopt ASU 2018-12 to apply the guidance either as of January 1, 2020 or January 1, 2021 (and record transition adjustments as of January 1, 2020 or January 1, 2021, respectively) in the 2022 financial statements. Companies that do not early adopt ASU 2018-12 would apply the guidance as of January 1, 2021 (and record transition adjustments as of January 1, 2021) in the 2023 financial statements. The Company currently intends to adopt ASU 2018-12 effective January 1, 2023 using the modified retrospective transition method where permitted.

ASU 2018-12 will impact, at least to some extent, the accounting and disclosure requirements for all long-duration insurance and investment contracts issued by the Company. The Company expects the standard to have a significant financial impact on the Consolidated Financial Statements and it requires significantly enhanced disclosures. In addition to the significant impacts to the balance sheet upon adoption, the Company also expects an impact to the pattern of earnings emergence following the transition date. Outlined below are four key areas of change, although there are other less significant changes not noted below.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

ASU 2018-12 Amended Topic	Description	Method of adoption	Effect on the financial statements or other significant matters
<i>Cash flow assumptions used to measure the liability for future policy benefits for non-participating traditional and limited-pay insurance products</i>	Requires an entity to review and, if necessary, update the cash flow assumptions used to measure the liability for future policy benefits, for both changes in future assumptions and actual experience, at least annually using a retrospective update method with a cumulative catch-up adjustment recorded in a separate line item in the Consolidated Statements of Operations.	An entity may choose one of two adoption methods for the liability for future policy benefits: (1) a modified retrospective transition method whereby the entity may choose to apply the amendments to contracts in force as of the beginning of the prior year (if early adoption is elected) or as of the beginning of the earliest period presented on the basis of their existing carrying amounts, adjusted for the removal of any related amounts in Accumulated other comprehensive income (loss) ("AOCI") or (2) a full retrospective transition method.	The Company currently intends to adopt this guidance effective January 1, 2023 using the modified retrospective transition method. The impacts of electing such method are currently under assessment.
<i>Discount rate assumption used to measure the liability for future policy benefits for non-participating traditional and limited-pay insurance products</i>	Requires discount rate assumptions to be based on an upper-medium grade fixed income instrument yield, which will be updated each quarter with the impact recorded through OCI. An entity shall maximize the use of relevant observable information and minimize the use of unobservable information in determining the discount rate assumptions.	As noted above, an entity may choose either a modified retrospective transition method or full retrospective transition method for the liability for future policy benefits. Under either method, for balance sheet remeasurement purposes, the liability for future policy benefits will be remeasured using current discount rates as of either the beginning of the prior year (if early adoption is elected) or the beginning of the earliest period presented with the impact recorded as a cumulative effect adjustment to AOCI.	As noted above, the Company currently intends to adopt the guidance for the liability for future policy benefits effective January 1, 2023 using the modified retrospective transition method. Upon adoption, there will be an adjustment to AOCI as a result of remeasuring in-force contract liabilities using current upper-medium grade fixed income instrument yields. The adjustment upon adoption will largely reflect the difference between discount rates locked-in at contract inception versus current discount rates at transition. The magnitude of such adjustment is currently being assessed.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

<i>Amortization of deferred acquisition costs (DAC) and other balances</i>	Requires DAC and other balances, such as unearned revenue reserves and DSI, to be amortized on a constant level basis over the expected term of the related contract, independent of expected profitability.	An entity may apply one of two adoption methods: (1) a modified retrospective transition method whereby the entity may choose to apply the amendments to contracts in force as of the beginning of the prior year (if early adoption is elected) or as of the beginning of the earliest period presented on the basis of their existing carrying amounts, adjusted for the removal of any related amounts in AOCI or (2) if an entity chooses a full retrospective transition method for its liability for future policy benefits, as described above, it is required to also use a full retrospective transition method for DAC and other balances.	The Company currently intends to adopt this guidance effective January 1, 2023 using the modified retrospective transition method. Under the modified retrospective transition method, the Company would not expect a significant impact to the balance sheet, other than the impact of the removal of any related amounts in AOCI.
<i>Market Risk Benefits ("MRB")</i>	Requires an entity to measure all market risk benefits (e.g., living benefit and death benefit guarantees associated with variable annuities) at fair value, and record MRB assets and liabilities separately on the Consolidated Statements of Financial Position. Changes in fair value of market risk benefits are recorded in net income, except for the portion of the change in MRB liabilities attributable to changes in an entity's non-performance risk ("NPR"), which is recognized in OCI.	An entity shall adopt the guidance for market risk benefits using the retrospective transition method, which includes a cumulative effect adjustment on the balance sheet as of either the beginning of prior year (if early adoption is elected) or the beginning of the earliest period presented. An entity shall maximize the use of relevant observable information and minimize the use of unobservable information in determining the balance of the market risk benefits upon adoption.	The Company currently intends to adopt this guidance effective January 1, 2023 using the retrospective transition method. Upon adoption, the Company expects an impact to retained earnings for the difference between the fair value and carrying value of benefits not currently measured at fair value (e.g., guaranteed minimum death benefits on variable annuities) and an impact from reclassifying the cumulative effect of changes in NPR from retained earnings to AOCI. The magnitude of such adjustments is currently being assessed.

Modifications related to COVID-19

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

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

3. INVESTMENTS

Fixed Maturity Securities

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

	September 30, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
	(in millions)				
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 27,512	\$ 5,491	\$ 97	\$ 0	\$ 32,906
Obligations of U.S. states and their political subdivisions	10,444	1,774	15	0	12,203
Foreign government bonds	85,627	12,594	475	0	97,746
U.S. public corporate securities	97,127	13,819	452	12	110,482
U.S. private corporate securities(2)	34,035	2,903	150	54	36,734
Foreign public corporate securities	24,995	2,806	95	18	27,688
Foreign private corporate securities	26,712	1,669	355	8	28,018
Asset-backed securities(3)	11,120	140	15	0	11,245
Commercial mortgage-backed securities	12,480	728	14	0	13,194
Residential mortgage-backed securities(4)	2,905	143	12	0	3,036
Total fixed maturities, available-for-sale(1)(2)	<u>\$ 332,957</u>	<u>\$ 42,067</u>	<u>\$ 1,680</u>	<u>\$ 92</u>	<u>\$ 373,252</u>

	September 30, 2021					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses	Amortized Cost, Net of Allowance
	(in millions)					
Fixed maturities, held-to-maturity:						
Foreign government bonds	\$ 859	\$ 235	\$ 0	\$ 1,094	\$ 0	\$ 859
Foreign public corporate securities	500	54	0	554	6	494
Foreign private corporate securities	81	1	0	82	0	81
Residential mortgage-backed securities(4)	210	16	0	226	0	210
Total fixed maturities, held-to-maturity(5)	<u>\$ 1,650</u>	<u>\$ 306</u>	<u>\$ 0</u>	<u>\$ 1,956</u>	<u>\$ 6</u>	<u>\$ 1,644</u>

(1) Excludes "Assets held-for-sale" with amortized cost of \$14,985 million, fair value of \$15,643 million, unrealized gains of \$783 million, unrealized losses of \$123 million and allowance for credit losses of \$2 million. See Note 1 for additional information on the pending dispositions.

(2) Excludes notes with amortized cost of \$5,616 million (fair value, \$5,693 million), which have been offset with the associated debt under a netting agreement.

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

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

(5) Excludes notes with amortized cost of \$5,000 million (fair value, \$5,727 million), which have been offset with the associated debt under a netting agreement.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

December 31, 2020						
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value	
(in millions)						
Fixed maturities, available-for-sale:						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 30,766	\$ 9,699	\$ 17	\$ 0	\$ 40,448	
Obligations of U.S. states and their political subdivisions	10,668	2,144	1	0	12,811	
Foreign government bonds	94,110	16,373	239	0	110,244	
U.S. public corporate securities	95,299	18,516	213	47	113,555	
U.S. private corporate securities(1)	36,894	4,196	134	19	40,937	
Foreign public corporate securities	25,857	3,768	64	24	29,537	
Foreign private corporate securities	28,668	3,183	226	33	31,592	
Asset-backed securities(2)	14,489	176	74	0	14,591	
Commercial mortgage-backed securities	15,036	1,288	11	10	16,303	
Residential mortgage-backed securities(3)	2,683	205	1	0	2,887	
Total fixed maturities, available-for-sale(1)	<u>\$ 354,470</u>	<u>\$ 59,548</u>	<u>\$ 980</u>	<u>\$ 133</u>	<u>\$ 412,905</u>	

December 31, 2020						
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses	Amortized Cost, Net of Allowance
(in millions)						
Fixed maturities, held-to-maturity:						
Foreign government bonds	\$ 935	\$ 270	\$ 0	\$ 1,205	\$ 0	\$ 935
Foreign public corporate securities	651	68	0	719	9	642
Foreign private corporate securities	87	1	0	88	0	87
Residential mortgage-backed securities(3)	266	20	0	286	0	266
Total fixed maturities, held-to-maturity(4)	<u>\$ 1,939</u>	<u>\$ 359</u>	<u>\$ 0</u>	<u>\$ 2,298</u>	<u>\$ 9</u>	<u>\$ 1,930</u>

(1) Excludes notes with amortized cost of \$5,966 million (fair value, \$6,100 million), which have been offset with the associated debt under a netting agreement.

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

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

(4) Excludes notes with amortized cost of \$4,998 million (fair value, \$5,821 million), which have been offset with the associated debt under a netting agreement.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

		September 30, 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 millions)							
Fixed maturities, available-for-sale:							
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$	4,478	\$ 94	\$ 30	\$ 3	\$ 4,508	\$ 97
Obligations of U.S. states and their political subdivisions		575	13	17	2	592	15
Foreign government bonds		4,586	192	6,680	283	11,266	475
U.S. public corporate securities		13,162	371	1,027	73	14,189	444
U.S. private corporate securities		2,832	66	866	84	3,698	150
Foreign public corporate securities		2,839	57	584	36	3,423	93
Foreign private corporate securities		5,386	196	1,399	156	6,785	352
Asset-backed securities		3,995	14	301	1	4,296	15
Commercial mortgage-backed securities		524	10	146	4	670	14
Residential mortgage-backed securities		657	12	1	0	658	12
Total fixed maturities, available-for-sale(1)	\$	39,034	\$ 1,025	\$ 11,051	\$ 642	\$ 50,085	\$ 1,667

(1) Excludes "Assets held-for-sale" with fair value of \$4,068 million and gross unrealized losses of \$123 million. See Note 1 for additional information on the pending dispositions.

		December 31, 2020					
		Less Than Twelve Months		Twelve Months or More		Total	
		Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
(in millions)							
Fixed maturities, available-for-sale:							
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$	750	\$ 17	\$ 0	\$ 0	\$ 750	\$ 17
Obligations of U.S. states and their political subdivisions		73	1	0	0	73	1
Foreign government bonds		6,536	231	39	8	6,575	239
U.S. public corporate securities		3,905	87	1,197	106	5,102	193
U.S. private corporate securities		1,712	52	843	82	2,555	134
Foreign public corporate securities		1,412	30	376	23	1,788	53
Foreign private corporate securities		798	34	2,371	192	3,169	226
Asset-backed securities		4,132	25	4,685	49	8,817	74
Commercial mortgage-backed securities		284	8	93	3	377	11
Residential mortgage-backed securities		116	1	1	0	117	1
Total fixed maturities, available-for-sale	\$	19,718	\$ 486	\$ 9,605	\$ 463	\$ 29,323	\$ 949

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

As of September 30, 2021 and December 31, 2020, the gross unrealized losses on fixed maturity available-for-sale securities without an allowance were composed of \$1,303 million and \$636 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 \$364 million and \$313 million, respectively, related to other than high or highest quality securities based on NAIC or equivalent rating. As of September 30, 2021, the \$642 million of gross unrealized losses of twelve months or more were concentrated in the consumer non-cyclical, finance and utility sectors within corporate securities and foreign government securities. As of December 31, 2020, the \$463 million of gross unrealized losses of twelve months or more were concentrated in corporate securities within the energy, utility and finance sectors.

In accordance with its policy described in Note 2 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020, the Company concluded that an adjustment to earnings for credit losses related to these fixed maturity securities was not warranted at September 30, 2021. This conclusion was based on a detailed analysis of the underlying credit and cash flows on each security. Gross unrealized losses are primarily attributable to increases in interest rates, general credit spread widening, foreign currency exchange rate movements and the financial condition or near-term prospects of the issuer. As of September 30, 2021, the Company did not intend to sell these securities, and it was not more likely than not that the Company would be required to sell these securities before the anticipated recovery of the remaining amortized cost basis.

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

	September 30, 2021			
	Available-for-Sale(1)		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost, Net of Allowance	Fair Value
	(in millions)			
Fixed maturities:				
Due in one year or less	\$ 10,255	\$ 10,668	\$ 0	\$ 0
Due after one year through five years	47,749	51,188	566	627
Due after five years through ten years	68,170	75,046	31	33
Due after ten years(2)	180,278	208,875	837	1,070
Asset-backed securities	11,120	11,245	0	0
Commercial mortgage-backed securities	12,480	13,194	0	0
Residential mortgage-backed securities	2,905	3,036	210	226
Total	\$ 332,957	\$ 373,252	\$ 1,644	\$ 1,956

(1) Excludes “Assets held-for-sale” with amortized cost of \$14,985 million and fair value of \$15,643 million. See Note 1 for additional information on the pending dispositions.

(2) Excludes available-for-sale notes with amortized cost of \$5,616 million (fair value, \$5,693 million) and held-to-maturity notes with amortized cost of \$5,000 million (fair value, \$5,727 million), which have been offset with the associated debt under a netting agreement.

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:

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)			
Fixed maturities, available-for-sale:				
Proceeds from sales(1)	\$ 7,273	\$ 4,284	\$ 27,041	\$ 14,654
Proceeds from maturities/prepayments	7,040	7,181	21,936	17,603
Gross investment gains from sales and maturities	301	578	2,264	1,451
Gross investment losses from sales and maturities	(69)	(129)	(558)	(339)
Write-downs recognized in earnings(2)	0	(134)	0	(289)
(Addition to) release of allowance for credit losses	(12)	86	41	(152)
Fixed maturities, held-to-maturity:				
Proceeds from maturities/prepayments(3)	\$ 11	\$ 14	\$ 155	\$ 77
(Addition to) release of allowance for credit losses	1	0	3	0

- (1) Includes \$27 million and \$268 million of non-cash related proceeds due to the timing of trade settlements for the nine months ended September 30, 2021 and 2020, respectively.
(2) Amounts represent write-downs on credit adverse securities, write-downs on securities approaching maturity related to foreign exchange movements and securities actively marketed for sale.
(3) Includes \$0 million and \$1 million of non-cash related proceeds due to the timing of trade settlements for the nine months ended September 30, 2021 and 2020, respectively.

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

	Three Months Ended September 30, 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 millions)							
Fixed maturities, available-for-sale:								
Balance, beginning of period	\$ 0	\$ 0	\$ 80	\$ 0	\$ 0	\$ 0	\$ 0	\$ 80
Additions to allowance for credit losses not previously recorded	0	0	35	0	0	0	0	35
Reductions for securities sold during the period	0	0	(16)	0	0	0	0	(16)
Additions (reductions) on securities with previous allowance	0	0	(5)	0	0	0	0	(5)
Reclassified to “Assets held-for-sale”(1)	0	0	(2)	0	0	0	0	(2)
Balance, end of period	\$ 0	\$ 0	\$ 92	\$ 0	\$ 0	\$ 0	\$ 0	\$ 92

- (1) See Note 1 for additional information on the pending dispositions.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Three Months Ended September 30, 2020

	U.S. Treasury Securities and Obligations of U.S. States	Foreign Government Bonds	U.S. and Foreign Corporate Securities	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Residential Mortgage-Backed Securities	Total
(in millions)							
Fixed maturities, available-for-sale:							
Balance, beginning of period	\$ 0	\$ 38	\$ 199	\$ 0	\$ 1	\$ 0	\$ 238
Additions to allowance for credit losses not previously recorded	0	1	33	0	0	0	34
Reductions for securities sold during the period	0	(38)	(73)	0	0	0	(111)
Additions (reductions) on securities with previous allowance	0	0	(12)	0	3	0	(9)
Balance, end of period	<u>\$ 0</u>	<u>\$ 1</u>	<u>\$ 147</u>	<u>\$ 0</u>	<u>\$ 4</u>	<u>\$ 0</u>	<u>\$ 152</u>

Nine Months Ended September 30, 2021

	U.S. Treasury Securities and Obligations of U.S. States	Foreign Government Bonds	U.S. and Foreign Corporate Securities	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Residential Mortgage-Backed Securities	Total
(in millions)							
Fixed maturities, available-for-sale:							
Balance, beginning of period	\$ 0	\$ 0	\$ 123	\$ 0	\$ 10	\$ 0	\$ 133
Additions to allowance for credit losses not previously recorded	0	0	75	0	0	0	75
Reductions for securities sold during the period	0	0	(46)	0	(9)	0	(55)
Additions (reductions) on securities with previous allowance	0	0	(58)	0	(1)	0	(59)
Reclassified to “Assets held-for-sale”(1)	0	0	(2)	0	0	0	(2)
Balance, end of period	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 92</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 92</u>

(1) See Note 1 for additional information on the pending dispositions.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Nine Months Ended September 30, 2020

	U.S. Treasury Securities and Obligations of U.S. States	Foreign Government Bonds	U.S. and Foreign Corporate Securities	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Residential Mortgage-Backed Securities	Total
(in millions)							
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	39	238	0	1	0	278
Reductions for securities sold during the period	0	(38)	(101)	0	0	0	(139)
Additions (reductions) on securities with previous allowance	0	0	10	0	3	0	13
Balance, end of period	<u>\$ 0</u>	<u>\$ 1</u>	<u>\$ 147</u>	<u>\$ 0</u>	<u>\$ 4</u>	<u>\$ 0</u>	<u>\$ 152</u>

Three Months Ended September 30, 2021

	U.S. Treasury Securities and Obligations of U.S. States	Foreign Government Bonds	U.S. and Foreign Corporate Securities	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Residential Mortgage-Backed Securities	Total
(in millions)							
Fixed maturities, held-to-maturity:							
Balance, beginning of period	\$ 0	\$ 0	\$ 7	\$ 0	\$ 0	\$ 0	\$ 7
Current period provision for expected losses	0	0	0	0	0	0	0
Change in foreign exchange	0	0	(1)	0	0	0	(1)
Balance, end of period	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6</u>

Three Months Ended September 30, 2020

	U.S. Treasury Securities and Obligations of U.S. States	Foreign Government Bonds	U.S. and Foreign Corporate Securities	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Residential Mortgage-Backed Securities	Total
(in millions)							
Fixed maturities, held-to-maturity:							
Balance, beginning of period	\$ 0	\$ 0	\$ 9	\$ 0	\$ 0	\$ 0	\$ 9
Balance, end of period	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 9</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 9</u>

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Nine Months Ended September 30, 2021						
	U.S. Treasury Securities and Obligations of U.S. States	Foreign Government Bonds	U.S. and Foreign Corporate Securities	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Residential Mortgage-Backed Securities	Total
	(in millions)						
Fixed maturities, held-to-maturity:							
Balance, beginning of period	\$ 0	\$ 0	\$ 9	\$ 0	\$ 0	\$ 0	\$ 9
Current period provision for expected losses	0	0	(3)	0	0	0	(3)
Balance, end of period	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6</u>
	Nine Months Ended September 30, 2020						
	U.S. Treasury Securities and Obligations of U.S. States	Foreign Government Bonds	U.S. and Foreign Corporate Securities	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Residential Mortgage-Backed Securities	Total
	(in millions)						
Fixed maturities, held-to-maturity:							
Balance, beginning of period	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Cumulative effect of adoption of ASU 2016-13	0	0	9	0	0	0	9
Balance, end of period	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 9</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 9</u>

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

For the three months ended September 30, 2021, the net increase in the allowance for credit losses on available-for-sale securities was primarily related to net additions in the transportation and capital goods sectors within corporate securities due to adverse projected cash flows, partially offset by a net release on restructured securities in the energy sector within corporate securities. For the three months ended September 30, 2020, the net decrease in the allowance for credit losses on available-for-sale securities was primarily related to a release on restructured securities in the energy sector within corporate securities and foreign government securities, partially offset by net additions concentrated in the energy and utility sectors within corporate securities due to adverse projected cash flows.

For the nine months ended September 30, 2021, the net decrease in the allowance for credit losses on available-for-sale securities was primarily related to the overall improving credit environment in the energy and consumer cyclical sectors within corporate securities, partially offset by net additions in the transportation and utility sectors within corporate securities due to adverse projected cash flows. For the nine months ended September 30, 2020, the net increase in the allowance for credit losses on available-for-sale securities was primarily related to securities within the energy, communications and consumer cyclical sectors within corporate securities due to adverse projected cash flows, partially offset by a release on restructured securities in the energy sector within corporate securities and foreign government securities.

The Company did not have any fixed maturity securities purchased with credit deterioration, as of September 30, 2021 or December 31, 2020.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Assets Supporting Experience-Rated Contractholder Liabilities

The following table sets forth the composition of “Assets supporting experience-rated contractholder liabilities,” as of the dates indicated:

	September 30, 2021				December 31, 2020	
			Assets Held-for-Sale(1)			
	Amortized Cost or Cost	Fair Value	Amortized Cost or Cost	Fair Value	Amortized Cost or Cost	Fair Value
	(in millions)					
Short-term investments and cash equivalents	\$ 65	\$ 65	\$ 965	\$ 965	\$ 658	\$ 658
Fixed maturities:						
Corporate securities	106	108	11,414	11,899	14,442	15,472
Commercial mortgage-backed securities	0	0	1,661	1,717	1,743	1,839
Residential mortgage-backed securities(2)	0	0	720	755	964	1,018
Asset-backed securities(3)	0	0	1,843	1,860	1,665	1,697
Foreign government bonds	790	791	206	204	934	945
U.S. government authorities and agencies and obligations of U.S. states	188	197	244	304	371	443
Total fixed maturities(4)	1,084	1,096	16,088	16,739	20,119	21,414
Equity securities	1,805	2,263	328	327	1,661	2,043
Total assets supporting experience-rated contractholder liabilities(5)	\$ 2,954	\$ 3,424	\$ 17,381	\$ 18,031	\$ 22,438	\$ 24,115

(1) See Note 1 for additional information on the pending dispositions.

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

(3) Includes collateralized loan obligations, auto loans, education loans, home equity and other asset types. Collateralized loan obligations at fair value, included “Assets held-for-sale” were \$1,358 million and \$1,102 million as of September 30, 2021 and December 31, 2020, respectively, all of which were rated A or higher.

(4) As a percentage of amortized cost, 97% and 94% of the portfolio including “Assets held-for-sale” was considered high or highest quality based on NAIC or equivalent ratings, as of September 30, 2021 and December 31, 2020, respectively.

(5) As a percentage of amortized cost, 94% and 79% of the portfolio including “Assets held-for-sale” consisted of public securities as of September 30, 2021 and December 31, 2020, respectively.

The net change in unrealized gains (losses) from assets supporting experience-rated contractholder liabilities, including “Assets held-for-sale” still held at period end, recorded within “Other income (loss),” was \$(263) million and \$255 million during the three months ended September 30, 2021 and 2020, respectively, and \$(557) million and \$397 million during the nine months ended September 30, 2021 and 2020, respectively.

Equity Securities

The net change in unrealized gains (losses) from equity securities still held at period end, including “Assets held-for-sale” recorded within “Other income (loss),” was \$19 million and \$324 million during the three months ended September 30, 2021 and 2020, respectively, and \$457 million and \$(332) million during the nine months ended September 30, 2021 and 2020, respectively.

Concentrations of Financial Instruments

The Company monitors its concentrations of financial instruments and mitigates credit risk by maintaining a diversified investment portfolio which limits exposure to any single issuer.

As of the dates indicated, the Company’s exposure to concentrations of credit risk of single issuers greater than 10% of the Company’s equity included securities of the U.S. government and certain U.S. government agencies and securities guaranteed by the U.S. government, as well as the securities disclosed below:

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	September 30, 2021		December 31, 2020	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(in millions)				
Investments in Japanese government and government agency securities:				
Fixed maturities, available-for-sale	\$ 75,703	\$ 86,011	\$ 80,273	\$ 92,764
Fixed maturities, held-to-maturity	838	1,066	912	1,173
Fixed maturities, trading	24	24	25	25
Assets supporting experience-rated contractholder liabilities	971	968	849	855
Total	<u>\$ 77,536</u>	<u>\$ 88,069</u>	<u>\$ 82,059</u>	<u>\$ 94,817</u>

Commercial Mortgage and Other Loans

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

	September 30, 2021		December 31, 2020	
	Amount (in millions)	% of Total	Amount (in millions)	% of Total
Commercial mortgage and agricultural property loans by property type:				
Office	\$ 10,534	18.4 %	\$ 12,750	19.7 %
Retail	6,694	11.7	7,326	11.3
Apartments/Multi-Family	16,769	29.3	18,330	28.3
Industrial	13,004	22.7	14,954	23.1
Hospitality	1,879	3.3	2,395	3.7
Other	4,192	7.3	4,981	7.7
Total commercial mortgage loans	53,072	92.7	60,736	93.8
Agricultural property loans	4,114	7.3	4,048	6.2
Total commercial mortgage and agricultural property loans	57,186	100.0 %	64,784	100.0 %
Allowance for credit losses	(112)		(227)	
Total net commercial mortgage and agricultural property loans	<u>57,074</u>		<u>64,557</u>	
Other loans:				
Uncollateralized loans	574		655	
Residential property loans	74		101	
Other collateralized loans	69		120	
Total other loans	717		876	
Allowance for credit losses	(5)		(8)	
Total net other loans	<u>712</u>		<u>868</u>	
Total net commercial mortgage and other loans(1)(2)	<u>\$ 57,786</u>		<u>\$ 65,425</u>	

(1) Excludes “Assets held-for-sale” of \$7,539 million net of allowance for credit losses of \$12 million as of September 30, 2021. See Note 1 for additional information on the pending dispositions.

(2) Includes loans held for sale which are carried at fair value and are collateralized primarily by apartment complexes. As of September 30, 2021 and December 31, 2020, the net carrying value of these loans was \$1,106 million and \$1,092 million, respectively.

As of September 30, 2021, the commercial mortgage and agricultural property loans were secured by properties geographically dispersed throughout the United States (with the largest concentrations in California (29%), Texas (8%) and New York (7%)) and included loans secured by properties in Europe (7%), Australia (1%) and Asia (2%).

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

Three Months Ended September 30, 2021						
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Allowance, beginning of period	\$ 160	\$ 6	\$ 0	\$ 2	\$ 4	\$ 172
Addition to (release of) allowance for expected losses	(40)	(2)	0	(2)	0	(44)
Reclassified to “Asset held-for-sale”(1)	(12)	0	0	0	0	(12)
Other	0	0	0	1	0	1
Allowance, end of period	<u>\$ 108</u>	<u>\$ 4</u>	<u>\$ 0</u>	<u>\$ 1</u>	<u>\$ 4</u>	<u>\$ 117</u>

(1) See Note 1 for additional information on the pending dispositions.

Three Months Ended September 30, 2020						
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Allowance, beginning of period	\$ 230	\$ 8	\$ 0	\$ 3	\$ 4	\$ 245
Addition to (release of) allowance for expected losses	(5)	1	0	0	1	(3)
Write-downs charged against the allowance	(7)	0	0	0	0	(7)
Other	0	0	0	0	0	0
Allowance, end of period	<u>\$ 218</u>	<u>\$ 9</u>	<u>\$ 0</u>	<u>\$ 3</u>	<u>\$ 5</u>	<u>\$ 235</u>

Nine Months Ended September 30, 2021						
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Allowance, beginning of period	\$ 218	\$ 9	\$ 0	\$ 3	\$ 5	\$ 235
Addition to (release of) allowance for expected losses	(98)	(5)	0	(2)	(1)	(106)
Reclassified to “Assets held-for-sale”(1)	(12)	0	0	0	0	(12)
Other	0	0	0	0	0	0
Allowance, end of period	<u>\$ 108</u>	<u>\$ 4</u>	<u>\$ 0</u>	<u>\$ 1</u>	<u>\$ 4</u>	<u>\$ 117</u>

(1) See Note 1 for additional information on the pending dispositions.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Nine Months Ended September 30, 2020					Total
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	
	(in millions)					
Allowance, beginning of period	\$ 114	\$ 3	\$ 0	\$ 0	\$ 4	\$ 121
Cumulative effect of adoption of ASU 2016-13	110	5	0	0	0	115
Addition to (release of) allowance for expected losses	1	1	0	0	1	3
Write-downs charged against the allowance	(7)	0	0	0	0	(7)
Other	0	0	0	3	0	3
Allowance, end of period	<u>\$ 218</u>	<u>\$ 9</u>	<u>\$ 0</u>	<u>\$ 3</u>	<u>\$ 5</u>	<u>\$ 235</u>

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

For the three months ended September 30, 2021, the net decrease in the allowance for credit losses on commercial mortgage and other loans was primarily related to the improving credit environment. For the three months ended September 30, 2020, the net decrease in the allowance for credit losses on commercial mortgage and other loans was primarily due to a release related to a loan payoff.

For the nine months ended September 30, 2021, the net decrease in the allowance for credit losses on commercial mortgage and other loans was primarily related to the improving credit environment. For the nine months ended September 30, 2020, the net increase in the allowance for credit losses on commercial mortgage and other loans was primarily related to the cumulative effect of adoption of ASU 2016-13.

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

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

September 30, 2021							
Amortized Cost by Origination Year							
	2021	2020	2019	2018	2017	Prior	Total(1)
(in millions)							
Commercial Mortgage Loans							
Loan-to-Value Ratio:							
0%-59.99%	\$ 967	\$ 590	\$ 2,437	\$ 3,191	\$ 2,977	\$ 14,587	\$ 24,749
60%-69.99%	2,207	1,861	3,848	3,791	1,543	5,260	18,510
70%-79.99%	1,561	1,360	2,026	978	904	2,228	9,057
80% or greater	46	0	0	61	68	581	756
Total	<u>\$ 4,781</u>	<u>\$ 3,811</u>	<u>\$ 8,311</u>	<u>\$ 8,021</u>	<u>\$ 5,492</u>	<u>\$ 22,656</u>	<u>\$ 53,072</u>
Debt Service Coverage Ratio:							
Greater or Equal to 1.2x	\$ 4,361	\$ 3,583	\$ 7,309	\$ 7,398	\$ 4,934	\$ 19,811	\$ 47,396
1.0 - 1.2x	364	97	676	398	271	1,718	3,524
Less than 1.0x	56	131	326	225	287	1,127	2,152
Total	<u>\$ 4,781</u>	<u>\$ 3,811</u>	<u>\$ 8,311</u>	<u>\$ 8,021</u>	<u>\$ 5,492</u>	<u>\$ 22,656</u>	<u>\$ 53,072</u>
Agricultural Property Loans							
Loan-to-Value Ratio:							
0%-59.99%	\$ 578	\$ 753	\$ 482	\$ 316	\$ 354	\$ 1,311	\$ 3,794
60%-69.99%	60	123	39	62	26	10	320
70%-79.99%	0	0	0	0	0	0	0
80% or greater	0	0	0	0	0	0	0
Total	<u>\$ 638</u>	<u>\$ 876</u>	<u>\$ 521</u>	<u>\$ 378</u>	<u>\$ 380</u>	<u>\$ 1,321</u>	<u>\$ 4,114</u>
Debt Service Coverage Ratio:							
Greater or Equal to 1.2x	\$ 630	\$ 853	\$ 510	\$ 371	\$ 322	\$ 1,214	\$ 3,900
1.0 - 1.2x	8	23	10	1	58	41	141
Less than 1.0x	0	0	1	6	0	66	73
Total	<u>\$ 638</u>	<u>\$ 876</u>	<u>\$ 521</u>	<u>\$ 378</u>	<u>\$ 380</u>	<u>\$ 1,321</u>	<u>\$ 4,114</u>

(1) Excludes “Assets held-for-sale” of \$7,551 million. See Note 1 for additional information on the pending dispositions.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

December 31, 2020							
Amortized Cost by Origination Year							
	2020	2019	2018	2017	2016	Prior	Total
(in millions)							
Commercial Mortgage Loans							
Loan-to-Value Ratio:							
0%-59.99%	\$ 828	\$ 2,693	\$ 3,217	\$ 3,854	\$ 3,223	\$ 15,360	\$ 29,175
60%-69.99%	2,678	4,981	4,291	2,239	2,667	4,058	20,914
70%-79.99%	2,492	2,587	1,500	1,057	918	1,409	9,963
80% or greater	23	3	61	69	23	505	684
Total	\$ 6,021	\$ 10,264	\$ 9,069	\$ 7,219	\$ 6,831	\$ 21,332	\$ 60,736
Debt Service Coverage Ratio:							
Greater or Equal to 1.2x	\$ 5,901	\$ 9,429	\$ 8,587	\$ 6,954	\$ 6,382	\$ 18,904	\$ 56,157
1.0 - 1.2x	118	711	383	263	384	1,719	3,578
Less than 1.0x	2	124	99	2	65	709	1,001
Total	\$ 6,021	\$ 10,264	\$ 9,069	\$ 7,219	\$ 6,831	\$ 21,332	\$ 60,736
Agricultural Property Loans							
Loan-to-Value Ratio:							
0%-59.99%	\$ 956	\$ 494	\$ 349	\$ 527	\$ 367	\$ 1,254	\$ 3,947
60%-69.99%	8	51	39	3	0	0	101
70%-79.99%	0	0	0	0	0	0	0
80% or greater	0	0	0	0	0	0	0
Total	\$ 964	\$ 545	\$ 388	\$ 530	\$ 367	\$ 1,254	\$ 4,048
Debt Service Coverage Ratio:							
Greater or Equal to 1.2x	\$ 941	\$ 544	\$ 381	\$ 468	\$ 308	\$ 1,202	\$ 3,844
1.0 - 1.2x	23	0	1	59	1	40	124
Less than 1.0x	0	1	6	3	58	12	80
Total	\$ 964	\$ 545	\$ 388	\$ 530	\$ 367	\$ 1,254	\$ 4,048

For additional information about the Company's commercial mortgage and other loans credit quality monitoring process, see Note 2 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

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

September 30, 2021							
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due(1)	Total Past Due	Total Loans	Non-Accrual Status(2)
(in millions)							
Commercial mortgage loans	\$ 53,072	\$ 0	\$ 0	\$ 0	\$ 0	\$ 53,072	\$ 2
Agricultural property loans	4,106	0	4	4	8	4,114	19
Residential property loans	73	0	0	1	1	74	1
Other collateralized loans	69	0	0	0	0	69	0
Uncollateralized loans	574	0	0	0	0	574	0
Total(3)	\$ 57,894	\$ 0	\$ 4	\$ 5	\$ 9	\$ 57,903	\$ 22

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

- (1) As of September 30, 2021, there were no loans in this category accruing interest.
(2) For additional information regarding the Company's policies for accruing interest on loans, see Note 2 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.
(3) Excludes "Assets held-for-sale" of \$7,551 million. See Note 1 for additional information on the pending dispositions.

	December 31, 2020						
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due(1)	Total Past Due	Total Loans	Non-Accrual Status(2)
	(in millions)						
Commercial mortgage loans	\$ 60,614	\$ 3	\$ 119	\$ 0	\$ 122	\$ 60,736	\$ 5
Agricultural property loans	3,996	37	0	15	52	4,048	15
Residential property loans	99	1	0	1	2	101	1
Other collateralized loans	120	0	0	0	0	120	0
Uncollateralized loans	655	0	0	0	0	655	0
Total	<u>\$ 65,484</u>	<u>\$ 41</u>	<u>\$ 119</u>	<u>\$ 16</u>	<u>\$ 176</u>	<u>\$ 65,660</u>	<u>\$ 21</u>

- (1) As of December 31, 2020, there were no loans in this category accruing interest.
(2) For additional information regarding the Company's policies for accruing interest on loans, see Note 2 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

Loans on non-accrual status recognized interest income of \$2 million for both the three months and nine months ended September 30, 2021 and 2020, respectively. Loans on non-accrual status that did not have a related allowance for credit losses were \$20 million and \$15 million as of September 30, 2021 and December 31, 2020, respectively.

The Company did not have any significant losses on commercial mortgage and other loans purchased with credit deterioration as of both September 30, 2021 and December 31, 2020.

Other Invested Assets

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

	September 30, 2021	December 31, 2020
	(in millions)	
LPs/LLCs:		
Equity method:		
Private equity(1)	\$ 5,952	\$ 4,311
Hedge funds	2,807	2,451
Real estate-related(1)	2,179	1,985
Subtotal equity method	10,938	8,747
Fair value:		
Private equity	1,903	1,786
Hedge funds	2,168	2,036
Real estate-related	311	314
Subtotal fair value	4,382	4,136
Total LPs/LLCs	15,320	12,883
Real estate held through direct ownership(2)	1,753	2,027
Derivative instruments	2,218	1,915
Other(3)	914	1,300
Total other invested assets(4)	<u>\$ 20,205</u>	<u>\$ 18,125</u>

- (1) Prior period amounts have been updated to conform to current period presentation.
(2) As of September 30, 2021 and December 31, 2020, real estate held through direct ownership had mortgage debt of \$276 million and \$409 million, respectively.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

- (3) Primarily includes strategic investments made by investment management operations, leveraged leases and member and activity stock held in the Federal Home Loan Banks of New York. For additional information regarding the Company's holdings in the Federal Home Loan Banks of New York, see Note 17 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.
- (4) Excludes "Assets held-for-sale" of \$160 million as of September 30, 2021. See Note 1 for additional information on the pending dispositions.

Accrued Investment Income

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

	September 30, 2021	December 31, 2020
	(in millions)	
Fixed maturities	\$ 2,339	\$ 2,676
Equity securities	7	7
Commercial mortgage and other loans	175	205
Policy loans	264	274
Other invested assets	21	27
Short-term investments and cash equivalents	2	4
Total accrued investment income(1)	<u>\$ 2,808</u>	<u>\$ 3,193</u>

- (1) Excludes "Assets held-for-sale" of \$233 million as of September 30, 2021. See Note 1 for additional information on the pending dispositions.

Write-downs on accrued investment income were less than \$1 million and \$3 million for the three months ended September 30, 2021 and 2020, respectively, and less than \$1 million and \$15 million for the nine months ended September 30, 2021 and 2020, respectively.

Net Investment Income

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)			
Fixed maturities, available-for-sale(1)	\$ 2,995	\$ 3,113	\$ 9,000	\$ 9,292
Fixed maturities, held-to-maturity(1)	56	59	169	176
Fixed maturities, trading	53	32	114	100
Assets supporting experience-rated contractholder liabilities	148	179	474	527
Equity securities	23	36	104	119
Commercial mortgage and other loans	621	608	1,882	1,866
Policy loans	132	147	403	450
Other invested assets	806	415	1,939	693
Short-term investments and cash equivalents	18	30	48	182
Gross investment income	4,852	4,619	14,133	13,405
Less: investment expenses	(135)	(173)	(482)	(571)
Net investment income	<u>\$ 4,717</u>	<u>\$ 4,446</u>	<u>\$ 13,651</u>	<u>\$ 12,834</u>

- (1) Includes income on credit-linked notes which are reported on the same financial statement line items as related surplus notes, as conditions are met for right to offset.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Realized Investment Gains (Losses), Net

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)			
Fixed maturities(1)	\$ 221	\$ 401	\$ 1,750	\$ 671
Commercial mortgage and other loans	67	41	158	65
Investment real estate	49	5	113	15
LPs/LLCs	(43)	8	(26)	2
Derivatives	131	(537)	1,145	(2,926)
Other	7	3	6	9
Realized investment gains (losses), net	<u>\$ 432</u>	<u>\$ (79)</u>	<u>\$ 3,146</u>	<u>\$ (2,164)</u>

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

Net Unrealized Gains (Losses) on Investments within AOCI

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

	September 30, 2021	December 31, 2020
	(in millions)	
Fixed maturity securities, available-for-sale with an allowance(1)	\$ 22	\$ (25)
Fixed maturity securities, available-for-sale without an allowance(1)	41,025	58,593
Derivatives designated as cash flow hedges(2)	867	(168)
Derivatives designated as fair value hedges(2)	(29)	10
Other investments(3)	11	7
Net unrealized gains (losses) on investments	<u>\$ 41,896</u>	<u>\$ 58,417</u>

(1) Includes net unrealized gains of \$660 million on “Assets held-for-sale” as of September 30, 2021.

(2) For additional information on cash flow and fair value hedges, see Note 5.

(3) As of September 30, 2021, there were no net unrealized losses on held-to-maturity securities that were previously transferred from available-for-sale. Includes net unrealized gains on certain joint ventures that are strategic in nature and are included in “Other assets.”

Repurchase Agreements and Securities Lending

In the normal course of business, the Company sells securities under agreements to repurchase and enters into securities lending transactions. The following table sets forth the composition of “Securities sold under agreements to repurchase,” as of the dates indicated:

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	September 30, 2021			December 31, 2020		
	Remaining Contractual Maturities of the Agreements			Remaining Contractual Maturities of the Agreements		
	Overnight & Continuous	Up to 30 Days	Total	Overnight & Continuous	Up to 30 Days	Total
(in millions)						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 8,842	\$ 479	\$ 9,321	\$ 9,548	\$ 546	\$ 10,094
Commercial mortgage-backed securities	338	0	338	463	0	463
Residential mortgage-backed securities	240	0	240	337	0	337
Total securities sold under agreements to repurchase(1)	<u>\$ 9,420</u>	<u>\$ 479</u>	<u>\$ 9,899</u>	<u>\$ 10,348</u>	<u>\$ 546</u>	<u>\$ 10,894</u>

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

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

	September 30, 2021			December 31, 2020		
	Remaining Contractual Maturities of the Agreements			Remaining Contractual Maturities of the Agreements		
	Overnight & Continuous	Up to 30 Days	Total	Overnight & Continuous	Up to 30 Days	Total
(in millions)						
Obligations of U.S. states and their political subdivisions	\$ 75	\$ 0	\$ 75	\$ 108	\$ 0	\$ 108
Foreign government bonds	222	0	222	426	0	426
U.S. public corporate securities	2,943	0	2,943	2,360	0	2,360
Foreign public corporate securities	709	0	709	567	0	567
Equity securities	433	0	433	38	0	38
Total cash collateral for loaned securities(1)(2)	<u>\$ 4,382</u>	<u>\$ 0</u>	<u>\$ 4,382</u>	<u>\$ 3,499</u>	<u>\$ 0</u>	<u>\$ 3,499</u>

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

(2) Excludes “Liabilities held-for-sale” of \$3 million as of September 30, 2021. See Note 1 for additional information on the pending dispositions.

4. VARIABLE INTEREST ENTITIES

In the normal course of its activities, the Company enters into relationships with various special-purpose entities and other entities that are deemed to be variable interest entities (“VIEs”). For additional information, see Note 4 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020.

Consolidated Variable Interest Entities

The table below reflects the carrying amount and balance sheet caption in which the assets and liabilities of consolidated VIEs are reported. The liabilities primarily comprise obligations under debt instruments issued by the VIEs. The creditors of these VIEs do not have recourse to the Company in excess of the assets contained within the VIEs.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Consolidated VIEs for which the Company is the Investment Manager(1)		Other Consolidated VIEs(1)	
	September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
	(in millions)			
Fixed maturities, available-for-sale	\$ 127	\$ 110	\$ 271	\$ 296
Fixed maturities, held-to-maturity	81	87	816	882
Fixed maturities, trading	174	160	0	0
Equity securities	74	42	0	0
Commercial mortgage and other loans	949	975	0	0
Other invested assets	2,668	2,221	142	127
Cash and cash equivalents	172	101	0	0
Accrued investment income	2	2	3	4
Other assets	469	594	798	768
Total assets of consolidated VIEs	\$ 4,716	\$ 4,292	\$ 2,030	\$ 2,077
Other liabilities	\$ 565	\$ 256	\$ 3	\$ 2
Notes issued by consolidated VIEs(2)	282	305	0	0
Total liabilities of consolidated VIEs	\$ 847	\$ 561	\$ 3	\$ 2

(1) Total assets of consolidated VIEs reflect \$2,747 million and \$2,538 million as of September 30, 2021 and December 31, 2020, respectively, related to VIEs whose beneficial interests are wholly-owned by consolidated subsidiaries.

(2) Recourse is limited to the assets of the respective VIE and does not extend to the general credit of the Company. As of September 30, 2021, the maturity of this obligation was within 3 years.

Unconsolidated Variable Interest Entities

The Company has determined that it is not the primary beneficiary of certain VIEs for which it is the investment manager. The Company's maximum exposure to loss resulting from its relationship with unconsolidated VIEs for which it is the investment manager is limited to its investment in the VIEs, which was \$960 million and \$935 million at September 30, 2021 and December 31, 2020, respectively. These investments are reflected in "Fixed maturities, available-for-sale," "Fixed maturities, trading," "Equity securities" and "Other invested assets." There are no liabilities associated with these unconsolidated VIEs on the Company's Unaudited Interim Consolidated Statements of Financial Position.

In the normal course of its activities, the Company will invest in limited partnerships and limited liability companies ("LPs/LLCs"), which include hedge funds, private equity funds and real estate-related funds and may or may not be VIEs. The Company's maximum exposure to loss on these investments, both VIEs and non-VIEs, is limited to the amount of its investment. The Company classifies these investments as "Other invested assets" and its maximum exposure to loss associated with these entities, excluding "Assets held-for-sale," was \$15,320 million and \$12,883 million as of September 30, 2021 and December 31, 2020, respectively.

In addition, in the normal course of its activities, the Company will invest in structured investments including VIEs for which it is not the investment manager. These structured investments typically invest in fixed income investments and are managed by third-parties and include asset-backed securities, commercial mortgage-backed securities and residential mortgage-backed securities. The Company's maximum exposure to loss on these structured investments, both VIEs and non-VIEs, is limited to the amount of its investment. See Note 3 for details regarding the carrying amounts and classification of these assets. The Company has not provided material financial or other support that was not contractually required to these structures. The Company has determined that it is not the primary beneficiary of these structures due to the fact that it does not control these entities.

5. DERIVATIVES AND HEDGING

Types of Derivative and Hedging Instruments

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

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

- To-be-announced (“TBA”) forward contracts, loan commitments, embedded derivatives and synthetic guaranteed investment contracts (“GICs”).

For detailed information on these contracts and the related strategies, see Note 5 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020.

Primary Risks Managed by Derivatives

The table below provides a summary of the gross notional amount and fair value of derivatives contracts by the primary underlying risks, excluding embedded derivatives and associated reinsurance recoverables. Many derivative instruments contain multiple underlying risks. The fair value amounts below represent the value of derivative contracts prior to taking into account the netting effects of master netting agreements and cash collateral. This netting impact results in total derivative assets of \$2,213 million and \$1,906 million as of September 30, 2021 and December 31, 2020, respectively, and total derivative liabilities of \$1,185 million and \$792 million as of September 30, 2021 and December 31, 2020, respectively, reflected in the Unaudited Interim Consolidated Statements of Financial Position.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Primary Underlying Risk /Instrument Type	September 30, 2021			December 31, 2020		
	Fair Value			Fair Value		
	Gross Notional	Assets	Liabilities	Gross Notional	Assets	Liabilities
	(in millions)					
Derivatives Designated as Hedge Accounting Instruments:						
Interest Rate						
Interest Rate Swaps	\$ 3,182	\$ 716	\$ (76)	\$ 3,065	\$ 978	\$ (90)
Interest Rate Forwards	298	8	(11)	249	0	(8)
Foreign Currency						
Foreign Currency Forwards	4,258	59	(101)	2,577	68	(116)
Currency/Interest Rate						
Foreign Currency Swaps	20,908	1,097	(268)	22,642	878	(1,037)
Total Derivatives Designated as Hedge Accounting Instruments	<u>\$ 28,646</u>	<u>\$ 1,880</u>	<u>\$ (456)</u>	<u>\$ 28,533</u>	<u>\$ 1,924</u>	<u>\$ (1,251)</u>
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate						
Interest Rate Swaps	\$ 196,080	\$ 10,549	\$ (14,874)	\$ 178,803	\$ 17,174	\$ (13,172)
Interest Rate Futures	17,449	6	(14)	15,778	99	(5)
Interest Rate Options	15,368	532	(240)	14,593	914	(233)
Interest Rate Forwards	3,509	26	(4)	2,910	25	0
Foreign Currency						
Foreign Currency Forwards	28,903	930	(1,061)	35,478	764	(647)
Foreign Currency Options	0	0	0	0	0	0
Currency/Interest Rate						
Foreign Currency Swaps	11,493	661	(257)	13,661	537	(601)
Credit						
Credit Default Swaps	6,849	168	0	3,360	63	(28)
Equity						
Equity Futures	4,329	0	(43)	5,668	10	(25)
Equity Options	35,514	405	(682)	36,250	1,731	(1,028)
Total Return Swaps	13,990	287	(20)	22,489	32	(1,277)
Other						
Other(1)	1,258	0	0	1,262	0	0
Synthetic GICs	<u>83,200</u>	<u>1</u>	<u>0</u>	<u>86,264</u>	<u>0</u>	<u>0</u>
Total Derivatives Not Qualifying as Hedge Accounting Instruments	<u>\$ 417,942</u>	<u>\$ 13,565</u>	<u>\$ (17,195)</u>	<u>\$ 416,516</u>	<u>\$ 21,349</u>	<u>\$ (17,016)</u>
Total Derivatives(2)(3)(4)	<u>\$ 446,588</u>	<u>\$ 15,445</u>	<u>\$ (17,651)</u>	<u>\$ 445,049</u>	<u>\$ 23,273</u>	<u>\$ (18,267)</u>

- (1) "Other" primarily includes derivative contracts used to improve the balance of the Company's tail longevity and mortality risk. Under these contracts, the Company's gains (losses) are capped at the notional amount.
- (2) Excludes embedded derivatives and associated reinsurance recoverables which contain multiple underlying risks. The fair value of these embedded derivatives was a net liability of \$9,994 million and \$20,119 million as of September 30, 2021 and December 31, 2020, respectively, primarily included in "Future policy benefits."
- (3) Recorded in "Other invested assets" and "Other liabilities" on the Unaudited Interim Consolidated Statements of Financial Position.
- (4) Excludes "Assets held-for-sale" with fair value of \$1,282 million and "Liabilities held-for-sale" with fair value of \$1,309 million with outstanding gross notional amounts of \$38,690 million as of September 30, 2021. See Note 1 for additional information on the pending dispositions.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

As of September 30, 2021, the following amounts were recorded on the Unaudited Interim Consolidated Statements of Financial Position related to the carrying amount of the hedged assets (liabilities) and cumulative basis adjustments included in the carrying amount for fair value hedges.

Balance Sheet Line Item in which Hedged Item is Recorded	September 30, 2021		December 31, 2020	
	Carrying Amount of the Hedged Assets (Liabilities)	Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets (Liabilities)(1)	Carrying Amount of the Hedged Assets (Liabilities)	Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets (Liabilities)(1)
		(in millions)		
Fixed maturities, available-for-sale, at fair value	\$ 418	\$ 59	\$ 402	\$ 79
Commercial mortgage and other loans	\$ 18	\$ 1	\$ 20	\$ 2
Policyholders' account balances	\$ (1,533)	\$ (166)	\$ (1,627)	\$ (303)
Future policy benefits	\$ (2,539)	\$ (252)	\$ (1,585)	\$ (372)

(1) There were no material fair value hedging adjustments for hedged assets and liabilities for which hedge accounting has been discontinued.

Most of the Company's derivatives do not qualify for hedge accounting for various reasons. For example: (i) derivatives that economically hedge embedded derivatives do not qualify for hedge accounting because changes in the fair value of the embedded derivatives are already recorded in net income; (ii) derivatives that are utilized as macro hedges of the Company's exposure to various risks typically do not qualify for hedge accounting because they do not meet the criteria required under portfolio hedge accounting rules; and (iii) synthetic GICs, which are product standalone derivatives, do not qualify as hedging instruments under hedge accounting rules.

Offsetting Assets and Liabilities

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

	September 30, 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 millions)		
Offsetting of Financial Assets:(2)					
Derivatives	\$ 15,301	\$ (13,233)	\$ 2,068	\$ (787)	\$ 1,281
Securities purchased under agreement to resell	69	0	69	(69)	0
Total assets	\$ 15,370	\$ (13,233)	\$ 2,137	\$ (856)	\$ 1,281
Offsetting of Financial Liabilities:(2)					
Derivatives	\$ 17,646	\$ (16,466)	\$ 1,180	\$ (956)	\$ 224
Securities sold under agreement to repurchase	9,899	0	9,899	(9,561)	338
Total liabilities	\$ 27,545	\$ (16,466)	\$ 11,079	\$ (10,517)	\$ 562

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

December 31, 2020					
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Statements of Financial Position	Net Amounts Presented in the Statements of Financial Position	Financial Instruments/ Collateral(1)	Net Amount
(in millions)					
Offsetting of Financial Assets:					
Derivatives	\$ 23,144	\$ (21,367)	\$ 1,777	\$ (806)	\$ 971
Securities purchased under agreement to resell	252	0	252	(252)	0
Total assets	<u>\$ 23,396</u>	<u>\$ (21,367)</u>	<u>\$ 2,029</u>	<u>\$ (1,058)</u>	<u>\$ 971</u>
Offsetting of Financial Liabilities:					
Derivatives	\$ 18,265	\$ (17,475)	\$ 790	\$ (790)	\$ 0
Securities sold under agreement to repurchase	10,894	0	10,894	(10,432)	462
Total liabilities	<u>\$ 29,159</u>	<u>\$ (17,475)</u>	<u>\$ 11,684</u>	<u>\$ (11,222)</u>	<u>\$ 462</u>

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

(2) Excludes "Assets held-for-sale" with fair value of \$1,282 million and "Liabilities held-for-sale" with fair value of \$1,309 million. See Note 1 for additional information on the pending dispositions.

For information regarding the rights of offset associated with the derivative assets and liabilities in the table above, see "—Counterparty Credit Risk" below. 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 Company's Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2020.

Cash Flow, Fair Value and Net Investment Hedges

The primary derivative and non-derivative instruments used by the Company in its fair value, cash flow and net investment hedge accounting relationships are interest rate swaps, currency swaps, currency forwards, and foreign currency denominated debts. 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 fair value, cash flow or net investment hedge accounting relationships.

The following table provides the financial statement classification and impact of derivatives used in qualifying and non-qualifying hedge relationships, including the offset of the hedged item in fair value hedge relationships.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Three Months Ended September 30, 2021								
	Realized Investment Gains (Losses)	Net Investment Income	Other Income (Loss)	Interest Expense	Interest Credited to Policyholders' Account Balances	Policyholders' Benefits	AOI(1)	
(in millions)								
Derivatives Designated as Hedge Accounting Instruments:								
Fair value hedges								
Gains (losses) on derivatives designated as hedge instruments:								
Interest Rate	\$ 3	\$ (2)	\$ 0	\$ 0	\$ (16)	\$ (15)	\$ 0	
Currency	1	0	0	0	0	(16)	0	
Total gains (losses) on derivatives designated as hedge instruments	4	(2)	0	0	(16)	(31)	0	
Gains (losses) on the hedged item:								
Interest Rate	(9)	4	0	0	27	21	0	
Currency	0	0	0	0	0	16	0	
Total gains (losses) on hedged item	(9)	4	0	0	27	37	0	
Amortization for gains (losses) excluded from assessment of the effectiveness								
Currency	0	0	0	0	0	(1)	(12)	
Total Amortization for Gain (Loss) Excluded from Assessment of the Effectiveness	0	0	0	0	0	(1)	(12)	
Total gains (losses) on fair value hedges net of hedged item	(5)	2	0	0	11	5	(12)	
Cash flow hedges								
Interest Rate	(7)	0	0	0	0	0	0	
Currency	(1)	0	0	0	0	0	55	
Currency/Interest Rate	18	66	145	0	0	0	551	
Total gains (losses) on cash flow hedges	10	66	145	0	0	0	606	
Net investment hedges								
Currency	0	0	0	0	0	0	1	
Currency/Interest Rate	0	0	0	0	0	0	0	
Total gains (losses) on net investment hedges	0	0	0	0	0	0	1	
Derivatives Not Qualifying as Hedge Accounting Instruments:								
Interest Rate	(413)	0	0	0	0	0	0	
Currency	88	0	1	0	0	0	0	
Currency/Interest Rate	205	0	2	0	0	0	0	
Credit	1	0	0	0	0	0	0	
Equity	(111)	0	0	0	0	0	0	
Other	(1)	0	0	0	0	0	0	
Embedded Derivatives	354	0	0	0	0	0	0	
Total gains (losses) on derivatives not qualifying as hedge accounting instruments	123	0	3	0	0	0	0	
Total	\$ 128	\$ 68	\$ 148	\$ 0	\$ 11	\$ 5	\$ 595	

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Nine Months Ended September 30, 2021								
	Realized Investment Gains (Losses)	Net Investment Income	Other Income (Loss)	Interest Expense	Interest Credited to Policyholders' Account Balances	Policyholders' Benefits	AOI(1)	
(in millions)								
Derivatives Designated as Hedge Accounting Instruments:								
Fair value hedges								
Gains (losses) on derivatives designated as hedge instruments:								
Interest Rate	\$ 17	\$ (7)	\$ 0	\$ 0	\$ (108)	\$ (93)	\$ 0	
Currency	(1)	0	0	0	0	(8)	0	
Total gains (losses) on derivatives designated as hedge instruments	16	(7)	0	0	(108)	(101)	0	
Gains (losses) on the hedged item:								
Interest Rate	(22)	12	0	0	138	109	0	
Currency	1	1	0	0	0	8	0	
Total gains (losses) on hedged item	(21)	13	0	0	138	117	0	
Amortization for gains (losses) excluded from assessment of the effectiveness								
Currency	0	0	0	0	0	(4)	(39)	
Total Amortization for Gain (Loss) Excluded from Assessment of the Effectiveness	0	0	0	0	0	(4)	(39)	
Total gains (losses) on fair value hedges net of hedged item	(5)	6	0	0	30	12	(39)	
Cash flow hedges								
Interest Rate	6	1	0	0	0	0	(30)	
Currency	(4)	0	0	0	0	0	53	
Currency/Interest Rate	56	204	175	0	0	0	1,012	
Total gains (losses) on cash flow hedges	58	205	175	0	0	0	1,035	
Net investment hedges								
Currency	0	0	0	0	0	0	(12)	
Currency/Interest Rate	0	0	0	0	0	0	0	
Total gains (losses) on net investment hedges	0	0	0	0	0	0	(12)	
Derivatives Not Qualifying as Hedge Accounting Instruments:								
Interest Rate	(2,969)	0	0	0	0	0	0	
Currency	(249)	0	(3)	0	0	0	0	
Currency/Interest Rate	620	0	1	0	0	0	0	
Credit	28	0	0	0	0	0	0	
Equity	(2,017)	0	0	0	0	0	0	
Other	1	0	0	0	0	0	0	
Embedded Derivatives	5,673	0	0	0	0	0	0	
Total gains (losses) on derivatives not qualifying as hedge accounting instruments	1,087	0	(2)	0	0	0	0	
Total	\$ 1,140	\$ 211	\$ 173	\$ 0	\$ 30	\$ 12	\$ 984	

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Three Months Ended September 30, 2020								
	Realized Investment Gains (Losses)	Net Investment Income	Other Income (Loss)	Interest Expense	Interest Credited to Policyholders' Account Balances	Policyholders' Benefits	AOI(1)	
(in millions)								
Derivatives Designated as Hedge Accounting Instruments:								
Fair value hedges								
Gains (losses) on derivatives designated as hedge instruments:								
Interest Rate	\$ 5	\$ (2)	\$ 0	\$ 0	\$ (35)	\$ (37)	\$ 0	
Currency	(1)	0	0	0	0	15	0	
Total gains (losses) on derivatives designated as hedge instruments	4	(2)	0	0	(35)	(22)	0	
Gains (losses) on the hedged item:								
Interest Rate	(6)	4	0	0	49	48	0	
Currency	0	0	0	0	0	(15)	0	
Total gains (losses) on hedged item	(6)	4	0	0	49	33	0	
Amortization for gains (losses) excluded from assessment of the effectiveness								
Currency	0	0	0	0	0	(1)	2	
Total Amortization for Gain (Loss) Excluded from Assessment of the Effectiveness	0	0	0	0	0	(1)	2	
Total gains (losses) on fair value hedges net of hedged item	(2)	2	0	0	14	10	2	
Cash flow hedges								
Interest Rate	19	0	0	0	0	0	(15)	
Currency	0	0	0	0	0	0	(65)	
Currency/Interest Rate	55	78	(210)	0	0	0	(1,011)	
Total gains (losses) on cash flow hedges	74	78	(210)	0	0	0	(1,091)	
Net investment hedges								
Currency	(6)	0	142	0	0	0	(143)	
Currency/Interest Rate	0	0	0	0	0	0	0	
Total gains (losses) on net investment hedges	(6)	0	142	0	0	0	(143)	
Derivatives Not Qualifying as Hedge Accounting Instruments:								
Interest Rate	(1,163)	0	0	0	0	0	0	
Currency	(44)	0	2	0	0	0	0	
Currency/Interest Rate	(394)	0	(3)	0	0	0	0	
Credit	(15)	0	0	0	0	0	0	
Equity	(2,243)	0	0	0	0	0	0	
Other	1	0	0	0	0	0	0	
Embedded Derivatives	3,254	0	0	0	0	0	0	
Total gains (losses) on derivatives not qualifying as hedge accounting instruments	(604)	0	(1)	0	0	0	0	
Total	\$ (538)	\$ 80	\$ (69)	\$ 0	\$ 14	\$ 10	\$ (1,232)	

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Nine Months Ended September 30, 2020							
	Realized Investment Gains (Losses)	Net Investment Income	Other Income (Loss)	Interest Expense	Interest Credited to Policyholders' Account Balances	Policyholders' Benefits	AOI(1)
(in millions)							
Derivatives Designated as Hedge Accounting Instruments:							
Fair value hedges							
Gains (losses) on derivatives designated as hedge instruments:							
Interest Rate	\$ (24)	\$ (6)	\$ 0	\$ 0	\$ 295	\$ 242	\$ 0
Currency	1	0	0	0	0	17	0
Total gains (losses) on derivatives designated as hedge instruments	(23)	(6)	0	0	295	259	0
Gains (losses) on the hedged item:							
Interest Rate	23	13	0	0	(269)	(222)	0
Currency	(1)	1	0	0	0	(17)	0
Total gains (losses) on hedged item	22	14	0	0	(269)	(239)	0
Amortization for gains (losses) excluded from assessment of the effectiveness							
Currency	0	0	0	0	0	(1)	(1)
Total Amortization for Gain (Loss) Excluded from Assessment of the Effectiveness	0	0	0	0	0	(1)	(1)
Total gains (losses) on fair value hedges net of hedged item	(1)	8	0	0	26	19	(1)
Cash flow hedges							
Interest Rate	27	0	0	0	0	0	29
Currency	4	0	0	0	0	0	27
Currency/Interest Rate	121	239	(17)	0	0	0	519
Total gains (losses) on cash flow hedges	152	239	(17)	0	0	0	575
Net investment hedges							
Currency	(6)	0	142	0	0	0	(133)
Currency/Interest Rate	0	0	0	0	0	0	0
Total gains (losses) on net investment hedges	(6)	0	142	0	0	0	(133)
Derivatives Not Qualifying as Hedge Accounting Instruments:							
Interest Rate	7,829	0	0	0	0	0	0
Currency	186	0	(5)	0	0	0	0
Currency/Interest Rate	337	0	(1)	0	0	0	0
Credit	(56)	0	0	0	0	0	0
Equity	(2,028)	0	0	0	0	0	0
Other	1	0	0	0	0	0	0
Embedded Derivatives	(9,339)	0	0	0	0	0	0
Total gains (losses) on derivatives not qualifying as hedge accounting instruments	(3,070)	0	(6)	0	0	0	0
Total	\$ (2,925)	\$ 247	\$ 119	\$ 0	\$ 26	\$ 19	\$ 441

(1) Net change in AOI, excluding changes related to net investment hedges using non-derivative instruments, of \$(7) million and \$7 million for the three and nine months ended September 30, 2021, respectively, and \$(17) million for both the three and nine months ended September 30, 2020.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

	(in millions)
Balance, December 31, 2020	\$ (168)
Amount recorded in AOCI:	
Interest Rate	(23)
Currency	49
Currency/Interest Rate	1,447
Total amount recorded in AOCI	1,473
Amount reclassified from AOCI to income:	
Interest Rate	(7)
Currency	4
Currency/Interest Rate	(435)
Total amount reclassified from AOCI to income	(438)
Balance, September 30, 2021	\$ 867

The changes in fair value of cash flow hedges are deferred in AOCI and are included in “Net unrealized investment gains (losses)” in the Unaudited Interim Consolidated Statements of Comprehensive Income; these amounts are then reclassified to earnings when the hedged item affects earnings. Using September 30, 2021 values, it is estimated that a pre-tax gain of approximately \$262 million is expected to be reclassified from AOCI to earnings during the subsequent twelve months ending September 30, 2022.

The exposures the Company is hedging with these qualifying cash flow hedges include the variability of future cash flows from forecasted transactions denominated in foreign currencies, the purchases of invested assets, and the receipt or payment of variable interest on existing financial instruments. The maximum length of time over which the Company is hedging its exposure to the variability in future cash flows for forecasted transactions is 10 years.

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. In addition, there were no instances in which the Company discontinued fair value hedge accounting due to a hedged firm commitment no longer qualifying as a fair value hedge.

For net investment hedges, in addition to derivatives, the Company uses foreign currency denominated debt to hedge the risk of change in the net investment in a foreign subsidiary due to changes in exchange rates. For effective net investment hedges, the amounts, before applicable taxes, recorded in the cumulative translation adjustment within AOCI were \$(6) million and \$(5) million for the three and nine months ended September 30, 2021, respectively, and \$(160) million and \$(150) million for the three and nine months ended September 30, 2020, respectively.

Credit Derivatives

The following table provides a summary of the notional and fair value of written credit protection. The Company’s maximum amount at risk under these credit derivatives, assuming the value of the underlying referenced securities become worthless, is equal to the notional amounts. These credit derivatives have maturities of less than 11 years and less than 26 years for Single name and Index Reference.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

September 30, 2021															
NAIC Rating Designation of Underlying Credit Obligation(1)															
NAIC 1		NAIC 2		NAIC 3		NAIC 4		NAIC 5		NAIC 6		Total(3)			
Gross Notional	Fair Value	Gross Notional	Fair Value	Gross Notional	Fair Value	Gross Notional	Fair Value	Gross Notional	Fair Value	Gross Notional	Fair Value	Gross Notional	Fair Value	Gross Notional	Fair Value
(in millions)															
Single name reference(2)	\$ 49	\$ 0	\$ 0	\$ 0	\$ 685	\$ 7	\$ 0	\$ 0	\$ 0	\$ 223	\$ 20	\$ 957	\$ 27		
Index reference(2)	0	0	0	0	5,125	84	0	0	0	757	57	5,882	141		
Total	\$ 49	\$ 0	\$ 0	\$ 0	\$ 5,810	\$ 91	\$ 0	\$ 0	\$ 0	\$ 980	\$ 77	\$ 6,839	\$ 168		

December 31, 2020															
NAIC Rating Designation of Underlying Credit Obligation(1)															
NAIC 1		NAIC 2		NAIC 3		NAIC 4		NAIC 5		NAIC 6		Total			
Gross Notional	Fair Value	Gross Notional	Fair Value	Gross Notional	Fair Value	Gross Notional	Fair Value	Gross Notional	Fair Value	Gross Notional	Fair Value	Gross Notional	Fair Value	Gross Notional	Fair Value
(in millions)															
Single name reference(2)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Index reference(2)	50	0	0	0	3,003	63	0	0	0	0	0	3,053	63		
Total	\$ 50	\$ 0	\$ 0	\$ 0	\$ 3,003	\$ 63	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,053	\$ 63		

- (1) The NAIC rating designations are based on availability and the lowest ratings among Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Rating Services ("S&P") and Fitch Ratings Inc. ("Fitch"). If no rating is available from a rating agency, a NAIC 6 rating is used.
- (2) Single name credit default swaps may reference the credit of corporate debt, sovereign debt, and structured finance. Index references NAIC designations are based on the lowest rated single name reference included in the index.
- (3) Excludes "Assets-held-for-sale" with fair value of \$48 million as of September 30, 2021. See Note 1 for additional information on the pending dispositions.

In addition to writing credit protection, the Company has purchased credit protection using credit derivatives in order to hedge specific credit exposures in the Company's investment portfolio. As of September 30, 2021 and December 31, 2020, the Company had \$10 million and \$307 million of outstanding notional amounts and reported at fair value as a liability of \$0 million and \$28 million, respectively.

Counterparty Credit Risk

The Company is exposed to losses in the event of non-performance by counterparties to financial derivative transactions with a positive fair value. The Company manages credit risk by: (i) entering into derivative transactions with highly rated major international financial institutions and other creditworthy counterparties governed by master netting agreements, as applicable; (ii) trading through central clearing and over-the-counter ("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. In addition, certain of the Company's derivative agreements contain credit-risk related contingent features; if the credit rating of one of the parties to the derivative agreement is to fall below a certain level, the party with positive fair value could request termination at the then fair value or demand immediate full collateralization from the party whose credit rating fell and is in a net liability position.

As of September 30, 2021, there were no net liability derivative positions with counterparties with credit risk-related contingent features. All derivatives have been appropriately collateralized by the Company or the counterparty in accordance with the terms of the derivative agreements.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

6. FAIR VALUE OF ASSETS AND LIABILITIES

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

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

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

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

For a discussion of Company's valuation methodologies for assets and liabilities measured at fair value and the fair value hierarchy, see Note 6 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

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.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	As of September 30, 2021(1)				
	Level 1	Level 2	Level 3	Netting(2)	Total
	(in millions)				
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 0	\$ 32,771	\$ 135	\$	\$ 32,906
Obligations of U.S. states and their political subdivisions	0	12,195	8		12,203
Foreign government bonds	0	97,736	10		97,746
U.S. corporate public securities	0	110,351	131		110,482
U.S. corporate private securities(3)	0	34,521	2,213		36,734
Foreign corporate public securities	0	27,560	128		27,688
Foreign corporate private securities	0	25,124	2,894		28,018
Asset-backed securities(4)	0	10,484	761		11,245
Commercial mortgage-backed securities	0	13,194	0		13,194
Residential mortgage-backed securities	0	2,710	326		3,036
Subtotal	0	366,646	6,606		373,252
Assets supporting experience-rated contractholder liabilities:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	197	0		197
Obligations of U.S. states and their political subdivisions	0	0	0		0
Foreign government bonds	0	791	0		791
Corporate securities	0	108	0		108
Asset-backed securities(4)	0	0	0		0
Commercial mortgage-backed securities	0	0	0		0
Residential mortgage-backed securities	0	0	0		0
Equity securities	817	1,446	0		2,263
All other(5)	4	54	0		58
Subtotal	821	2,596	0		3,417
Fixed maturities, trading	0	9,184	364		9,548
Equity securities	5,447	1,363	757		7,567
Commercial mortgage and other loans	0	1,106	0		1,106
Other invested assets(6)	167	15,273	376	(13,233)	2,583
Short-term investments	357	2,817	327		3,501
Cash equivalents	3,009	4,181	0		7,190
Other assets	0	0	111		111
Separate account assets(7)(8)	13,456	201,978	1,291		216,725
Total assets	\$ 23,257	\$ 605,144	\$ 9,832	\$ (13,233)	\$ 625,000
Future policy benefits(9)	\$ 0	\$ 0	\$ 9,230	\$	\$ 9,230
Policyholders' account balances	0	0	1,320		1,320
Other liabilities	62	17,151	0	(16,466)	747
Notes issued by consolidated VIEs	0	0	0		0
Total liabilities	\$ 62	\$ 17,151	\$ 10,550	\$ (16,466)	\$ 11,297

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	As of December 31, 2020				
	Level 1	Level 2	Level 3	Netting(2)	Total
	(in millions)				
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 0	\$ 40,298	\$ 150	\$	\$ 40,448
Obligations of U.S. states and their political subdivisions	0	12,807	4		12,811
Foreign government bonds	0	110,233	11		110,244
U.S. corporate public securities	0	113,486	69		113,555
U.S. corporate private securities(3)	0	38,689	2,248		40,937
Foreign corporate public securities	0	29,384	153		29,537
Foreign corporate private securities	0	28,727	2,865		31,592
Asset-backed securities(4)	0	14,068	523		14,591
Commercial mortgage-backed securities	0	16,294	9		16,303
Residential mortgage-backed securities	0	2,876	11		2,887
Subtotal	0	406,862	6,043		412,905
Assets supporting experience-rated contractholder liabilities:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	212	0		212
Obligations of U.S. states and their political subdivisions	0	231	0		231
Foreign government bonds	0	926	19		945
Corporate securities	0	14,990	482		15,472
Asset-backed securities(4)	0	1,583	114		1,697
Commercial mortgage-backed securities	0	1,839	0		1,839
Residential mortgage-backed securities	0	1,018	0		1,018
Equity securities	1,784	259	0		2,043
All other(5)	50	549	20		619
Subtotal	1,834	21,607	635		24,076
Fixed maturities, trading	0	3,671	243		3,914
Equity securities	6,207	1,131	660		7,998
Commercial mortgage and other loans	0	1,092	0		1,092
Other invested assets(6)	227	23,045	366	(21,367)	2,271
Short-term investments	405	5,728	177		6,310
Cash equivalents	1,476	4,005	1		5,482
Other assets	0	0	268		268
Separate account assets(7)(8)	51,826	250,623	1,821		304,270
Total assets	\$ 61,975	\$ 717,764	\$ 10,214	\$ (21,367)	\$ 768,586
Future policy benefits(9)	\$ 0	\$ 0	\$ 18,879	\$	\$ 18,879
Policyholders' account balances	0	0	1,914		1,914
Other liabilities	32	17,828	0	(17,475)	385
Notes issued by consolidated VIEs	0	0	0		0
Total liabilities	\$ 32	\$ 17,828	\$ 20,793	\$ (17,475)	\$ 21,178

(1) Excludes amounts for financial instruments reclassified to "Assets held-for-sale of \$128,234 million and "Liabilities held-for-sale" of \$5,790 million. Assets held-for-sale and liabilities held-for-sale are valued on a basis consistent with similar instruments described herein. See Note 1 for additional information on the pending dispositions.

(2) "Netting" amounts represent cash collateral of \$(3,233) and \$3,892 million as of September 30, 2021 and December 31, 2020, respectively.

(3) Excludes notes with fair value of \$5,693 million (carrying amount of \$5,616 million) and \$6,100 million (carrying amount of \$5,966 million) as of September 30, 2021 and December 31, 2020, respectively, which have been offset with the associated payables under a netting agreement.

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

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

- (5) All other represents cash equivalents and short-term investments.
- (6) Other invested assets excluded from the fair value hierarchy include certain hedge funds, private equity funds and other funds for which fair value is measured at net asset value (“NAV”) per share (or its equivalent) as a practical expedient. As of September 30, 2021 and December 31, 2020, the fair values of such investments were \$4,382 and \$4,136 million respectively.
- (7) 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 other invested assets. As of September 30, 2021 and December 31, 2020, the fair value of such investments was \$25,127 and \$23,007 million, respectively.
- (8) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in the Company’s Unaudited Interim Consolidated Statements of Financial Position.
- (9) As of September 30, 2021, the net embedded derivative liability position of \$9.2 billion includes \$0.6 billion of embedded derivatives in an asset position and \$9.8 billion of embedded derivatives in a liability position. As of December 31, 2020, the net embedded derivative liability position of \$18.9 billion includes \$0.5 billion of embedded derivatives in an asset position and \$19.4 billion of embedded derivatives in a liability position.

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

As of September 30, 2021							
	Fair Value (in millions)	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Weighted Average	Impact of Increase in Input on Fair Value(1)
Assets:							
Corporate securities(2)(3)	\$ 4,539	Discounted cash flow	Discount rate	0.06%	20%	4.91%	Decrease
		Market comparables	EBITDA multiples(4)	1.3X	15.0X	9.1X	Increase
		Liquidation	Liquidation value	12.37%	62.58%	48.50%	Increase
Equity securities	\$ 288	Discounted cash flow(5)	Discount rate	0.5%	20%		Decrease
		Market comparables	EBITDA multiples(4)	1.0X	9.7X	3.1X	Increase
		Net Asset Value	Share price	\$0	\$1,498	\$507	Increase
Separate account assets-commercial mortgage loans(6)	\$ 158	Discounted cash flow	Spread	0.95%	1.89%	1.08%	Decrease
Liabilities:							
Future policy benefits(7)	\$ 9,230	Discounted cash flow	Lapse rate(9)	1%	20%		Decrease
			Spread over LIBOR(10)	0.05%	1.05%		Decrease
			Utilization rate(11)	39%	96%		Increase
			Withdrawal rate		See table footnote (12) below.		
			Mortality rate(13)	0%	15%		Decrease
			Equity volatility curve	17%	26%		Increase
Policyholders’ account balances(8)	\$ 1,320	Discounted cash flow	Lapse rate(9)	1%	6%		Decrease
			Spread over LIBOR(10)	0.05%	1.07%		Decrease
			Mortality rate(13)	0%	23%		Decrease
			Equity volatility curve	13%	30%		Increase

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

As of December 31, 2020

	Fair Value (in millions)	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Weighted Average	Impact of Increase in Input on Fair Value(1)
Assets:							
Corporate securities(2)(3)	\$ 3,697	Discounted cash flow	Discount rate	0.40%	25%	4.28%	Decrease
		Market comparables	EBITDA multiples(4)	7.0X	15.0X	9.0X	Increase
		Liquidation	Liquidation value	12.13%	15.00%	13.02%	Increase
Equity securities	\$ 195	Discounted cash flow(5)	Discount rate	0.5%	20%		Decrease
		Market comparables	EBITDA multiples(4)	1X	8.8X	3.3X	Increase
		Net Asset Value	Share price	\$1	\$1,414	\$495	Increase
Separate account assets-commercial mortgage loans(6)	\$ 775	Discounted cash flow	Spread	1.60%	2.98%	1.80%	Decrease
Liabilities:							
Future policy benefits(7)	\$ 18,879	Discounted cash flow	Lapse rate(9)	1%	20%		Decrease
			Spread over LIBOR(10)	0.06%	1.17%		Decrease
			Utilization rate(11)	39%	96%		Increase
			Withdrawal rate		See table footnote (12) below.		
			Mortality rate(13)	0%	15%		Decrease
			Equity volatility curve	18%	26%		Increase
Policyholders' account balances(8)	\$ 1,914	Discounted cash flow	Lapse rate(9)	1%	42%		Decrease
			Spread over LIBOR(10)	0.06%	1.17%		Decrease
			Mortality rate(13)	0%	24%		Decrease
			Equity volatility curve	6%	42%		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, assets supporting experience-rated contractholder liabilities and fixed maturities trading.

(3) Excludes notes which have been offset with the associated payables under a netting agreement.

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

(5) For these investments, a range of discount rates is typically used (10% to 20%) and is therefore a more meaningful representation of the unobservable inputs used in the valuation rather than weighted average.

(6) Changes in the fair value of separate account assets are borne by customers and thus are offset by changes in separate account liabilities on the Company's Unaudited Interim Consolidated Statements of Financial Position. As a result, changes in value associated with these investments are not reflected in the Company's Unaudited Interim Consolidated Statements of Operations.

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

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

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

- (9) 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.
- (10) The spread over the London Inter-Bank Offered Rate (“LIBOR”) swap curve represents the premium added to the proxy for the risk-free rate (LIBOR) to reflect the Company’s estimates of rates that a market participant would use to value the living benefits in both the accumulation and payout phases and index-linked interest crediting guarantees. This spread includes an estimate of NPR, which is the risk that the obligation will not be fulfilled by the Company. NPR is primarily estimated by utilizing the credit spreads associated with issuing funding agreements, adjusted for any illiquidity risk premium. In order to reflect the financial strength ratings of the Company, credit spreads associated with funding agreements, as opposed to credit spread associated with debt, are utilized in developing this estimate because funding agreements, living benefit guarantees, and index-linked interest crediting guarantees are insurance liabilities and are therefore senior to debt.
- (11) 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.
- (12) The withdrawal rate assumption estimates the magnitude of annual contractholder withdrawals relative to the maximum allowable amount under the contract. These assumptions vary based on the age of the contractholder, the tax status of the contract and the duration since the contractholder began lifetime withdrawals. As of September 30, 2021 and December 31, 2020, the minimum withdrawal rate assumption is 76% and the maximum withdrawal rate assumption may be greater than 100%. The fair value of the liability will generally increase the closer the withdrawal rate is to 100% and decrease as the withdrawal rate moves further away from 100%.
- (13) The range reflects the mortality rates for the vast majority of business with living benefits and other contracts, with policyholders ranging from 45 to 90 years old. While the majority of living benefits have a minimum age requirement, certain other contracts do not have an age restriction. This results in contractholders with mortality rates approaching 0% for certain benefits. Mortality rates may vary by product, age, and duration. A mortality improvement assumption is also incorporated into the overall mortality table.

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

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

Asset-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 overall market interest rates and accompanied by lower default rates and loss severity. During weaker economic cycles, prepayments may decline, as default rates and loss severity increase. Additionally, the impact of these factors on average life varies with the structure and subordination. 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.

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

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

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Three Months Ended September 30, 2021

	Fair Value, beginning of period	Total realized and unrealized gains (losses)	Purchases	Sales	Issuances	Settlements	Other(1)	Transfers into Level 3	Transfers out of Level 3(2)	Fair Value, end of period	Unrealized gains (losses) for assets still held(3)
(in millions)											
Fixed maturities, available-for-sale:											
U.S. government	\$ 150	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ (15)	\$ 135	\$ 0
U.S. states	9	0	0	0	0	0	(1)	0	0	8	0
Foreign government	10	0	0	0	0	1	(1)	0	0	10	0
Corporate securities(4)	5,528	(67)	496	(12)	18	(374)	(1)	97	(319)	5,366	(82)
Structured securities(5)	874	2	608	0	0	(38)	(1)	130	(488)	1,087	(5)
Assets supporting experience-rated contractholder liabilities:											
Foreign government	17	0	0	0	0	0	0	0	(17)	0	0
Corporate securities(4)	549	(3)	1	0	0	(81)	(157)	0	(309)	0	(2)
Structured securities(5)	114	(1)	40	0	0	(9)	0	2	(146)	0	(1)
Equity securities	0	0	0	0	0	0	0	0	0	0	0
All other activity	0	0	1	0	0	0	0	0	(1)	0	0
Other assets:											
Fixed maturities, trading	269	12	3	(27)	0	(6)	157	0	(44)	364	11
Equity securities	715	100	8	(66)	0	0	0	0	0	757	73
Other invested assets	393	7	10	(33)	0	(1)	0	0	0	376	8
Short-term investments	445	1	66	0	0	(176)	1	0	(10)	327	0
Cash equivalents	1	0	0	0	0	0	(1)	0	0	0	0
Other assets	190	(23)	3	0	0	5	0	(64)	0	111	(9)
Separate account assets(6)	1,476	(75)	(70)	6	0	0	615	28	(689)	1,291	(2)
Liabilities:											
Future policy benefits	(13,579)	385	0	0	(331)	0	0	0	4,295	(9,230)	229
Policyholders' account balances(7)	(2,690)	(5)	0	0	(83)	0	0	0	1,458	(1,320)	568
Other liabilities	0	0	0	0	0	0	0	0	0	0	0
Notes issued by consolidated VIEs	0	0	0	0	0	0	0	0	0	0	0

Three Months Ended September 30, 2021

	Total realized and unrealized gains (losses)					Unrealized gains (losses) for assets still held(3)			
	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (loss)	Net investment income	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (loss)
	(in millions)								
Fixed maturities, available-for-sale	\$ (10)	\$ 0	\$ 0	\$ (59)	\$ 4	\$ (33)	\$ 0	\$ 0	\$ (54)
Assets supporting experience-rated contractholder liabilities	0	(5)	0	0	1	0	(3)	0	0
Other assets:									
Fixed maturities, trading	0	11	0	0	1	0	11	0	0
Equity securities	0	100	0	0	0	0	73	0	0
Other invested assets	(14)	21	0	0	0	(13)	21	0	0
Short-term investments	1	0	0	0	0	0	0	0	0
Cash equivalents	0	0	0	0	0	0	0	0	0
Other assets	(23)	0	0	39	(39)	(9)	0	0	0
Separate account assets(6)	0	0	(75)	0	0	0	0	(2)	0
Liabilities:									
Future policy benefits	385	0	0	0	0	229	0	0	0
Policyholders' account balances	(5)	0	0	0	0	568	0	0	0
Other liabilities	0	0	0	0	0	0	0	0	0
Notes issued by consolidated VIEs	0	0	0	0	0	0	0	0	0

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Nine Months Ended September 30, 2021

	Fair Value, beginning of period	Total realized and unrealized gains (losses)	Purchases	Sales	Issuances	Settlements	Other(1)	Transfers into Level 3	Transfers out of Level 3(2)	Fair Value, end of period	Unrealized gains (losses) for assets still held(3)
(in millions)											
Fixed maturities, available-for-sale:											
U.S. government	\$ 150	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ (15)	\$ 135	\$ 0
U.S. states	4	0	0	0	0	0	4	0	0	8	0
Foreign government	11	0	0	0	0	0	(1)	0	0	10	0
Corporate securities(4)	5,335	(229)	1,183	(33)	38	(868)	0	386	(446)	5,366	(284)
Structured securities(5)	543	31	1,384	(1)	0	(218)	13	441	(1,106)	1,087	5
Assets supporting experience-rated contractholder liabilities:											
Foreign government	19	0	0	0	0	(2)	0	0	(17)	0	0
Corporate securities(4)	482	5	17	0	0	(109)	(157)	71	(309)	0	(2)
Structured securities(5)	114	(5)	213	0	0	(31)	0	2	(293)	0	(5)
Equity securities	0	0	0	0	0	0	0	0	0	0	0
All other activity	20	0	1	0	0	(20)	0	0	(1)	0	0
Other assets:											
Fixed maturities, trading	243	23	26	(35)	0	(6)	159	0	(46)	364	22
Equity securities	660	157	99	(128)	0	(9)	(23)	36	(35)	757	124
Other invested assets	366	24	34	(47)	0	(1)	0	0	0	376	25
Short-term investments	177	1	519	0	0	(339)	(26)	5	(10)	327	(1)
Cash equivalents	1	(1)	4	0	0	0	(4)	0	0	0	(1)
Other assets	268	(120)	27	0	0	0	0	(64)	0	111	(116)
Separate account assets(6)	1,821	133	79	(21)	0	(12)	0	58	(767)	1,291	124
Liabilities:											
Future policy benefits	(18,879)	6,335	0	0	(993)	0	12	0	4,295	(9,230)	5,694
Policyholders' account balances(7)	(1,914)	(553)	0	0	(311)	0	0	0	1,458	(1,320)	106
Other liabilities	0	0	0	0	0	0	0	0	0	0	0
Notes issued by consolidated VIEs	0	0	0	0	0	0	0	0	0	0	0

Nine Months Ended September 30, 2021

	Total realized and unrealized gains (losses)					Unrealized gains (losses) for assets still held(3)				
	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (loss)	Net investment income	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (loss)	
(in millions)										
Fixed maturities, available-for-sale	\$ 19	\$ 0	\$ 0	(223)	\$ 6	\$ (34)	\$ 0	\$ 0	\$ (245)	
Assets supporting experience-rated contractholder liabilities	0	(5)	0	0	5	0	(7)	0	0	
Other assets:										
Fixed maturities, trading	0	22	0	0	1	0	22	0	0	
Equity securities	0	157	0	0	0	0	124	0	0	
Other invested assets	1	23	0	0	0	1	24	0	0	
Short-term investments	1	0	0	0	0	(1)	0	0	0	
Cash equivalents	(1)	0	0	0	0	(1)	0	0	0	
Other assets	(120)	0	0	39	(39)	(116)	0	0	0	
Separate account assets(6)	0	0	133	0	0	0	0	124	0	
Liabilities:										
Future policy benefits	6,335	0	0	0	0	5,694	0	0	0	
Policyholders' account balances	(553)	0	0	0	0	106	0	0	0	
Other liabilities	0	0	0	0	0	0	0	0	0	
Notes issued by consolidated VIEs	0	0	0	0	0	0	0	0	0	

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Three Months Ended September 30, 2020

	Fair Value, beginning of period	Total realized and unrealized gains (losses)	Purchases	Sales	Issuances	Settlements	Other(1)	Transfers into Level 3	Transfers out of Level 3	Fair Value, end of period	Unrealized gains (losses) for assets still held(3)
(in millions)											
Fixed maturities, available-for-sale:											
U.S. government	\$ 122	\$ 0	\$ 10	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 132	\$ 0
U.S. states	4	0	0	0	0	0	0	0	0	4	0
Foreign government	21	1	0	0	0	0	0	0	(12)	10	1
Corporate securities(4)	4,904	215	165	(8)	0	(160)	(23)	113	(103)	5,103	193
Structured securities(5)	801	5	96	0	0	(147)	1	68	(258)	566	4
Assets supporting experience-rated contractholder liabilities:											
Foreign government	24	0	0	0	0	(2)	0	0	0	22	0
Corporate securities(4)	624	5	1	0	0	(6)	(22)	0	(24)	578	3
Structured securities(5)	99	1	19	0	0	(9)	0	1	(1)	110	1
Equity securities	0	0	0	0	0	0	0	0	0	0	0
All other activity	7	0	107	0	0	(4)	0	0	0	110	0
Other assets:											
Fixed maturities, trading	236	0	(1)	(1)	0	0	1	4	1	240	1
Equity securities	594	67	15	(3)	0	(4)	5	0	(1)	673	66
Other invested assets	658	3	101	0	1	2	9	8	0	782	4
Short-term investments	44	(1)	145	0	0	(5)	0	0	0	183	0
Cash equivalents	1	0	0	0	0	0	0	0	0	1	0
Other assets	377	(64)	19	0	0	0	0	0	0	332	(62)
Separate account assets(6)	1,684	84	65	(5)	0	(14)	0	10	(23)	1,801	87
Liabilities:											
Future policy benefits	(26,439)	3,339	0	0	(331)	0	91	0	0	(23,340)	3,069
Policyholders' account balances(7)	(1,441)	(34)	0	0	(74)	0	0	0	0	(1,549)	(6)
Other liabilities	0	0	0	0	0	0	0	0	0	0	0
Notes issued by consolidated VIEs	(741)	(34)	0	0	0	0	0	0	0	(775)	(34)

Three Months Ended September 30, 2020

	Total realized and unrealized gains (losses)					Unrealized gains (losses) for assets still held(3)				
	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (loss)	Net investment income	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (loss)	
(in millions)										
Fixed maturities, available-for-sale	\$ 3	\$ 0	\$ 0	\$ 217	\$ 1	\$ (12)	\$ 0	\$ 0	\$ 0	\$ 210
Assets supporting experience-rated contractholder liabilities	0	4	0	0	2	0	4	0	0	0
Other assets:										
Fixed maturities, trading	0	0	0	0	0	0	1	0	0	0
Equity securities	0	67	0	0	0	0	66	0	0	0
Other invested assets	0	3	0	0	0	0	4	0	0	0
Short-term investments	(1)	0	0	0	0	0	0	0	0	0
Cash equivalents	0	0	0	0	0	0	0	0	0	0
Other assets	(64)	0	0	0	0	(62)	0	0	0	0
Separate account assets(6)	0	0	84	0	0	0	0	87	0	0
Liabilities:										
Future policy benefits	3,339	0	0	0	0	3,069	0	0	0	0
Policyholders' account balances	(34)	0	0	0	0	(6)	0	0	0	0
Other liabilities	0	0	0	0	0	0	0	0	0	0
Notes issued by consolidated VIEs	0	(34)	0	0	0	0	(34)	0	0	0

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Nine Months Ended September 30, 2020

	Fair Value, beginning of period	Total realized and unrealized gains (losses)	Purchases	Sales	Issuances	Settlements	Other(1)	Transfers into Level 3	Transfers out of Level 3	Fair Value, end of period	Unrealized gains (losses) for assets still held(3)
(in millions)											
Fixed maturities, available-for-sale:											
U.S. government	\$ 105	\$ 0	\$ 27	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 132	\$ 0
U.S. states	4	0	0	0	0	0	0	0	0	4	0
Foreign government	22	0	0	0	0	0	0	1	(13)	10	0
Corporate securities(4)	3,236	33	584	(126)	0	(490)	(22)	2,136	(248)	5,103	19
Structured securities(5)	948	2	484	(17)	0	(444)	156	160	(723)	566	0
Assets supporting experience-rated contractholder liabilities:											
Foreign government	24	0	0	0	0	(2)	0	0	0	22	0
Corporate securities(4)	637	(22)	5	(9)	0	(71)	(22)	92	(32)	578	(25)
Structured securities(5)	69	(1)	174	0	0	(19)	0	1	(114)	110	3
Equity securities	0	0	0	0	0	0	0	0	0	0	0
All other activity	0	0	114	0	0	(4)	0	0	0	110	0
Other assets:											
Fixed maturities, trading	287	(16)	21	(33)	0	0	9	19	(47)	240	(16)
Equity securities	633	9	43	(13)	0	(4)	6	0	(1)	673	6
Other invested assets	567	7	182	0	5	(2)	15	8	0	782	9
Short-term investments	155	1	189	0	0	(115)	(47)	0	0	183	0
Cash equivalents	131	0	0	0	0	0	(130)	0	0	1	0
Other assets	113	164	55	0	0	0	0	0	0	332	165
Separate account assets(6)	1,717	58	169	(26)	0	(47)	0	43	(113)	1,801	70
Liabilities:											
Future policy benefits	(12,831)	(9,630)	0	0	(972)	0	93	0	0	(23,340)	(9,940)
Policyholders' account balances(7)	(1,316)	38	0	0	(271)	0	0	0	0	(1,549)	80
Other liabilities	(105)	105	0	0	0	0	0	0	0	0	105
Notes issued by consolidated VIEs	(800)	25	0	0	0	0	0	0	0	(775)	25

Nine Months Ended September 30, 2020

	Total realized and unrealized gains (losses)					Unrealized gains (losses) for assets still held(3)				
	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (loss)	Net investment income	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (losses)	
(in millions)										
Fixed maturities, available-for-sale	\$ (112)	\$ 0	\$ 0	\$ 141	\$ 6	\$ (118)	\$ 0	\$ 0	\$ 0	137
Assets supporting experience-rated contractholder liabilities	0	(25)	0	0	2	0	(22)	0	0	0
Other assets:										
Fixed maturities, trading	0	(17)	0	0	1	0	(16)	0	0	0
Equity securities	0	9	0	0	0	0	6	0	0	0
Other invested assets	0	7	0	0	0	1	8	0	0	0
Short-term investments	1	0	0	0	0	0	0	0	0	0
Cash equivalents	0	0	0	0	0	0	0	0	0	0
Other assets	164	0	0	0	0	165	0	0	0	0
Separate account assets(6)	0	0	58	0	0	0	0	70	0	0
Liabilities:										
Future policy benefits	(9,630)	0	0	0	0	(9,940)	0	0	0	0
Policyholders' account balances	38	0	0	0	0	80	0	0	0	0
Other liabilities	0	105	0	0	0	0	105	0	0	0
Notes issued by consolidated VIEs	0	25	0	0	0	0	25	0	0	0

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

- (1) “Other,” for the periods ended September 30, 2021 and September 30, 2020, primarily represents the deconsolidation of VIEs, reclassifications of certain assets between reporting categories and foreign currency translation.
- (2) Transfers out of level 3 for both three months and nine months ended September 30, 2021 included \$274 million of corporate securities and \$58 million of structured securities reclassified to “Assets held-for-sale”, and \$4,295 million of Future Policy Benefits and \$1,458 million of Policyholders’ account balances reclassified to “Liabilities held-for-sale”. See Note 1 for additional information on the pending dispositions.
- (3) Unrealized gains or losses related to assets still held at the end of the period do not include amortization or accretion of premiums and discounts.
- (4) Includes U.S. corporate public, U.S. corporate private, foreign corporate public and foreign corporate private securities.
- (5) Includes asset-backed, commercial mortgage-backed and residential mortgage-backed securities.
- (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 Unaudited Interim Consolidated Statements of Financial Position.
- (7) Issuances and settlements for Policyholders’ account balances are presented net in the rollforward.

Derivative Fair Value Information

The following tables present the balances of derivative assets and liabilities measured at fair value on a recurring basis, as of the date indicated, by primary underlying risk. These tables include NPR and exclude embedded derivatives and associated reinsurance recoverables. The derivative assets and liabilities shown below are included in “Other invested assets” or “Other liabilities” in the tables contained within the sections “—Assets and Liabilities by Hierarchy Level” and “—Changes in Level 3 Assets and Liabilities,” above.

	As of September 30, 2021				
	Level 1	Level 2	Level 3	Netting(1)	Total
	(in millions)				
Derivative Assets:(2)					
Interest Rate	\$ 6	\$ 11,831	\$ 1	\$	\$ 11,838
Currency	0	990	0		990
Credit	0	168	0		168
Currency/Interest Rate	0	1,758	0		1,758
Equity	142	550	0		692
Other	0	0	0		0
Netting(1)				(13,233)	(13,233)
Total derivative assets	<u>\$ 148</u>	<u>\$ 15,297</u>	<u>\$ 1</u>	<u>\$ (13,233)</u>	<u>\$ 2,213</u>
Derivative Liabilities:(2)					
Interest Rate	\$ 14	\$ 15,205	\$ 0	\$	\$ 15,219
Currency	0	1,162	0		1,162
Credit	0	0	0		0
Currency/Interest Rate	0	525	0		525
Equity	46	699	0		745
Other	0	0	0		0
Netting(1)				(16,466)	(16,466)
Total derivative liabilities	<u>\$ 60</u>	<u>\$ 17,591</u>	<u>\$ 0</u>	<u>\$ (16,466)</u>	<u>\$ 1,185</u>

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	As of December 31, 2020				
	Level 1	Level 2	Level 3	Netting(1)	Total
	(in millions)				
Derivative Assets:					
Interest Rate	\$ 99	\$ 19,091	\$ 0	\$	\$ 19,190
Currency	0	832	0		832
Credit	0	63	0		63
Currency/Interest Rate	0	1,415	0		1,415
Equity	128	1,645	0		1,773
Other	0	0	0		0
Netting(1)				(21,367)	(21,367)
Total derivative assets	<u>\$ 227</u>	<u>\$ 23,046</u>	<u>\$ 0</u>	<u>\$ (21,367)</u>	<u>\$ 1,906</u>
Derivative Liabilities:					
Interest Rate	\$ 5	\$ 13,503	\$ 0	\$	\$ 13,508
Currency	0	763	0		763
Credit	0	28	0		28
Currency/Interest Rate	0	1,638	0		1,638
Equity	25	2,305	0		2,330
Other	0	0	0		0
Netting(1)				(17,475)	(17,475)
Total derivative liabilities	<u>\$ 30</u>	<u>\$ 18,237</u>	<u>\$ 0</u>	<u>\$ (17,475)</u>	<u>\$ 792</u>

(1) “Netting” amounts represent cash collateral and the impact of offsetting asset and liability positions held with the same counterparty, subject to master netting agreement.

(2) Excludes “Assets held-for-sale” with fair value of \$1,282 million and “Liabilities held-for-sale” with fair value of \$1,309 million as of September 30, 2021. See Note 1 for additional information on the pending dispositions.

Changes in Level 3 derivative assets and liabilities—The following tables provide a summary of the changes in fair value of Level 3 derivative 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.

Three Months Ended September 30, 2021											
	Fair Value, beginning of period	Total realized and unrealized gains (losses)(1)	Purchases	Sales	Issuances	Settlements	Other	Transfers into Level 3(2)	Transfers out of Level 3(2)	Fair Value, end of period	Unrealized gains (losses) for assets still held(1)
	(in millions)										
Net Derivative - Equity	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Net Derivative - Interest Rate	1	0	0	0	0	0	0	0	0	1	0

Nine Months Ended September 30, 2021											
	Fair Value, beginning of period	Total realized and unrealized gains (losses)(1)	Purchases	Sales	Issuances	Settlements	Other	Transfers into Level 3(2)	Transfers out of Level 3(2)	Fair Value, end of period	Unrealized gains (losses) for assets still held(1)
	(in millions)										
Net Derivative - Equity	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Net Derivative - Interest Rate	0	1	0	0	0	0	0	0	0	1	1

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Three Months Ended September 30, 2020											
	Fair Value, beginning of period	Total realized and unrealized gains (losses)(1)	Purchases	Sales	Issuances	Settlements	Other	Transfers into Level 3(2)	Transfers out of Level 3(2)	Fair Value, end of period	Unrealized gains (losses) for assets still held(1)
(in millions)											
Net Derivative - Equity	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Net Derivative - Interest Rate	1	0	0	0	0	0	0	0	0	1	0

Nine Months Ended September 30, 2020											
	Fair Value, beginning of period	Total realized and unrealized gains (losses)(1)	Purchases	Sales	Issuances	Settlements	Other	Transfers into Level 3(2)	Transfers out of Level 3(2)	Fair Value, end of period	Unrealized gains (losses) for assets still held(1)
(in millions)											
Net Derivative - Equity	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Net Derivative - Interest Rate	1	0	0	0	0	0	0	0	0	1	0

- (1) Total realized and unrealized gains (losses) as well as unrealized gains (losses) for assets still held at the end of the period are recorded in "Realized investment gains (losses), net."
(2) Transfers into or out of Level 3 are generally reported at the value as of the beginning of the quarter in which the transfers occur for any such positions still held at the end of the quarter.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)			
Realized investment gains (losses) net:				
Commercial mortgage loans(1)	\$ 0	\$ 3	\$ 0	\$ 0
Mortgage servicing rights(2)	\$ 0	\$ 5	\$ (6)	\$ (24)
Investment real estate	\$ 0	\$ 0	\$ (9)	\$ 0

	September 30, 2021	December 31, 2020
	(in millions)	
Carrying value after measurement as of period end:		
Commercial mortgage loans(1)	\$ 0	\$ 0
Mortgage servicing rights(2)	\$ 281	\$ 307
Investment real estate	\$ 17	\$ 31

- (1) Commercial mortgage loans are valued based on discounted cash flows utilizing market rates or the fair value of the underlying real estate collateral.
(2) Mortgage servicing rights are valued using a discounted cash flow model. The model incorporates assumptions for servicing revenues, which are adjusted for expected prepayments, delinquency rates, escrow deposit income and estimated loan servicing expenses. The discount rates incorporated into the model are determined based on the estimated returns a market participant would require for this business including a liquidity and risk premium. This estimate includes available relevant data from any active market sales of mortgage servicing rights.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Fair Value Option

The fair value option allows the Company to elect fair value as an alternative measurement for selected financial assets and financial liabilities not otherwise reported at fair value. Such elections have been made by the Company to help mitigate volatility in earnings that result from different measurement attributes. Electing the fair value option also allows the Company to achieve consistent accounting for certain assets and liabilities. Changes in fair value are reflected in “Realized investment gains (losses), net” for commercial mortgage and other loans and “Other income (loss)” for other assets and notes issued by consolidated VIEs. Changes in fair value due to instrument-specific credit risk are estimated using changes in credit spreads and quality ratings for the period reported. Interest income on commercial mortgage and other loans is included in “Net investment income.” Interest income on these loans is recorded based on the effective interest rate as determined at the closing of the loan.

The following tables present information regarding assets and liabilities where the fair value option has been elected.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
(in millions)				
Liabilities:				
Notes issued by consolidated VIEs:				
Changes in fair value	\$ 0	\$ 34	\$ 0	\$ (25)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
(in millions)				
Commercial mortgage and other loans:				
Interest income	\$ 4	\$ 4	\$ 9	\$ 10
Notes issued by consolidated VIEs:				
Interest expense	\$ 0	\$ 10	\$ 0	\$ 32

	September 30, 2021		December 31, 2020	
	(in millions)			
Commercial mortgage and other loans(1):				
Fair value as of period end	\$	1,106	\$	1,092
Aggregate contractual principal as of period end	\$	1,087	\$	1,073
Other assets:				
Fair value as of period end	\$	59	\$	10
Notes issued by consolidated VIEs:				
Fair value as of period end	\$	0	\$	0
Aggregate contractual principal as of period end	\$	0	\$	0

(1) As of September 30, 2021, for loans for which the fair value option has been elected, there were no loans in non-accrual status and none of the loans were more than 90 days past due and still accruing.

Fair Value of Financial Instruments

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

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	September 30, 2021(1)				
	Fair Value				Carrying Amount(2)
	Level 1	Level 2	Level 3	Total	Total
	(in millions)				
Assets:					
Fixed maturities, held-to-maturity(3)	\$ 0	\$ 1,874	\$ 82	\$ 1,956	\$ 1,644
Assets supporting experience-rated contractholder liabilities	7	0	0	7	7
Commercial mortgage and other loans	0	67	59,947	60,014	56,680
Policy loans	0	0	10,471	10,471	10,471
Other invested assets	0	81	0	81	81
Short-term investments	1,210	22	0	1,232	1,232
Cash and cash equivalents	8,344	71	0	8,415	8,415
Accrued investment income	0	2,808	0	2,808	2,808
Other assets	49	3,056	27	3,132	3,131
Total assets	\$ 9,610	\$ 7,979	\$ 70,527	\$ 88,116	\$ 84,469
Liabilities:					
Policyholders' account balances—investment contracts	\$ 0	\$ 33,929	\$ 39,872	\$ 73,801	\$ 72,542
Securities sold under agreements to repurchase	0	9,899	0	9,899	9,899
Cash collateral for loaned securities	0	4,382	0	4,382	4,382
Short-term debt	0	774	137	911	909
Long-term debt(4)	611	20,649	978	22,238	18,687
Notes issued by consolidated VIEs	0	0	282	282	282
Other liabilities	0	8,996	54	9,050	9,050
Separate account liabilities—investment contracts	0	28,837	23,803	52,640	52,640
Total liabilities	\$ 611	\$ 107,466	\$ 65,126	\$ 173,203	\$ 168,391

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	December 31, 2020				
	Fair Value				Carrying Amount(2)
	Level 1	Level 2	Level 3	Total	Total
	(in millions)				
Assets:					
Fixed maturities, held-to-maturity(3)	\$ 0	\$ 2,209	\$ 89	\$ 2,298	\$ 1,930
Assets supporting experience-rated contractholder liabilities	39	0	0	39	39
Commercial mortgage and other loans	0	107	67,477	67,584	64,333
Policy loans	0	0	11,271	11,271	11,271
Other invested assets	0	153	0	153	153
Short-term investments	1,464	26	0	1,490	1,490
Cash and cash equivalents	7,951	268	0	8,219	8,219
Accrued investment income	0	3,193	0	3,193	3,193
Other assets	154	2,917	449	3,520	3,517
Total assets	\$ 9,608	\$ 8,873	\$ 79,286	\$ 97,767	\$ 94,145
Liabilities:					
Policyholders' account balances—investment contracts	\$ 0	\$ 36,820	\$ 73,653	\$ 110,473	\$ 107,526
Securities sold under agreements to repurchase	0	10,894	0	10,894	10,894
Cash collateral for loaned securities	0	3,499	0	3,499	3,499
Short-term debt	0	794	146	940	925
Long-term debt(4)	644	21,685	1,139	23,468	19,718
Notes issued by consolidated VIEs	0	0	305	305	305
Other liabilities	0	7,626	48	7,674	7,674
Separate account liabilities—investment contracts	0	86,046	23,631	109,677	109,677
Total liabilities	\$ 644	\$ 167,364	\$ 98,922	\$ 266,930	\$ 260,218

- (1) Excludes amounts for financial instruments reclassified to "Assets held-for-sale" of \$7,564 million or "Liabilities held-for-sale" of \$99,768 million. See Note 1 for additional information on the pending dispositions.
- (2) Carrying values presented herein differ from those in the Company's Unaudited Interim Consolidated Statements of Financial Position because certain items within the respective financial statement captions are not considered financial instruments or are out of scope under authoritative guidance relating to disclosures of the fair value of financial instruments.
- (3) Excludes notes with fair value of \$5,727 million (carrying amount of \$5,000 million) and \$5,821 million (carrying amount of \$4,998 million) as of September 30, 2021 and December 31, 2020, respectively, which have been offset with the associated payables under a netting agreement.
- (4) Includes notes with fair value of \$11,421 million (carrying amount of \$10,616 million) and \$11,921 million (carrying amount of \$10,964 million) as of September 30, 2021 and December 31, 2020, respectively, which have been offset with the associated receivables under a netting agreement.

7. CLOSED BLOCK

On December 18, 2001, the date of demutualization, The Prudential Insurance Company of America ("PICA") established a closed block for certain in-force participating insurance policies and annuity products, along with corresponding assets used for the payment of benefits and policyholders' dividends on these products, (collectively the "Closed Block"), and ceased offering these participating products. The recorded assets and liabilities were allocated to the Closed Block at their historical carrying amounts. The Closed Block forms the principal component of the Closed Block division. For additional information on the Closed Block, see Note 15 to the Company's Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2020.

As of September 30, 2021 and December 31, 2020, the Company recognized a policyholder dividend obligation of \$3,908 million and \$2,920 million, respectively, to Closed Block policyholders for the excess of actual cumulative earnings over expected cumulative earnings. Additionally, accumulated net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block have been reflected as a policyholder dividend obligation of \$3,820 million and \$5,867 million at September 30, 2021 and December 31, 2020, respectively, to be paid to Closed Block policyholders unless offset by future experience, with a corresponding amount reported in AOCl.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Closed Block liabilities and assets designated to the Closed Block, as well as maximum future earnings to be recognized from these liabilities and assets, are as follows:

	September 30, 2021	December 31, 2020
	(in millions)	
Closed Block liabilities		
Future policy benefits	\$ 45,797	\$ 46,762
Policyholders' dividends payable	641	635
Policyholders' dividend obligation	7,728	8,787
Policyholders' account balances	4,769	4,874
Other Closed Block liabilities	3,408	3,141
Total Closed Block liabilities	62,343	64,199
Closed Block assets		
Fixed maturities, available-for-sale, at fair value	38,147	41,959
Fixed maturities, trading, at fair value	1,189	277
Equity securities, at fair value	2,308	2,345
Commercial mortgage and other loans	8,227	8,421
Policy loans	3,872	4,064
Other invested assets	4,120	3,610
Short-term investments	339	124
Total investments	58,202	60,800
Cash and cash equivalents	790	269
Accrued investment income	426	431
Other Closed Block assets	364	92
Total Closed Block assets	59,782	61,592
Excess of reported Closed Block liabilities over Closed Block assets	2,561	2,607
Portion of above representing accumulated other comprehensive income (loss):		
Net unrealized investment gains (losses)	3,716	5,810
Allocated to policyholder dividend obligation	(3,820)	(5,867)
Future earnings to be recognized from Closed Block assets and Closed Block liabilities	\$ 2,457	\$ 2,550

Information regarding the policyholder dividend obligation is as follows:

	Nine Months Ended September 30, 2021
	(in millions)
Balance, December 31, 2020	\$ 8,787
Impact from earnings allocable to policyholder dividend obligation	988
Change in net unrealized investment gains (losses) allocated to policyholder dividend obligation	(2,047)
Balance, September 30, 2021	\$ 7,728

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Closed Block revenues and benefits and expenses are as follows for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)			
Revenues				
Premiums	\$ 419	\$ 459	\$ 1,313	\$ 1,457
Net investment income	654	586	1,876	1,649
Realized investment gains (losses), net	168	18	505	266
Other income (loss)	113	242	644	(43)
Total Closed Block revenues	1,354	1,305	4,338	3,329
Benefits and Expenses				
Policyholders' benefits	599	641	1,885	2,013
Interest credited to policyholders' account balances	31	32	93	96
Dividends to policyholders	583	532	1,978	955
General and administrative expenses	78	81	236	248
Total Closed Block benefits and expenses	1,291	1,286	4,192	3,312
Closed Block revenues, net of Closed Block benefits and expenses, before income taxes	63	19	146	17
Income tax expense (benefit)	38	4	92	(30)
Closed Block revenues, net of Closed Block benefits and expenses and income taxes	\$ 25	\$ 15	\$ 54	\$ 47

8. INCOME TAXES

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

The Company's income tax provision, on a consolidated basis, amounted to an income tax expense of \$1,504 million, or 18.8% of income (loss) before income taxes and equity in earnings of operating joint ventures, in the first nine months of 2021, compared to an income tax expense of \$7 million, or (0.6)%, in the first nine months of 2020. The Company's current and prior effective tax rates differ from the U.S. statutory rate of 21% primarily due to non-taxable investment income, tax credits, foreign earnings taxed at higher rates than the U.S. statutory rate, and the items discussed below.

On March 27, 2020, the CARES Act was enacted into law. One provision of the CARES Act amended the Tax Cuts and Jobs Act ("TCJA") and allowed companies with net operating losses ("NOLs") originating in 2018, 2019 or 2020 to carry back those losses for five years. The Company incorporated into the full year projected 2020 effective tax rate an income tax benefit of \$325 million that resulted from carrying the estimated 2020 NOL back to tax years that have a 35% tax rate. The projected tax benefit related to the NOL carryback was partially offset by an incremental Global Intangible Low-Taxed Income ("GILTI") tax expense of \$13 million driven by projected overall domestic losses ("ODLs") which resulted in a reduced GILTI foreign tax credit. The first nine months of 2020 also include a \$47 million reduction in income tax expense recorded as a discrete item from the carryback of 2018 NOL and related ODL.

On July 20, 2020, the U.S. Treasury and the Internal Revenue Service issued Final Regulations which allows an annual election to exclude from the U.S. tax return certain GILTI amounts when the taxes paid by a foreign affiliate exceed 18.9% (90% of U.S. statutory rate of 21%) of the GILTI amount for that foreign affiliate (the "high-tax exception"). These regulations are effective for the 2021 taxable year with an election to apply to any taxable year beginning after 2017. In many of the countries in which we operate, including Japan, there are differences between local tax rules used to determine the tax base and the U.S. tax principles used to determine GILTI. Also, our Japan affiliates have a different tax year than the U.S. calendar tax year used to determine GILTI. Therefore, while many of the countries, including Japan, have a statutory tax rate above the 18.9% threshold, separate affiliates may not meet the 18.9% threshold each year and, as such, may not qualify for this annual exclusion. At this time, the Company anticipates making the high-tax exception election for the 2021 tax year and reflected the

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

impact of the election in its full year projected effective tax rate used to calculate year-to-date taxes for the first nine months of 2021.

The Treasury Department and the IRS also issued Proposed Regulations on July 20, 2020 which would require that, if a high-tax exception election is made with respect to GILTI in any year, an election having the same effect must also be made with regard to income taxed under Subpart F of the Tax Code. Such an election under Subpart F of the Tax Code would apply to the Full Inclusion election made by the Company for its insurance operations in Brazil, thereby increasing the tax rate applied to our Brazil insurance operations. The Proposed Regulations will be effective for taxable years beginning after they are issued in final form.

9. SHORT-TERM AND LONG-TERM DEBT

Short-term Debt

The table below presents the Company's short-term debt as of the dates indicated:

	September 30, 2021	December 31, 2020
	(\$ in millions)	
Commercial paper:		
Prudential Financial	\$ 25	\$ 25
Prudential Funding, LLC	347	355
Subtotal commercial paper	372	380
Current portion of long-term debt:		
Senior Notes	400	399
Mortgage Debt	130	128
Surplus notes subject to set-off arrangements(1)	500	500
Subtotal current portion of long-term debt	1,030	1,027
Other(2)	7	18
Subtotal	1,409	1,425
Less: assets under set-off arrangements(1)	500	500
Total short-term debt(3)	\$ 909	\$ 925
Supplemental short-term debt information:		
Portion of commercial paper borrowings due overnight	\$ 105	\$ 75
Daily average commercial paper outstanding for the quarter ended	\$ 1,258	\$ 1,602
Weighted average maturity of outstanding commercial paper, in days	12	18
Weighted average interest rate on outstanding commercial paper	0.06 %	0.11 %

(1) The surplus notes have corresponding assets where rights to set-off exist, thereby reducing the amount of surplus notes.

(2) Includes \$7 million and \$18 million drawn on a revolving line of credit held by a subsidiary at September 30, 2021 and December 31, 2020, respectively.

(3) Includes Prudential Financial debt of \$425 million and \$424 million at September 30, 2021 and December 31, 2020, respectively.

Prudential Financial and certain subsidiaries have access to external sources of liquidity, including membership in the Federal Home Loan Banks, commercial paper programs and contingent financing facilities in the form of a put option agreement and facility agreement. The Company also maintains syndicated, unsecured committed credit facilities as an alternative source of liquidity. At September 30, 2021, no amounts were drawn on these credit facilities. For additional information on these sources of liquidity, see "Credit Facility Extension" below and Note 17 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

Long-term Debt

The table below presents the Company's long-term debt as of the dates indicated:

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	September 30, 2021	December 31, 2020
	(in millions)	
Fixed-rate obligations:		
Surplus notes	\$ 344	\$ 343
Surplus notes subject to set-off arrangements(1)	7,786	8,134
Senior notes	10,280	11,179
Mortgage debt	24	24
Floating-rate obligations:		
Line of credit	300	300
Surplus notes subject to set-off arrangements(1)	2,330	2,330
Mortgage debt(2)	122	257
Junior subordinated notes(3)	7,617	7,615
Subtotal	28,803	30,182
Less: assets under set-off arrangements(1)	10,116	10,464
Total long-term debt(4)	\$ 18,687	\$ 19,718

(1) The surplus notes have corresponding assets where rights to set-off exist, thereby reducing the amount of surplus notes included in long-term debt.

(2) Includes \$30 million and \$29 million of debt denominated in foreign currency at September 30, 2021 and December 31, 2020, respectively.

(3) Includes Prudential Financial debt of \$7,561 million and \$7,554 million at September 30, 2021 and December 31, 2020, respectively. Also includes subsidiary debt of \$56 million and \$60 million denominated in foreign currency at September 30, 2021 and December 31, 2020, respectively.

(4) Includes Prudential Financial debt of \$17,668 million and \$18,561 million at September 30, 2021 and December 31, 2020, respectively.

At September 30, 2021 and December 31, 2020, the Company was in compliance with all debt covenants related to the borrowings in the table above.

Senior Debt Redemption

On August 30, 2021, the Company redeemed, at a make-whole redemption price, \$700 million principal amount of its 3.500% medium-term notes due 2024 (representing the entire principal amount) and \$210 million of the outstanding \$600 million principal amount of its 3.878% medium-term notes due 2028. In addition to the total principal redemption of \$910 million, the Company made a make-whole payment of \$91 million, which is reflected in “General and administrative expenses”.

Credit Facility Extension

On July 28, 2021, the Company amended and restated its \$4.0 billion five-year credit facility that has both Prudential Financial and Prudential Funding as borrowers and a syndicate of financial institutions as lenders, extending the term of the facility to July 2026. Borrowings under the credit facility may be used for general corporate purposes, and the Company expects that it may borrow under the facility from time to time to fund its working capital needs and those of its subsidiaries. In addition, amounts under the credit facility may be drawn in the form of standby letters of credit that can be used to meet the operating needs of the Company and its subsidiaries. The credit facility contains customary representations and warranties, covenants and events of default, and borrowings are not contingent on the borrowers’ credit ratings nor subject to material adverse change clauses. Borrowings under the facility are conditioned on the continued satisfaction of customary conditions, including the Company’s maintenance of consolidated net worth of at least \$23.5 billion, which is calculated as U.S. GAAP equity, excluding AOCI, equity of noncontrolling interests and equity attributable to the Closed Block. The amended and restated facility also includes certain sustainability-linked pricing adjustments, by which the applicable interest rate margins and commitment fee may be decreased or increased if the Company achieves, or fails to achieve, certain specified targets relating to its reduction of domestic greenhouse gas emissions and its increase in diversity among its senior leaders.

10. EMPLOYEE BENEFIT PLANS

Pension and Other Postretirement Plans

The Company has funded and non-funded non-contributory defined benefit pension plans (“Pension Benefits”), which cover substantially all of its employees. For some employees, benefits are based on final average earnings and length of service, while benefits for other employees are based on an account balance that takes into consideration age, length of service and earnings during their career.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The Company provides certain health care and life insurance benefits for its retired employees, their beneficiaries and covered dependents (“Other Postretirement Benefits”). The health care plan is contributory; the life insurance plan is non-contributory. Substantially all of the Company’s U.S. employees may become eligible to receive other postretirement benefits if they retire after age 55 with at least 10 years of service or under certain circumstances after age 50 with at least 20 years of continuous service.

Net periodic (benefit) cost included in “General and administrative expenses” includes the following components:

Three Months Ended September 30,				
	Pension Benefits		Other Postretirement Benefits	
	2021	2020	2021	2020
(in millions)				
Components of net periodic (benefit) cost:				
Service cost	\$ 82	\$ 80	\$ 7	\$ 6
Interest cost	91	108	12	15
Expected return on plan assets	(206)	(201)	(26)	(25)
Amortization of prior service cost	(1)	(1)	2	2
Amortization of actuarial (gain) loss, net	61	65	4	4
Settlements	1	(1)	0	0
Special termination benefits(1)	0	5	0	0
Net periodic (benefit) cost	<u>\$ 28</u>	<u>\$ 55</u>	<u>\$ (1)</u>	<u>\$ 2</u>

Nine Months Ended September 30,				
	Pension Benefits		Other Postretirement Benefits	
	2021	2020	2021	2020
(in millions)				
Components of net periodic (benefit) cost:				
Service cost	\$ 247	\$ 241	\$ 20	\$ 18
Interest cost	273	323	36	47
Expected return on plan assets	(618)	(604)	(76)	(75)
Amortization of prior service cost	(3)	(3)	5	5
Amortization of actuarial (gain) loss, net	184	196	12	12
Settlements	3	3	0	0
Special termination benefits(1)	1	7	0	0
Net periodic (benefit) cost	<u>\$ 87</u>	<u>\$ 163</u>	<u>\$ (3)</u>	<u>\$ 7</u>

(1) For 2021 and 2020, certain employees were provided special termination benefits under non-qualified plans in the form of unreduced early retirement benefits as a result of their involuntary termination or participation in the Voluntary Separation Program that was offered to eligible U.S.-based employees in 2019.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

11. EQUITY

The changes in the number of shares of Common Stock issued, held in treasury and outstanding, are as follows for the periods indicated:

	Common Stock		
	Issued	Held In Treasury	Outstanding
	(in millions)		
Balance, December 31, 2020	666.3	269.9	396.4
Common Stock issued	0.0	0.0	0.0
Common Stock acquired	0.0	21.1	(21.1)
Stock-based compensation programs(1)	0.0	(3.6)	3.6
Balance, September 30, 2021	<u>666.3</u>	<u>287.4</u>	<u>378.9</u>

(1) Represents net shares issued from treasury pursuant to the Company's stock-based compensation programs.

In February 2021, Prudential Financial's Board of Directors (the "Board") authorized the Company to repurchase at management's discretion up to \$1.5 billion of its outstanding Common Stock during the period from January 1, 2021 through December 31, 2021. In May 2021, the Board authorized a \$500 million increase to this authorization, bringing the aggregate share repurchase authorization for calendar year 2021 to \$2.0 billion. In July 2021, the Board further increased this authorization by an additional \$500 million, bringing the aggregate share repurchase authorization for calendar year 2021 to \$2.5 billion. As of September 30, 2021, 21.1 million shares of the Company's Common Stock were repurchased under this authorization at a total cost of \$2,125 million.

The timing and amount of share repurchases are determined by management based upon market conditions and other considerations, and repurchases may be executed in the open market, through derivative, accelerated repurchase and other negotiated transactions and through prearranged trading plans complying with Rule 10b5-1(c) under the Securities Exchange Act of 1934 (the "Exchange Act"). Numerous factors could affect the timing and amount of any future repurchases under the share repurchase authorization, including, but not limited to: compliance with laws, increased capital needs of the Company due to changes in regulatory capital requirements, opportunities for growth and acquisitions, and the effect of adverse market conditions.

Dividends declared per share of Common Stock are as follows for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Dividends declared per share of Common Stock	\$ 1.15	\$ 1.10	\$ 3.45	\$ 3.30

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Accumulated Other Comprehensive Income (Loss)

AOCI represents the cumulative OCI items that are reported separate from net income and detailed on the Unaudited Interim Consolidated Statements of Comprehensive Income. The balance of and changes in each component of AOCI as of and for the nine months ended September 30, 2021 and 2020, are as follows:

Accumulated Other Comprehensive Income (Loss) Attributable to Prudential Financial, Inc.				
	Foreign Currency Translation Adjustment	Net Unrealized Investment Gains (Losses)(1)	Pension and Postretirement Unrecognized Net Periodic Benefit (Cost)	Total Accumulated Other Comprehensive Income (Loss)
	(in millions)			
Balance, December 31, 2020	\$ 52	\$ 34,065	\$ (3,379)	\$ 30,738
Change in OCI before reclassifications	(816)	(8,331)	41	(9,106)
Amounts reclassified from AOCI	(64)	(2,184)	198	(2,050)
Income tax benefit (expense)	(63)	2,374	(57)	2,254
Balance, September 30, 2021	<u>\$ (891)</u>	<u>\$ 25,924</u>	<u>\$ (3,197)</u>	<u>\$ 21,836</u>

Accumulated Other Comprehensive Income (Loss) Attributable to Prudential Financial, Inc.				
	Foreign Currency Translation Adjustment	Net Unrealized Investment Gains (Losses)(1)	Pension and Postretirement Unrecognized Net Periodic Benefit (Cost)	Total Accumulated Other Comprehensive Income (Loss)
	(in millions)			
Balance, December 31, 2019	\$ (536)	\$ 28,112	\$ (3,537)	\$ 24,039
Change in OCI before reclassifications	69	7,939	8	8,016
Amounts reclassified from AOCI	46	(1,045)	210	(789)
Income tax benefit (expense)	73	(1,289)	(49)	(1,265)
Balance, September 30, 2020	<u>\$ (348)</u>	<u>\$ 33,717</u>	<u>\$ (3,368)</u>	<u>\$ 30,001</u>

(1) Includes cash flow hedges of \$867 million and \$(168) million as of September 30, 2021 and December 31, 2020, respectively, and \$1,407 million and \$832 million as of September 30, 2020 and December 31, 2019, respectively, and fair value hedges of \$(29) million and \$10 million as of September 30, 2021 and December 31, 2020, respectively, and \$(1) million and \$0 million as of September 30, 2020 and December 31, 2019, respectively.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Reclassifications out of Accumulated Other Comprehensive Income (Loss)

	Three Months Ended September 30,		Nine Months Ended September 30,		Affected line item in Consolidated Statements of Operations
	2021	2020	2021	2020	
(in millions)					
Amounts reclassified from AOCI(1)(2):					
Foreign currency translation adjustment:					
Foreign currency translation adjustments	\$ 1	\$ (2)	\$ 1	\$ (7)	Realized investment gains (losses), net
Foreign currency translation adjustments	0	(39)	63	(39)	Other income (loss)
Total foreign currency translation adjustment	1	(41)	64	(46)	
Net unrealized investment gains (losses):					
Cash flow hedges—Interest rate	(7)	19	7	27	(3)
Cash flow hedges—Currency	(1)	0	(4)	4	(3)
Cash flow hedges—Currency/Interest rate	230	(77)	435	343	(3)
Fair value hedges—Currency	(1)	0	(4)	0	(3)
Net unrealized investment gains (losses) on available-for-sale securities	221	401	1,750	671	Realized investment gains (losses), net
Total net unrealized investment gains (losses)	442	343	2,184	1,045	(4)
Amortization of defined benefit pension items:					
Prior service cost	(1)	(1)	(2)	(2)	(5)
Actuarial gain (loss)	(65)	(69)	(196)	(208)	(5)
Total amortization of defined benefit pension items	(66)	(70)	(198)	(210)	
Total reclassifications for the period	\$ 377	\$ 232	\$ 2,050	\$ 789	

(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 5 for additional information on cash flow and fair value hedges.

(4) See table below for additional information on unrealized investment gains (losses), including the impact on deferred policy acquisition and other costs, future policy benefits and policyholders' dividends.

(5) See Note 10 for information on employee benefit plans.

Net Unrealized Investment Gains (Losses)

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

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Net Unrealized Investment Gains (Losses) on Available-for- Sale Fixed Maturity Securities on Which an Allowance for Credit Losses has been Recognized	Net Unrealized Gains (Losses) on All Other Investments(1)	DAC, DSI, VOBA and Reinsurance Recoverables	Future Policy Benefits, Policyholders' Account Balances and Reinsurance Payables	Policyholders' Dividends	Income Tax Benefit (Expense)	Accumulated Other Comprehensive Income (Loss) Related to Net Unrealized Investment Gains (Losses)
(in millions)							
Balance, December 31, 2020	\$ (25)	\$ 58,442	\$ (1,229)	\$ (6,588)	\$ (5,892)	\$ (10,643)	\$ 34,065
Net investment gains (losses) on investments arising during the period	36	(14,373)				3,157	(11,180)
Reclassification adjustment for (gains) losses included in net income	11	(2,195)				481	(1,703)
Reclassification due to allowance for credit losses recorded during the period	0	0				0	0
Impact of net unrealized investment (gains) losses			573	3,381	2,052	(1,264)	4,742
Balance, September 30, 2021	<u>\$ 22</u>	<u>\$ 41,874</u>	<u>\$ (656)</u>	<u>\$ (3,207)</u>	<u>\$ (3,840)</u>	<u>\$ (8,269)</u>	<u>\$ 25,924</u>

(1) Includes cash flow and fair value hedges. See Note 5 for information on cash flow and fair value hedges.

12. EARNINGS PER SHARE

A reconciliation of the numerators and denominators of the basic and diluted per share computations of Common Stock based on the consolidated earnings of Prudential Financial for the periods indicated is as follows:

	Three Months Ended September 30,					
	2021			2020		
	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount
(in millions, except per share amounts)						
Basic earnings per share						
Net income (loss)	\$ 1,565			\$ 1,507		
Less: Income (loss) attributable to noncontrolling interests	35			20		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards	24			18		
Net income (loss) attributable to Prudential Financial available to holders of Common Stock	<u>\$ 1,506</u>	<u>383.8</u>	<u>\$ 3.92</u>	<u>\$ 1,469</u>	<u>395.3</u>	<u>\$ 3.72</u>
Effect of dilutive securities and compensation programs						
Add: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Basic	\$ 24			\$ 18		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Diluted	23			18		
Stock options		0.8			0.3	
Deferred and long-term compensation programs		2.2			1.5	
Diluted earnings per share						
Net income (loss) attributable to Prudential Financial available to holders of Common Stock	<u>\$ 1,507</u>	<u>386.8</u>	<u>\$ 3.90</u>	<u>\$ 1,469</u>	<u>397.1</u>	<u>\$ 3.70</u>

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Nine Months Ended September 30,					
	2021			2020		
	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount
(in millions, except per share amounts)						
Basic earnings per share						
Net income (loss)	\$ 6,552			\$ (1,168)		
Less: Income (loss) attributable to noncontrolling interests	36			25		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards	99			16		
Net income (loss) attributable to Prudential Financial available to holders of Common Stock	<u>\$ 6,417</u>	<u>390.4</u>	<u>\$ 16.44</u>	<u>\$ (1,209)</u>	<u>395.6</u>	<u>\$ (3.06)</u>
Effect of dilutive securities and compensation programs						
Add: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Basic	\$ 99			\$ 16		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Diluted	98			16		
Stock options		0.7			0.0	
Deferred and long-term compensation programs		2.1			0.0	
Diluted earnings per share(1)						
Net income (loss) attributable to Prudential Financial available to holders of Common Stock	<u>\$ 6,418</u>	<u>393.2</u>	<u>\$ 16.32</u>	<u>\$ (1,209)</u>	<u>395.6</u>	<u>\$ (3.06)</u>

(1) For the nine months ended September 30, 2020, weighted average shares for basic earnings per share is also used for calculating diluted earnings per share because dilutive shares and dilutive earnings per share are not applicable when a net loss is reported. As a result of the net loss attributable to Prudential Financial available to holders of Common Stock for the nine months ended September 30, 2020, all potential stock options and compensation programs were considered antidilutive.

Unvested share-based payment awards that contain nonforfeitable rights to dividends are participating securities and included in the computation of earnings per share pursuant to the two-class method. Under this method, earnings attributable to Prudential Financial are allocated between Common Stock and the participating awards, as if the awards were a second class of stock. During periods of net income available to holders of Common Stock, the calculation of earnings per share excludes the income attributable to participating securities in the numerator and the dilutive impact of these securities from the denominator. In the event of a net loss available to holders of Common Stock, undistributed earnings are not allocated to participating securities and the denominator excludes the dilutive impact of these securities as they do not share in the losses of the Company. Undistributed earnings allocated to participating unvested share-based payment awards for the three months ended September 30, 2021 and 2020, as applicable, were based on 5.7 million and 4.9 million of such awards, respectively, and for the nine months ended September 30, 2021 and 2020, as applicable, were based on 5.9 million and 5.0 million of such awards, respectively, weighted for the period they were outstanding.

Stock options and shares related to deferred and long-term compensation programs that are considered antidilutive are excluded from the computation of diluted earnings per share. Stock options are considered antidilutive based on application of the treasury stock method or in the event of a net loss available to holders of Common Stock. Shares related to deferred and long-term compensation programs are considered antidilutive in the event of a net loss available to holders of Common Stock. For the periods indicated, the number of stock options and shares related to deferred and long-term compensation programs that were considered antidilutive and were excluded from the computation of diluted earnings per share, weighted for the portion of the period they were outstanding, are as follows:

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended September 30,			
	2021		2020	
	Shares	Exercise Price Per Share	Shares	Exercise Price Per Share
	(in millions, except per share amounts, based on weighted average)			
Antidilutive stock options based on application of the treasury stock method	0.9	\$ 106.99	3.2	\$ 84.17
Antidilutive stock options due to net loss available to holders of Common Stock	0.0		0.0	
Antidilutive shares based on application of the treasury stock method	0.0		0.2	
Antidilutive shares due to net loss available to holders of Common Stock	0.0		0.0	
Total antidilutive stock options and shares	0.9		3.4	

	Nine Months Ended September 30,			
	2021		2020	
	Shares	Exercise Price Per Share	Shares	Exercise Price Per Share
	(in millions, except per share amounts, based on weighted average)			
Antidilutive stock options based on application of the treasury stock method	1.3	\$ 101.78	3.4	\$ 80.64
Antidilutive stock options due to net loss available to holders of Common Stock	0.0		0.4	
Antidilutive shares based on application of the treasury stock method	0.0		0.2	
Antidilutive shares due to net loss available to holders of Common Stock	0.0		1.6	
Total antidilutive stock options and shares	1.3		5.6	

13. SEGMENT INFORMATION

Segments

The Company's principal operations consist of PGIM (the Company's global investment management business), the U.S. Businesses (consisting of the Retirement, Group Insurance, Individual Annuities, Individual Life and Assurance IQ businesses), the International Businesses, the Closed Block division, and the Company's Corporate and Other operations. The Closed Block division is accounted for as a divested business that is reported separately from the Divested and Run-off Businesses that are included in Corporate and Other operations. Divested and Run-off Businesses consist of businesses that have been, or will be, sold or exited, including businesses that have been placed in wind-down status that do not qualify for "discontinued operations" accounting treatment under U.S. GAAP. The Company's Corporate and Other operations include corporate items and initiatives that are not allocated to business segments as well as the Divested and Run-off Businesses described above.

Adjusted Operating Income

The Company analyzes the operating performance of each segment using "adjusted operating income." Adjusted operating income does not equate to "Income (loss) before income taxes and equity in earnings of operating joint ventures" or "Net income (loss)" as determined in accordance with U.S. GAAP but is the measure of segment profit or loss used by the Company's chief operating decision maker to evaluate segment performance and allocate resources, and consistent with authoritative guidance, is the measure of segment performance presented below. Adjusted operating income is calculated by adjusting each segment's "Income (loss) before income taxes and equity in earnings of operating joint ventures" for the following items:

- Realized investment gains (losses), net, and related adjustments;
- Charges related to realized investment gains (losses), net;
- Market experience updates;
- Divested and Run-off Businesses;
- Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests; and
- Other adjustments.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

These items are important to an understanding of overall results of operations. Adjusted operating income is not a substitute for income determined in accordance with U.S. GAAP, and the Company's definition of adjusted operating income may differ from that used by other companies. The Company, however, believes that the presentation of adjusted operating income as measured for management purposes enhances the understanding of results of operations by highlighting the results from ongoing operations and the underlying profitability factors of its businesses. For additional information on these reconciling items, see Note 22 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020. The Company has historically reflected the results of its variable annuities hedging programs in adjusted operating income over time. Beginning with the second quarter of 2020, these impacts are excluded from adjusted operating income which the Company believes enhances the understanding of underlying performance trends.

Reconciliation of adjusted operating income to net income (loss)

The table below reconciles "Adjusted operating income before income taxes" to "Income (loss) before income taxes and equity in earnings of operating joint ventures":

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020(1)	2021(1)	2020(1)
	(in millions)			
Adjusted operating income before income taxes by segment:				
PGIM	\$ 327	\$ 370	\$ 1,293	\$ 858
U.S. Businesses:				
Retirement	571	347	1,635	860
Group Insurance	(135)	22	(250)	71
Individual Annuities(2)	499	408	1,415	1,030
Individual Life	210	101	312	17
Assurance IQ	(55)	(30)	(132)	(69)
Total U.S. Businesses	1,090	848	2,980	1,909
International Businesses	887	775	2,561	2,162
Corporate and Other	(460)	(493)	(1,118)	(1,446)
Total segment adjusted operating income before income taxes	1,844	1,500	5,716	3,483
Reconciling items:				
Realized investment gains (losses), net, and related adjustments	116	236	1,765	(2,758)
Charges related to realized investment gains (losses), net	(18)	(69)	(254)	(353)
Market experience updates	(199)	(134)	330	(1,016)
Divested and Run-off Businesses:				
Closed Block division	27	8	92	(15)
Other Divested and Run-off Businesses	48	(83)	432	(567)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(3)	1	(53)	(62)
Other adjustments(3)	(9)	(12)	(35)	65
Income (loss) before income taxes and equity in earnings of operating joint ventures per Unaudited Interim Consolidated Financial Statements	\$ 1,806	\$ 1,447	\$ 7,993	\$ (1,223)

(1) Effective second quarter of 2020, the results of POK and the impact of its sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Effective third quarter of 2020, the results of POT and the impact of its sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Effective third quarter of 2021, the results of the Full Service Retirement business are excluded from the Retirement segment and are included in the Divested and Run-off Businesses in Corporate and Other. Prior period amounts have been updated to conform to current period presentation. See Note 1 for additional information about these dispositions.

(2) Individual Annuities segment results reflect DAC as if the Individual Annuities business is a stand-alone operation. The elimination of intersegment costs capitalized in accordance with this policy is included in consolidating adjustments within Corporate and Other operations.

(3) Includes certain components of consideration for business acquisitions, which are recognized as compensation expense over the requisite service periods, as well as changes in the fair value of associated contingent consideration. See Note 14 for additional information.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Reconciliation of select financial information

The tables below present certain financial information for the Company's segments and its Corporate and Other operations, including assets by segment and revenues by segment on an adjusted operating income basis, and the reconciliation of the segment totals to amounts reported in the Consolidated Financial Statements.

	September 30, 2021	December 31, 2020
	(in millions)	
Assets by segment:		
PGIM	\$ 51,860	\$ 48,680
U.S. Businesses:		
Retirement(1)	116,568	115,237
Group Insurance	43,792	45,601
Individual Annuities(2)	196,571	200,718
Individual Life	115,419	110,953
Assurance IQ	2,747	2,703
Total U.S. Businesses	<u>475,097</u>	<u>475,212</u>
International Businesses	223,812	231,128
Corporate and Other(1)(2)	121,591	123,613
Closed Block division	60,222	62,089
Total assets per Unaudited Interim Consolidated Financial Statements	<u>\$ 932,582</u>	<u>\$ 940,722</u>

(1) Effective second quarter of 2020, the results of POK and the impact of its sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Effective third quarter of 2020, the results of POT and the impact of its sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Effective third quarter of 2021, the results of the Full Service Retirement business are excluded from the Retirement segment and are included in the Divested and Run-off Businesses in Corporate and Other. Prior period amounts have been updated to conform to current period presentation. See Note 1 for additional information about these dispositions.

(2) Certain assets are classified as "held-for-sale" as of September 30, 2021. See Note 1 for additional information about the pending dispositions.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020(1)	2021(1)	2020(1)
	(in millions)			
Revenues on an adjusted operating income basis:				
PGIM	\$ 1,072	\$ 1,066	\$ 3,395	\$ 2,801
U.S. Businesses:				
Retirement	8,386	2,193	12,658	6,647
Group Insurance	1,553	1,457	4,627	4,352
Individual Annuities	1,260	1,148	3,687	3,249
Individual Life	1,839	1,609	5,090	4,702
Assurance IQ	110	75	331	194
Total U.S. Businesses	13,148	6,482	26,393	19,144
International Businesses	5,618	5,481	16,642	16,201
Corporate and Other	(175)	(162)	(393)	(459)
Total revenues on an adjusted operating income basis	19,663	12,867	46,037	37,687
Reconciling items:				
Realized investment gains (losses), net, and related adjustments	178	312	2,070	(2,855)
Charges related to realized investment gains (losses), net	(59)	(40)	(178)	(121)
Market experience updates	(56)	(58)	158	(406)
Divested and Run-off Businesses:				
Closed Block division	1,321	1,301	4,299	3,318
Other Divested and Run-off Businesses	617	1,060	2,196	3,362
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(23)	(17)	(72)	(86)
Other adjustments(2)	0	0	0	105
Total revenues per Unaudited Interim Consolidated Financial Statements	\$ 21,641	\$ 15,425	\$ 54,510	\$ 41,004

- (1) Effective second quarter of 2020, the results of POK and the impact of its sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Effective third quarter of 2020, the results of POT and the impact of its sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Effective third quarter of 2021, the results of the Full Service Retirement business are excluded from the Retirement segment and are included in the Divested and Run-off Businesses in Corporate and Other. Prior period amounts have been updated to conform to current period presentation. See Note 1 for additional information about these dispositions.
- (2) Includes certain components of consideration for business acquisitions, which are recognized as compensation expense over the requisite service periods, as well as changes in the fair value of associated contingent consideration. See Note 14 for additional information.

Intersegment revenues

Management has determined the intersegment revenues with reference to market rates. Intersegment revenues are eliminated in consolidation in Corporate and Other operations. The PGIM segment revenues include intersegment revenues, primarily consisting of asset-based management and administration fees, as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)			
PGIM segment intersegment revenues	\$ 248	\$ 215	\$ 697	\$ 640

Segments may also enter into internal derivative contracts with other segments. For adjusted operating income, each segment accounts for the internal derivative results consistent with the manner in which that segment accounts for other similar external derivatives.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Asset management and service fees

The table below presents asset management and service fees, predominantly related to investment management activities, for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)			
Asset-based management fees	\$ 1,047	\$ 930	\$ 3,058	\$ 2,644
Performance-based incentive fees	19	43	70	73
Other fees	163	147	475	427
Total asset management and service fees	<u>\$ 1,229</u>	<u>\$ 1,120</u>	<u>\$ 3,603</u>	<u>\$ 3,144</u>

14. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments and Guarantees

Commercial Mortgage Loan Commitments

	September 30, 2021	December 31, 2020
	(in millions)	
Total outstanding mortgage loan commitments(1)	\$ 3,046	\$ 2,357
Portion of commitment where prearrangement to sell to investor exists	\$ 1,122	\$ 882

(1) Includes commitments of \$374 million related to held-for-sale operations as of September 30, 2021. See Note 1 for additional information on the pending dispositions.

In connection with the Company's commercial mortgage operations, it originates commercial mortgage loans. Commitments for loans that will be held for sale are recognized as derivatives and recorded at fair value. In certain of these transactions, the Company pre-arranges that it will sell the loan to an investor, including to government sponsored entities as discussed below, after the Company funds the loan. The above amount includes unfunded commitments that are not unconditionally cancellable. For related credit exposure, there was an allowance for credit losses of \$1 million as of September 30, 2021 and \$0 million as of December 31, 2020. The change in allowance is \$0 million and a reduction of \$1 million for the three months ended September 30, 2021 and 2020, respectively, and \$0 million and a reduction of \$1 million for the nine months ended September 30, 2021 and 2020, respectively.

Commitments to Purchase Investments (excluding Commercial Mortgage Loans)

	September 30, 2021	December 31, 2020
	(in millions)	
Expected to be funded from the general account and other operations outside the separate accounts(1)	\$ 9,699	\$ 9,567
Expected to be funded from separate accounts(2)	\$ 341	\$ 336

(1) Includes commitments of \$724 million related to held-for-sale operations as of September 30, 2021. See Note 1 for additional information on the pending dispositions.

(2) Includes commitments of \$28 million related to held-for-sale operations as of September 30, 2021. See Note 1 for additional information on the pending dispositions.

The Company has other commitments to purchase or fund investments, some of which are contingent upon events or circumstances not under the Company's control, including those at the discretion of the Company's counterparties. The Company anticipates a portion of these commitments will ultimately be funded from its separate accounts. The above amount includes unfunded commitments that are not unconditionally cancellable. There were no related charges for credit losses for either the three or nine months ended September 30, 2021 or 2020.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Indemnification of Securities Lending and Securities Repurchase Transactions

	September 30, 2021	December 31, 2020
	(in millions)	
Indemnification provided to certain clients for securities lending and securities repurchase transactions(1)	\$ 8,595	\$ 7,108
Fair value of related collateral associated with above indemnifications(1)	\$ 8,784	\$ 7,254
Accrued liability associated with guarantee	\$ 0	\$ 0

(1) Includes \$63 million and \$34 million related to securities repurchase transactions as of September 30, 2021 and December 31, 2020, respectively.

In the normal course of business, the Company may facilitate securities lending or securities repurchase transactions on behalf of certain client accounts (collectively, “the accounts”). In certain of these arrangements, the Company has provided an indemnification to the accounts to hold them harmless against losses caused by counterparty (i.e., borrower) defaults associated with such transactions facilitated by the Company. In securities lending transactions, collateral is provided by the counterparty to the accounts at the inception of the transaction in an amount at least equal to 102% of the fair value of the loaned securities and the collateral is maintained daily to equal at least 102% of the fair value of the loaned securities. In securities repurchase transactions, collateral is provided by the counterparty to the accounts at the inception of the transaction in an amount at least equal to 95% of the fair value of the securities subject to repurchase and the collateral is maintained daily to equal at least 95% of the fair value of the securities subject to repurchase. The Company is only at risk if the counterparty to the transaction defaults and the value of the collateral held is less than the value of the securities loaned to, or subject to repurchase from, such counterparty. The Company believes the possibility of any payments under these indemnities is remote.

Credit Derivatives Written

As discussed further in Note 5, the Company writes credit derivatives under which the Company is obligated to pay the counterparty the referenced amount of the contract and receive in return the defaulted security or similar security.

Guarantees of Asset Values

	September 30, 2021	December 31, 2020
	(in millions)	
Guaranteed value of third-parties’ assets	\$ 83,200	\$ 86,264
Fair value of collateral supporting these assets	\$ 86,176	\$ 90,612
Asset (liability) associated with guarantee, carried at fair value	\$ 1	\$ 0

Certain contracts underwritten by the Retirement segment include guarantees related to financial assets owned by the guaranteed party. These contracts are accounted for as derivatives and carried at fair value. The collateral supporting these guarantees is not reflected on the Unaudited Interim Consolidated Statements of Financial Position.

Indemnification of Serviced Mortgage Loans

	September 30, 2021	December 31, 2020
	(in millions)	
Maximum exposure under indemnification agreements for mortgage loans serviced by the Company	\$ 2,917	\$ 2,684
First-loss exposure portion of above	\$ 850	\$ 784
Accrued liability associated with guarantees(1)	\$ 41	\$ 41

(1) The accrued liability associated with guarantees includes an allowance for credit losses of \$20 million as of both September 30, 2021 and December 31, 2020. The change in allowance is an increase of \$1 million for both the three months ended September 30, 2021, and 2020, and a change of \$0 million for both the nine months ended September 30, 2021 and 2020.

As part of the commercial mortgage activities of the Company’s PGIM segment, the Company provides commercial mortgage origination, underwriting and servicing for certain government sponsored entities, such as Fannie Mae and Freddie Mac. The Company has agreed to indemnify the government sponsored entities for a portion of the credit risk associated with

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

certain of the mortgages it services through a delegated authority arrangement. Under these arrangements, the Company originates multi-family mortgages for sale to the government sponsored entities based on underwriting standards they specify, and makes payments to them for a specified percentage share of losses they incur on certain loans serviced by the Company. The Company's percentage share of losses incurred generally varies from 4% to 20% of the loan balance, and is typically based on a first-loss exposure for a stated percentage of the loan balance, plus a shared exposure with the government sponsored entity for any losses in excess of the stated first-loss percentage, subject to a contractually specified maximum percentage. The Company determines the liability related to this exposure using historical loss experience, and the size and remaining life of the asset. The Company serviced \$22,867 million and \$21,465 million of mortgages subject to these loss-sharing arrangements as of September 30, 2021 and December 31, 2020, respectively, all of which are collateralized by first priority liens on the underlying multi-family residential properties. As of September 30, 2021, these mortgages had a weighted-average debt service coverage ratio of 1.97 times and a weighted-average loan-to-value ratio of 63%. As of December 31, 2020, these mortgages had a weighted-average debt service coverage ratio of 1.99 times and a weighted-average loan-to-value ratio of 63%. The Company had \$2 million of losses related to indemnifications that were settled for the nine months ended September 30, 2021 and no losses for the nine months ended September 30, 2020.

Other Guarantees

	September 30, 2021	December 31, 2020
	(in millions)	
Other guarantees where amount can be determined	\$ 52	\$ 52
Accrued liability for other guarantees and indemnifications	\$ 34	\$ 0

The Company is also subject to other financial guarantees and indemnity arrangements. The Company has provided indemnities and guarantees related to acquisitions, dispositions, investments and other transactions that are triggered by, among other things, breaches of representations, warranties or covenants provided by the Company. These obligations are typically subject to various time limitations, defined by the contract or by operation of law, such as statutes of limitation. In some cases, the maximum potential obligation is subject to contractual limitations, while in other cases such limitations are not specified or applicable. As of September 30, 2021 and December 31, 2020, there are \$0 million and \$9 million, respectively, of yield maintenance guarantees related to certain investments the Company sold. The Company does not expect to make any payments on these guarantees and is not carrying any liabilities associated with these guarantees.

Since certain of these obligations are not subject to limitations, it is not possible to determine the maximum potential amount due under these guarantees. The accrued liability identified above relates to the sale of POT and represents a financial guarantee of certain insurance obligations of POT. See Note 1 for additional information regarding the sale.

Assurance IQ Contingent Consideration Liability

On October 10, 2019, the Company completed its acquisition of Assurance IQ, a leading consumer solutions platform that offers a range of solutions that help meet consumers' financial needs. For additional information, see Note 1 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

Pursuant to the merger agreement, contingent consideration as well as additional compensation awards are payable in 2023 in a mix of approximately 25% cash and 75% Prudential Financial Common Stock, contingent upon Assurance IQ's achievement of certain targets for gross revenues net of associated selling expenses ("Variable Profits") over the period from January 1, 2020 through December 31, 2022 as follows:

- If Variable Profits are less than \$900 million, no additional amount is payable.
- If Variable Profits are greater than \$1,300 million, an additional amount of \$1,150 million is payable.
- If Variable Profits are greater than \$900 million but less than or equal to \$1,300 million, an additional amount is payable equal to the product of (i) the quotient of (A) an amount equal to (1) Variable Profits achieved minus (2) \$900 million divided by (B) \$400 million and (ii) \$1,150 million.

Payment of the additional amount may be accelerated if the Company violates certain provisions of the merger agreement requiring it to take or refrain from taking certain actions, including with respect to the management and operation of Assurance IQ.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The contingent consideration liability referred to above is reported at fair value. Fair value is determined based on the present value of expected payments under the arrangement described above, using an internally developed option pricing model based on a number of assumptions, including certain unobservable assumptions for future Variable Profits and the future price of Prudential Financial Common Stock. The fair value of the liability is updated each reporting period, with changes in fair value reported within “Other income.” The fair value of the contingent consideration liability was zero as of September 30, 2021 and December 31, 2020. The stock-based component of contingent consideration impacts the share count for purposes of calculating the Company’s diluted earnings per share when Assurance IQ’s actual Variable Profits achieved as of the end of the reporting period is in excess of \$900 million, as if the contingent consideration performance period ended on the applicable reporting date. The number of shares issued as part of the contingent consideration payable in 2023 will be based on a \$83.71 price per share.

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 flow 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 flow 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 businesses. Pending legal and regulatory actions include proceedings relating to aspects of the Company’s businesses and operations that are specific to it and proceedings that are typical of the businesses in which it operates, including in both cases businesses that have been either divested or placed in wind-down status. Some of these proceedings have been brought on behalf of various alleged classes of complainants. In certain of these matters, the plaintiffs are seeking large and/or indeterminate amounts, including punitive or exemplary damages. The outcome of litigation or a regulatory matter, and the amount or range of potential loss at any particular time, is often inherently uncertain.

The Company establishes accruals for litigation and regulatory matters when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. For litigation and regulatory matters where a loss may be reasonably possible, but not probable, or is probable but not reasonably estimable, no accrual is established but the matter, if potentially material, is disclosed, including matters discussed below. The Company estimates that as of September 30, 2021, the aggregate range of reasonably possible losses in excess of accruals established for those litigation and regulatory matters for which such an estimate currently can be made is less than \$250 million. Any 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.

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The following discussion of litigation and regulatory matters provides an update of those matters discussed in Note 23 to the Company's Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, and should be read in conjunction with the complete descriptions provided in the Form 10-K.

Individual Annuities, Individual Life and Group Insurance

Behfarin v. Pruco Life

This matter is now closed.

Moreland, Socorro v. PICA, et al.

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

Escheatment Litigation

Total Asset Recovery Services, LLC v. MetLife, Inc., et al., Prudential Financial, Inc., The Prudential Insurance Company of America, and Prudential Insurance Agency, LLC

In March 2021, the plaintiff filed a third amended complaint asserting claims against all defendants for violation of the New York False Claims Act, and seeking injunctive relief, compensatory and treble damages, attorneys' fees and costs.

Securities Litigation

Donel Davidson v. Charles F. Lowrey, et al.

In March 2021, the court issued an order consolidating this action with *Robert Lalor, Derivatively on behalf of Prudential Financial, Inc. v. Charles F. Lowrey, et al.* under the caption *In re Prudential Financial, Inc. Derivative Litigation*. In May 2021, the Company filed a motion to dismiss the complaint. *Robert Lalor v. Charles F. Lowrey, et al.*

In March 2021, the court issued an order consolidating this action with *Donel Davidson, Derivatively on Behalf of Prudential Financial, Inc. v. Charles F. Lowrey, et al.* under the caption *In re Prudential Financial, Inc. Derivative Litigation*. Case updates will be consolidated with the Donel Davidson action.

Assurance IQ, LLC

The Company has received a civil investigative demand and other inquiries related to the appropriateness of Assurance IQ's supplemental health product sales and marketing activity. The Company is cooperating with regulators and may become subject to additional regulatory inquiries and other investigations and actions related to this matter.

William James Griffin, et al. v. Benefytt Technologies, Inc., et al. and Assurance IQ, LLC

In February 2021, an amended putative class action complaint entitled William James Griffin, et al. v. Benefytt Technologies, Inc. (f/k/a Health Insurance Innovations, Inc.), Health Plan Intermediaries Holdings, Inc. and Assurance IQ, LLC, was filed in the United States District Court for the Southern District of Florida, alleging that the defendants violated the Racketeering Influenced and Corrupt Organizations Act, and engaged in a conspiracy to defraud customers through the sale of limited indemnity and short term health insurance products to individuals seeking comprehensive medical insurance. The

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

complaint seeks unspecified treble damages, declaratory and injunctive relief. In June 2021, the Company filed a motion to dismiss the amended complaint.

Other Matters

Cho v. PICA, et al.

In September 2021, the court granted defendants' motion to dismiss the amended complaint without prejudice. In October 2021, plaintiff filed a second amended complaint asserting claims against defendants under the Employee Retirement Income Security Act of 1974 for breach of fiduciary duty, prohibited transactions and failure to monitor fiduciaries. The second amended complaint seeks declaratory, injunctive and equitable relief, unspecified damages, attorneys' fees and costs.

Doyle C. Stone v. PFI, et al.

In April 2021, defendants filed a motion to dismiss the complaint. In June 2021, plaintiff filed a notice of voluntary dismissal of the complaint, without prejudice. In August 2021, plaintiff filed a new putative class action complaint in the United States District Court for the District of New Jersey (the "Second Complaint"), asserting claims against Prudential Financial, Inc. and Pruco Life Insurance Company for violation of the New Jersey Consumer Fraud Act, breach of fiduciary duty, unjust enrichment and common law fraud. The putative class includes all Plan Participants from January 2015 until the present. In September 2021, defendants filed a motion to dismiss the Second Complaint.

Regulatory

Variable Products

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

Summary

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

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) addresses the consolidated financial condition of Prudential Financial, Inc. (“Prudential,” “Prudential Financial,” “PFI,” or “the Company”) as of September 30, 2021, compared with December 31, 2020, and its consolidated results of operations for the three and nine months ended September 30, 2021 and 2020. You should read the following analysis of our consolidated financial condition and results of operations in conjunction with the MD&A, the “Risk Factors” section, and the audited Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020, as well as the statements under “Forward-Looking Statements,” and the Unaudited Interim Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.

Overview

Prudential Financial, a financial services leader with approximately \$1.727 trillion of assets under management as of September 30, 2021, has operations primarily in the United States of America (“U.S.”), Asia, Europe and Latin America. Through our subsidiaries and affiliates, we offer a wide array of financial products and services, including life insurance, annuities, retirement-related services, mutual funds and investment management. We offer these products and services to individual and institutional customers through one of the largest distribution networks in the financial services industry.

Our principal operations consist of PGIM (our global investment management business), our U.S. Businesses (consisting of our Retirement, Group Insurance, Individual Annuities, Individual Life and Assurance IQ businesses), our International Businesses, the Closed Block division, and our Corporate and Other operations. The Closed Block division is accounted for as a divested business that is reported separately from the Divested and Run-off Businesses that are included in Corporate and Other. Divested and Run-off Businesses consist of businesses that have been, or will be, sold or exited, including businesses that have been placed in wind-down status that do not qualify for “discontinued operations” accounting treatment under generally accepted accounting principles in the United States of America (“U.S. GAAP”). Our Corporate and Other operations include corporate items and initiatives that are not allocated to business segments as well as the Divested and Run-off Businesses described above.

We attribute financing costs to each segment based on the amount of financing used by each segment, excluding financing costs associated with corporate debt, which are reflected in our Corporate and Other operations. The net investment income of each segment includes earnings on the amount of capital that management believes is necessary to support the risks of that segment.

In October 2021, we announced the creation of Retirement Strategies, a new U.S. business that will serve the retirement needs of both individual and institutional customers. This business will bring the financial solutions and capabilities of our Individual Annuities business together with the institutional investment and pension solutions offered through our Retirement business. During the fourth quarter of 2021, the new leadership team is being assembled and will be making decisions around the business’s operating structure. When this new structure is finalized and operational, the presentation of our segment results may be modified to conform to this new structure.

Management expects that results will continue to benefit from our differentiated mix of market-leading businesses that complement each other to provide competitive advantages, earnings diversification and capital benefits from a balanced risk profile. While challenges exist in the form of a low interest rate environment (see “Impact of a Low Interest Rate Environment” below), fee compression in certain of our businesses and other market factors, we expect that our businesses will produce appropriate returns for the current market environment. We believe we are well-positioned to tap into market opportunities to meet the evolving needs of individual customers, workplace clients, and society at large. Our mix of high-quality protection, retirement and investment management businesses enables us to offer solutions that cover a broad range of financial needs and to engage with our clients through multiple channels, including the ability to sell solutions across a broad socio-economic spectrum through Assurance IQ’s digital platform. We aim to expand our addressable market, build deeper and longer-lasting relationships with customers and clients, and meaningfully improve their financial wellness.

In order to further increase our competitive advantage, we are working to enhance the experience of our customers and the capabilities of our businesses, which we expect will also help us realize improved margins. In 2019, we launched programs in pursuit of these objectives that will result in multi-year investments in technology, systems and employee reskilling, as well as severance and related charges, which we expect will result in significant expense efficiencies over the next several years. For the three and nine months ended September 30, 2021, the Company estimates that the impact to results from these programs was a benefit of \$146 million and \$388 million, respectively, and, as of September 30, 2021, we continue to remain on track to accumulate approximately \$750 million of annual run-rate cost savings by the end of 2023.

COVID-19

Since the first quarter of 2020, the novel coronavirus (“COVID-19”) has created extreme stress and disruption in the global economy and financial markets and has elevated mortality and morbidity experience for the global population. The COVID-19 pandemic continues to impact our results of operations in the current period and is expected to continue to impact our results of operations in future periods. The COVID-19 pandemic has moved in localized waves, with its impact worsening and then improving in different locations at different times in a repetitive but unpredictable pattern. During the third quarter of 2021, the mortality impacts to our businesses from COVID-19 increased compared to the second quarter.

The Company has taken several measures to manage the impacts of this crisis. The actual and expected impacts of these events and other items are included in the following update:

- *Outlook.*

U.S. Businesses:

The risk of hospitalization and death from COVID-19 and its variants to date has been greatly reduced as several vaccines are now widely available in the U.S. The vaccine rollout continues (with approximately 80% of the U.S. adult population receiving at least one dose) and other therapeutics are available now, or soon will be. Nevertheless, transmission of the virus persists and in certain geographies remains high. Although the pandemic worsened in the U.S. during the third quarter of 2021, with deaths peaking in mid-September, the Company has seen impacts begin to moderate and the trend of the pandemic's impacts on our U.S. Businesses may continue to improve as population immunity from vaccination or prior infection increases and treatment options for COVID-19 patients expand.

Specific outlook considerations for certain of our U.S. businesses include the following:

Retirement. Given that many of the products in our institutional investment products business assume longevity risk, elevated levels of mortality resulting from COVID-19 may continue to contribute to a higher level of underwriting gains; however, high vaccination rates among pensioners in both the U.S. and the U.K. suggest that mortality rates will continue to normalize toward pre-pandemic mortality levels. The pandemic may also impact sales volumes.

Group Insurance. We expect COVID-19 to continue to contribute to elevated levels of mortality resulting in increased life insurance claims in the near-term. In addition, we expect elevated unemployment to drive increased disability claims in this business. The pandemic may also impact sales volumes and the utilization of workplace benefits.

Individual Life. We expect COVID-19 to continue to contribute to elevated levels of mortality, resulting in increased life insurance claims in the near-term. The pandemic may also impact sales volumes.

International Businesses:

Through the first nine months of 2021, we continued to see an elevated level of claims due to COVID-19, with the most material impacts in Brazil and Japan; however, expenses to support our captive agents have decreased significantly compared to 2020. Japan declared a series of COVID-19 driven states of emergency in 2021 across various prefectures, but lifted these restrictions in September. We continue to see signs of improvement based on the global increase in vaccination rates and decreased levels of mortality in all key markets; however, as the global pandemic continues to evolve, any further implementation or tightening of COVID-19 restrictions is possible and, depending on the specific circumstances and geographies impacted, could adversely impact our sales prospects for a period of time. We believe our needs-based selling and death protection focus are even more valuable to consumers based on the global experience of COVID-19 and will help support the continued long-term growth of our businesses.

- *Results of Operations.* See “—Results of Operations” and “—Results of Operations by Segment” for a discussion of results for the third quarter and the first nine months of 2021.
- *Investment Portfolio.* While the economy continues to re-open and recover from the impacts of COVID-19, there could still be periods of volatility. The market expectations for credit migration and related losses continue to decrease. The sectors most impacted by the pandemic, including energy, consumer cyclical and retail related investments, have started to recover but may lag the general economic improvement. In certain instances, the Company may agree to modify an investment to provide forbearance, which grants borrowers additional time to make payments. As of September 30, 2021, approximately 1.6% of total invested assets, including those held for sale, were modified to allow for limited forbearance. Under the terms of forbearance, the borrower is allowed to defer a portion of current year principal and/or interest payments for a short period (e.g., 6 months). These deferrals accrue additional interest and do not have a material impact on our investment value.
- *Sales and Flows.* See “—Segment Results of Operations” for a discussion of sales and flows in each of our segments.
- *Underwriting Results.* Through the first nine months of 2021, we estimate that COVID-19 had a net negative impact on our underwriting results reflecting unfavorable mortality impacts in our Group Insurance, Individual Life and International businesses, partially offset by favorable mortality impacts in our Retirement business. For the fourth

quarter of 2021, the Company expects underwriting results to be adversely impacted by approximately \$185 million in our U.S. Businesses, predominantly in our Group Insurance business, and approximately \$20 million in our International Businesses; however, the ultimate impact on our underwriting results will depend on factors such as: 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.

- *Risk Management.* Prudential has a robust risk management framework that seeks to ensure we can fulfill our customer, regulatory, and other stakeholder obligations under a range of stress scenarios by maintaining the appropriate balance between the Company's resources and risks. We evaluate the Company's exposure to stress under four lenses (economic, STAT, GAAP, and liquidity).

Our risk management framework incorporates severe to very severe stresses across equities, interest rates, credit migration and defaults, currencies and pandemics. This framework includes a specific "pandemic and sell-off" scenario with a mortality calamity (1.5 extra insured deaths per 1,000 lives in the first year) based on a modern-day interpretation of the 1918 Spanish Flu experience that is aligned with most regulatory frameworks. The stress scenario assumes an even distribution of increased mortality across the population, which is more adversely impactful to our business than our current understanding of COVID-19 mortality. As the COVID-19 pandemic continues to unfold, we continue to update our analysis and take management actions in response to this specific event.

As of September 30, 2021, the COVID-19 pandemic has not reached the most severe levels of financial impacts included in the Company's stress testing. In addition, the net impact of COVID-19 has been moderated by the balance between our mortality exposure (such as in our Individual Life and Group Insurance businesses) and our offsetting longevity exposure (such as in our Retirement business).

- *Risk Factors.* The COVID-19 pandemic has adversely impacted our results of operations, financial position, investment portfolio, new business opportunities and operations, and these impacts are expected to continue. For additional information on the risks to our business posed by the COVID-19 pandemic, see "Risk Factors" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.
- *Business Continuity.* Throughout the COVID-19 pandemic, we have been executing our business continuity protocols to ensure our employees are safe and able to serve our customers. This included effectively transitioning the vast majority of our employees to remote work arrangements.

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

Impact of a Low Interest Rate Environment

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

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

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

See below for discussions related to the current interest rate environments in our two largest markets, the U.S. and Japan; the composition of our insurance liabilities and policyholder account balances; and the hypothetical impacts to our investment related results if these interest rate environments are sustained.

U.S. Operations excluding the Closed Block Division

Interest rates in the U.S. have experienced a sustained period of historically low levels with certain benchmarks reaching significant lows. While market conditions and events make uncertain the timing, amount and impact of any monetary policy decisions by the Federal Reserve, changes in interest rates may impact our reinvestment yields, primarily for our investments in fixed maturity securities and commercial mortgage loans. As interest rates decline, our reinvestment yield may be below our overall portfolio yield, resulting in an unfavorable impact to earnings. Conversely, as interest rates rise, our reinvestment yield may exceed the overall portfolio yield resulting in a favorable impact to earnings.

For the general account supporting our U.S. Businesses and our Corporate and Other operations, we estimate annual principal payments and prepayments that we would be required to reinvest to be approximately 7.0% of the fixed maturity security and commercial mortgage loan portfolios through 2022. The portion of the general account attributable to these operations has approximately \$240 billion of such assets (based on net carrying value and including assets classified as “held-for-sale”) as of September 30, 2021. The average portfolio yield for fixed maturity securities and commercial mortgage loans is approximately 3.8% as of September 30, 2021.

Included in the \$240 billion of fixed maturity securities and commercial mortgage loans are approximately \$177 billion that are subject to call or redemption features at the issuer’s option and have a weighted average interest rate of approximately 4%. Of this \$177 billion, approximately 51% contain provisions for prepayment premiums. If we reinvest scheduled payments or prepayments (not subject to a prepayment fee) at rates below the current portfolio yield, including in some cases at rates below those guaranteed under our insurance contracts, future operating results will be impacted to the extent we do not, or are unable to, reduce crediting rates on in-force blocks of business, or effectively utilize other asset/liability management strategies described below, in order to maintain current net interest margins.

The following table sets forth the insurance liabilities and policyholder account balances of our U.S. operations excluding the Closed Block Division, by type, for the date indicated:

	As of September 30, 2021 (in billions)
Long-duration insurance products with fixed and guaranteed terms	\$ 153
Contracts with adjustable crediting rates subject to guaranteed minimums	61
Participating contracts where investment income risk ultimately accrues to contractholders	14
Total	\$ 228

The \$153 billion above relates to long-duration products such as group annuities, structured settlements and other insurance products that have fixed and guaranteed terms, for which underlying assets may have to be reinvested at interest rates that are lower than portfolio rates. We seek to mitigate the impact of a prolonged low interest rate environment on these contracts through asset/liability management, as discussed further below.

The \$61 billion above relates to contracts with crediting rates that may be adjusted over the life of the contract, subject to guaranteed minimums. Although we may have the ability to lower crediting rates for those contracts above guaranteed minimums, our willingness to do so may be limited by competitive pressures. The following table sets forth the related account values by range of guaranteed minimum crediting rates and the related range of the difference, in basis points (“bps”), between rates being credited to contractholders as of September 30, 2021, and the respective guaranteed minimums.

	Account Values with Adjustable Crediting Rates Subject to Guaranteed Minimums:											
	At guaranteed minimum	1-49 bps above guaranteed minimum	50-99 bps above guaranteed minimum	100-150 bps above guaranteed minimum	Greater than 150 bps above guaranteed minimum	Total						
	(\$ in billions)											
Range of Guaranteed Minimum Crediting Rates:												
Less than 1.00%	\$	1.1	\$	1.1	\$	0.1	\$	0.0	\$	0.0	\$	2.3
1.00% - 1.99%		5.6		12.1		1.9		1.7		1.4		22.7
2.00% - 2.99%		1.3		1.1		0.5		2.4		1.6		6.9
3.00% - 4.00%		26.0		2.1		0.2		0.3		0.0		28.6
Greater than 4.00%		0.9		0.0		0.0		0.0		0.0		0.9
Total(1)	\$	34.9	\$	16.4	\$	2.7	\$	4.4	\$	3.0	\$	61.4
Percentage of total		57 %		27 %		4 %		7 %		5 %		100 %

(1) Includes approximately \$0.5 billion related to contracts that impose a market value adjustment if the invested amount is not held to maturity.

The remaining \$14 billion of insurance liabilities and policyholder account balances in these operations relates to participating contracts for which the investment income risk is expected to ultimately accrue to contractholders. The crediting rates for these contracts are periodically adjusted based on the return earned on the related assets.

Assuming a hypothetical scenario where the average 10-year U.S. Treasury rate is 1.50% (which is reasonably consistent with recent rates) for the period from October 1, 2021 through September 30, 2022 (and credit spreads remain unchanged from average levels experienced during the third quarter 2021), we estimate that the unfavorable impact to net investment income of reinvesting activities, including scheduled maturities and estimated prepayments of fixed maturities and commercial mortgage and other loans (excluding assets supporting participating contracts), would be between \$50 million and \$80 million for the period from October 1, 2021 through September 30, 2022.

In order to mitigate the unfavorable impact that a low interest rate environment has on our net interest margins, we employ a proactive asset/liability management program, which includes strategic asset allocation and hedging strategies within a disciplined risk management framework. These strategies seek to match the characteristics of our products, and to closely 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 the interest rate risk associated with our products through several market cycles. Our interest rate exposure is also mitigated by our business mix, which includes lines of business for which fee-based and insurance underwriting earnings play a more prominent role in product profitability. We also regularly examine our product offerings and their profitability. As a result, we may reprice certain products and discontinue sales of other products that do not meet our profit expectations.

Closed Block Division

Substantially all of the \$58 billion of general account assets in the Closed Block division support obligations and liabilities relating to the Closed Block policies only. See Note 7 to the Unaudited Interim Consolidated Financial Statements for additional information on the Closed Block.

International Insurance Operations

While our international insurance operations have experienced a low interest rate environment for many years, the current reinvestment yields for certain blocks of business in our international insurance operations are generally lower than the current portfolio yield supporting these blocks of business. In recent years, the Bank of Japan's monetary policy has resulted in even lower and, at times, negative yields for certain tenors of government bonds. Our international insurance operations employ a proactive asset/liability management program in order to mitigate, to the extent possible, the unfavorable impact that the current interest rate environment has on our net interest margins. In conjunction with this program, we have not purchased negative yielding assets to support the portfolio and we continue to purchase long-term bonds with tenors of 30 years or greater. Additionally, our diverse product portfolio in terms of currency mix and premium payment structure allows us to further mitigate the negative impact from this low interest rate environment. We also regularly examine our product offerings and their profitability. As a result, we may reprice certain products, adjust commissions for certain products and discontinue sales of

other products that do not meet our profit expectations. The impact of these actions and the introduction of certain new products has resulted in an increase in sales of U.S. dollar-denominated products relative to products denominated in other currencies. For additional information on sales within our international insurance operations, see “International Businesses—Sales Results,” below.

The following table sets forth the insurance liabilities and policyholder account balances of our Japanese operations, by type, for the date indicated:

	As of September 30, 2021 (in billions)	
Insurance products with fixed and guaranteed terms	\$	140
Contracts with a market value adjustment if invested amount is not held to maturity		25
Contracts with adjustable crediting rates subject to guaranteed minimums		11
Total	\$	176

The \$140 billion is primarily comprised of long-duration insurance products that have fixed and guaranteed terms- for which underlying assets may have to be reinvested at interest rates that are lower than current portfolio yields. The remaining insurance liabilities and policyholder account balances include \$25 billion related to contracts that impose a market value adjustment if the invested amount is not held to maturity and \$11 billion related to contracts with crediting rates that may be adjusted over the life of the contract, subject to guaranteed minimums. Most of the current crediting rates on these contracts, however, are at or near contractual minimums. Although we have the ability in some cases to lower crediting rates for those contracts that are above guaranteed minimum crediting rates, the majority of this business has interest crediting rates that are determined by formula.

Assuming a hypothetical scenario where the average 30-year Japanese Government Bond yield is 0.65% and the 10-year U.S. Treasury rate is 1.50% (which is reasonably consistent with recent rates) for the period from October 1, 2021 through September 30, 2022 (and credit spreads remain unchanged from average levels experienced during the third quarter 2021), we estimate that the unfavorable impact to net investment income of reinvesting activities, including scheduled maturities and estimated prepayments of fixed maturities and commercial mortgage and other loans (excluding assets supporting participating contracts), would be between \$20 million and \$40 million for the period from October 1, 2021 through September 30, 2022.

Results of Operations

Consolidated Results of Operations

The following table summarizes net income (loss) for the periods presented.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)			
Revenues	\$ 21,641	\$ 15,425	\$ 54,510	\$ 41,004
Benefits and expenses	19,835	13,978	46,517	42,227
Income (loss) before income taxes and equity in earnings of operating joint ventures	1,806	1,447	7,993	(1,223)
Income tax expense (benefit)	259	(50)	1,504	7
Income (loss) before equity in earnings of operating joint ventures	1,547	1,497	6,489	(1,230)
Equity in earnings of operating joint ventures, net of taxes	18	10	63	62
Net income (loss)	1,565	1,507	6,552	(1,168)
Less: Income attributable to noncontrolling interests	35	20	36	25
Net income (loss) attributable to Prudential Financial, Inc.	\$ 1,530	\$ 1,487	\$ 6,516	\$ (1,193)

Three Month Comparison. The \$43 million increase in “Net income (loss) attributable to Prudential Financial, Inc.” for the third quarter of 2021 compared to the third quarter of 2020 reflected the following notable items on a pre-tax basis:

- \$651 million favorable variance from realized investment gains (losses) and related charges for PFI excluding Divested and Run-off Businesses and market experience updates, as well as the impact of the hedging program associated with certain variable annuities (see “General Account Investments” for additional information);
- \$344 million favorable variance from higher adjusted operating income from our business segments (see “Segment Results of Operations” for additional information); and
- \$150 million favorable variance from a gain in the current period from our Divested and Run-off Businesses compared to a loss in the prior year period.

Partially offsetting these increases in “Net income (loss) attributable to Prudential Financial, Inc.” were the following items:

- \$526 million unfavorable variance reflecting the impact from changes in the value of our embedded derivatives and related hedge positions, net of DAC and other costs, associated with certain variable annuities;
- \$309 million unfavorable variance from a higher tax expense reflecting the increase in pre-tax earnings; and
- \$198 million unfavorable variance from investment related activities that are primarily within “Other income (loss)” for PFI excluding our Divested and Run-off Businesses.

Nine Month Comparison. The \$7,709 million increase in “Net income (loss) attributable to Prudential Financial, Inc.” for the first nine months of 2021 compared to the first nine months of 2020 reflected the following notable items on a pre-tax basis:

- \$2,583 million favorable variance reflecting the impact from changes in the value of our embedded derivatives and related hedge positions, net of DAC and other costs, associated with certain variable annuities;
- \$2,233 million favorable variance from higher adjusted operating income from our business segments;
- \$2,032 million favorable variance from realized investment gains (losses) and related charges for PFI excluding Divested and Run-off Businesses and market experience updates, as well as the impact of the hedging program associated with certain variable annuities;
- \$1,346 million favorable variance driven by market experience updates primarily within our Individual Annuities and Individual Life businesses (see Note 13 to the Unaudited Interim Consolidated Financial Statements for additional information); and
- \$1,106 million favorable variance from a gain in the current period from our Divested and Run-off Businesses compared to a loss in the prior year period.

Partially offsetting these increases in “Net income (loss) attributable to Prudential Financial, Inc.” was a \$1,497 million unfavorable variance from a higher tax expense reflecting the increase in pre-tax earnings.

Segment Results of Operations

We analyze the performance of our segments and Corporate and Other operations using a measure of segment profitability called adjusted operating income. See “—Segment Measures” for a discussion of adjusted operating income and its use as a measure of segment operating performance.

Summary of Results of Operations by Segment

Shown below are the adjusted operating income contributions of each segment and Corporate and Other operations for the periods indicated and a reconciliation of this segment measure of performance to “Income (loss) before income taxes and equity in earnings of operating joint ventures” as presented in the Unaudited Interim Consolidated Statements of Operations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020(1)	2021(1)	2020(1)
	(in millions)			
Adjusted operating income before income taxes by segment:				
PGIM	\$ 327	\$ 370	\$ 1,293	\$ 858
U.S. Businesses:				
Retirement	571	347	1,635	860
Group Insurance	(135)	22	(250)	71
Individual Annuities	499	408	1,415	1,030
Individual Life	210	101	312	17
Assurance IQ	(55)	(30)	(132)	(69)
Total U.S. Businesses	1,090	848	2,980	1,909
International Businesses	887	775	2,561	2,162
Corporate and Other	(460)	(493)	(1,118)	(1,446)
Total segment adjusted operating income before income taxes	1,844	1,500	5,716	3,483
Reconciling items:				
Realized investment gains (losses), net, and related adjustments(2)	116	236	1,765	(2,758)
Charges related to realized investment gains (losses), net(3)	(18)	(69)	(254)	(353)
Market experience updates	(199)	(134)	330	(1,016)
Divested and Run-off Businesses(4):				
Closed Block division	27	8	92	(15)
Other Divested and Run-off Businesses	48	(83)	432	(567)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(5)	(3)	1	(53)	(62)
Other adjustments(6)	(9)	(12)	(35)	65
Consolidated income (loss) before income taxes and equity in earnings of operating joint ventures	\$ 1,806	\$ 1,447	\$ 7,993	\$ (1,223)

(1) Effective second quarter of 2020, the results of POK and the impact of its sale are excluded from the International Businesses and are included in Divested and Run-off Businesses. Effective third quarter of 2020, the results of POT and the impact of its sale are excluded from the International Businesses and are included in Divested and Run-off Businesses. Effective third quarter of 2021, the results of the Full Service Retirement business are excluded from the Retirement segment and are included in Divested and Run-off Businesses. Prior period amounts have been updated to conform to current period presentation. See Note 1 to the Unaudited Interim Consolidated Financial Statements for additional information about these dispositions.

(2) See “—General Account Investments” and Note 13 to the Unaudited Interim Consolidated Financial Statements for additional information.

(3) Includes charges that represent the impact of realized investment gains (losses), net, on the amortization of DAC and other costs, and on changes in reserves. Also includes charges resulting from payments related to market value adjustment features of certain of our annuity products and the impact of realized investment gains (losses), net, on the amortization of Unearned Revenue Reserves (“URR”).

(4) Represents income (loss) of Divested and Run-off Businesses that have been or will be sold or exited, including businesses that have been placed in wind down, but that did not qualify for “discontinued operations” accounting treatment under U.S. GAAP. See “—Divested and Run-off Businesses” for additional information.

(5) Equity in earnings of operating joint ventures are included in adjusted operating income but excluded from “Income (loss) before income taxes and equity in earnings of operating joint ventures” as they are reflected on an after-tax U.S. GAAP basis as a separate line in the Unaudited Interim Consolidated Statements of Operations. Earnings attributable to noncontrolling interests are excluded from adjusted operating income but included in “Income (loss) before income taxes and equity in earnings of operating joint ventures” as they are reflected on a U.S. GAAP basis as a separate line in the Unaudited Interim Consolidated Statements of Operations. Earnings attributable to noncontrolling interests represent the portion of earnings from consolidated entities that relates to the equity interests of minority investors.

(6) Includes certain components of consideration for business acquisitions, which are recognized as compensation expense over the requisite service periods, as well as changes in the fair value of associated contingent consideration. See Note 14 to the Unaudited Interim Consolidated Financial Statements for additional information.

Segment results for the period presented above reflect the following:

PGIM. Results for the third quarter of 2021 decreased in comparison to the prior year period, primarily reflecting lower other related revenues and higher expenses, partially offset by an increase in asset management fees. Results for the first nine months of 2021 increased in comparison to the prior year period, primarily reflecting a gain from the sale of our 35% ownership stake in Pramerica SGR in the current year period, as well as an increase in asset management fees, partially offset by higher expenses and lower other related revenues.

Retirement. Results for the third quarter of 2021 increased in comparison to the prior year period, primarily reflecting higher net investment spread results. Results for the first nine months of 2021 increased in comparison to the prior year period, inclusive of a favorable comparative net impact from our annual reviews and update of assumptions and other refinements. Excluding this item, results increased, primarily reflecting higher net investment spread results.

Group Insurance. Results for the third quarter of 2021 decreased in comparison to the prior year period, driven by lower underwriting results. Results for the first nine months of 2021 include an unfavorable comparative net impact from our annual reviews and update of assumptions and other refinements. Excluding this item, results decreased in comparison to the prior year period, primarily reflecting lower underwriting results.

Individual Annuities. Results for the third quarter of 2021 increased in comparison to the prior year period, primarily driven by higher fee income, net of distribution expenses and other associated costs, and higher net investment spread results. Results for the first nine months of 2021 increased in comparison to the prior year period, inclusive of a favorable comparative net impact from our annual reviews and update of assumptions and other refinements. Excluding this item, results increased, driven by higher fee income, net of distribution expenses and other associated costs, and higher net investment spread results.

Individual Life. Results for the third quarter of 2021 increased in comparison to the prior year period, primarily driven by higher net investment spread results. Results for the first nine months of 2021 increased in comparison to the prior year period, inclusive of a favorable comparative net impact from our annual reviews and update of assumptions and other refinements. Excluding this item, results increased, primarily driven by higher net investment spread results, partially offset by lower underwriting results.

Assurance IQ. Results for both the third quarter and the first nine months of 2021 decreased in comparison to the prior year periods, reflecting an increase in operating expenses supporting business growth, partially offset by higher revenues.

International Businesses. Results for the third quarter of 2021 increased in comparison to the prior year period, inclusive of an unfavorable net impact from foreign currency exchange rates, primarily driven by higher net investment spread results, higher earnings from our joint venture investments and lower expenses. Results for the first nine months of 2021 increased in comparison to the prior year period, inclusive of an unfavorable net impact from foreign currency exchange rates and a favorable comparative net impact from our annual reviews and update of assumptions and other refinements. Excluding these items, results increased, primarily driven by higher net investment spread results and more favorable underwriting results.

Corporate and Other. Results for the third quarter reflect decreased losses in comparison to the prior year period, primarily driven by favorable pension and employee benefit results and lower interest expense on debt. Results for the first nine months of 2021 reflected decreased losses in comparison to the prior year period, primarily driven by lower net charges from other corporate activities, favorable pension and employee benefit results and lower interest expense on debt.

Closed Block Division. Results for both the third quarter and the first nine months of 2021 increased in comparison to the prior year periods, primarily driven by higher net investment activity results, partially offset by an increase in the policyholder dividend obligation.

Segment Measures

Adjusted Operating Income. In managing our business, we analyze our segments' operating performance using "adjusted operating income." Adjusted operating income does not equate to "Income (loss) before income taxes and equity in earnings of operating joint ventures" or "Net income (loss)" as determined in accordance with U.S. GAAP, but is the measure of segment profit or loss we use to evaluate segment performance and allocate resources, and consistent with authoritative guidance, is our measure of segment performance. The adjustments to derive adjusted operating income are important to an understanding of our overall results of operations. Adjusted operating income is not a substitute for income determined in accordance with U.S. GAAP, and our definition of adjusted operating income may differ from that used by other companies; however, we believe that the presentation of adjusted operating income as we measure it for management purposes enhances the understanding of our results of operations by highlighting the results from ongoing operations and the underlying profitability of our businesses.

See Note 13 to the Unaudited Interim Consolidated Financial Statements for additional information on the presentation of segment results and our definition of adjusted operating income.

Annualized New Business Premiums. In managing our Individual Life, Group Insurance and International Businesses, we analyze annualized new business premiums, which do not correspond to revenues under U.S. GAAP. Annualized new business premiums measure the current sales performance of the business, while revenues primarily reflect the renewal persistency of policies written in prior years and net investment income, in addition to current sales. Annualized new business premiums include 10% of first year premiums or deposits from single pay products. No other adjustments are made for limited pay contracts.

The amount of annualized new business premiums for any given period can be significantly impacted by several factors, including but not limited to: addition of new products, discontinuation of existing products, changes in credited interest rates for certain products and other product modifications, changes in premium rates, changes in tax laws, changes in regulations or changes in the competitive environment. Sales volume may increase or decrease prior to certain of these changes becoming effective, and then fluctuate in the other direction following such changes.

Assets Under Management. In managing our PGIM business, we analyze assets under management (which do not correspond directly to U.S. GAAP assets) because the principal source of revenues is fees based on assets under management. Assets under management represent the fair market value or account value of assets which we manage directly for institutional clients, retail clients, and for our general account, as well as assets invested in our products that are managed by third-party managers.

Account Values. In managing our Individual Annuities and Retirement businesses, we analyze account values, which do not correspond to U.S. GAAP assets. Net sales (redemptions) in our Individual Annuities business and net additions (withdrawals) in our Retirement business do not correspond to revenues under U.S. GAAP, but are used as a relevant measure of business activity.

Impact of Foreign Currency Exchange Rates

Foreign currency exchange rate movements and related hedging strategies

As a U.S.-based company with significant business operations outside the U.S., particularly in Japan, we are subject to foreign currency exchange rate movements that could impact our U.S. dollar (“USD”)–equivalent earnings and shareholder return on equity. Our USD–equivalent earnings could be materially affected by currency fluctuations from period to period, even if earnings on a local currency basis are relatively constant. Our USD–equivalent equity is impacted as the value of our investment in international operations may also fluctuate based on changes in foreign currency exchange rates. We seek to mitigate these impacts through various hedging strategies, including the use of derivative contracts and by holding USD–denominated assets in certain of our foreign subsidiaries.

In order to reduce earnings volatility from foreign currency exchange rate movements, we enter into forward currency derivative contracts to effectively fix the currency exchange rates for a portion of our prospective non-USD–denominated earnings streams. This forward currency hedging program is primarily associated with our insurance operations in Japan.

In order to reduce equity volatility from foreign currency exchange rate movements, we primarily utilize a yen hedging strategy that calibrates the hedge level to preserve the relative contribution of our yen-based business to the Company’s overall return on equity on a leverage neutral basis. We implement this hedging strategy utilizing a variety of instruments, including USD–denominated assets, foreign currency derivative contracts, and dual currency and synthetic dual currency investments held locally in our Japanese insurance subsidiaries. The total hedge level may vary based on our periodic assessment of the relative contribution of our yen-based business to the Company’s overall return on equity.

The table below presents the aggregate amount of instruments that serve to hedge the impact of foreign currency exchange movements on our USD–equivalent shareholder return on equity from our Japanese insurance subsidiaries as of the dates indicated.

	September 30, 2021	December 31, 2020
	(in billions)	
Foreign currency hedging instruments:		
Hedging USD-equivalent earnings:		
Forward currency contracts (notional amount outstanding)	\$ 0.2	\$ 0.4
Hedging USD-equivalent equity:		
USD-denominated assets held in yen-based entities(1)	9.6	10.1
Dual currency and synthetic dual currency investments(2)	0.5	0.5
Total USD-equivalent equity foreign currency hedging instruments	10.1	10.6
Total foreign currency hedges	\$ 10.3	\$ 11.0

(1) Includes USD-denominated fixed maturities at amortized cost plus any related accrued investment income, as well as USD notional amount of foreign currency derivative contracts outstanding. Note this amount represents only those USD assets serving to hedge the impact of foreign currency volatility on equity. Separate from this program, our Japanese operations also have \$72.5 billion and \$65.8 billion as of September 30, 2021 and December 31, 2020, respectively, of USD-denominated assets supporting USD-denominated liabilities related to USD-denominated products.

(2) Dual currency and synthetic dual currency investments are held by our yen-based entities in the form of fixed maturities and loans with a yen-denominated principal component and USD-denominated interest income. The amounts shown represent the present value of future USD-denominated cash flows.

The USD-denominated investments that hedge the impact of foreign currency exchange rate movements on USD-equivalent earnings and shareholder return on equity from our Japanese insurance operations are reported within yen-based entities and, as a result, foreign currency exchange rate movements will impact their value reported within our yen-based Japanese insurance entities. We seek to mitigate the risk that future unfavorable foreign currency exchange rate movements will decrease the value of these USD-denominated investments reported within our yen-based Japanese insurance entities, and therefore negatively impact their equity and regulatory solvency margins, by having our Japanese insurance operations enter into currency hedging transactions with a subsidiary of Prudential Financial. These hedging strategies have the economic effect of moving the change in value of these USD-denominated investments due to foreign currency exchange rate movements from our Japanese yen-based entities to our USD-based entities.

These USD-denominated investments also pay a coupon which is generally higher than what a similar yen-denominated investment would pay. The incremental impact of this higher yield on our USD-denominated investments, as well as our dual currency and synthetic dual currency investments, will vary over time, and is dependent on the duration of the underlying investments as well as interest rate environments in both the U.S. and Japan at the time of the investments.

Impact of intercompany foreign currency exchange rate arrangements on segment results of operations

The financial results of our International Businesses and PGIM reflect the impact of intercompany arrangements with our Corporate and Other operations pursuant to which these segments' non-USD-denominated earnings are translated at fixed currency exchange rates. Results of our Corporate and Other operations include differences between the translation adjustments recorded by the segments at the fixed currency exchange rate versus the actual average rate during the period. In addition, specific to our International Businesses where we hedge certain currencies, the results of our Corporate and Other operations also include the impact of any gains or losses recorded from the forward currency contracts that settled during the period, which include the impact of any over or under hedging of actual earnings that differ from projected earnings.

For our International Businesses, the fixed currency exchange rates are generally determined in connection with a foreign currency income hedging program designed to mitigate the impact of exchange rate changes on the segment's expected USD-equivalent earnings. Pursuant to this program, our Corporate and Other operations execute forward currency contracts with third-parties to sell the net exposure of projected earnings for certain currencies in exchange for USD at specified exchange rates. The maturities of these contracts correspond with the future periods (typically on a three-year rolling basis) in which the identified non-USD-denominated earnings are expected to be generated. In establishing the level of non-USD-denominated earnings that will be hedged through this program, we exclude the anticipated level of USD-denominated earnings that will be generated by USD-denominated products and investments. For the nine months ended September 30, 2021, approximately 6% of the segment's earnings were yen-based and, as of September 30, 2021, we have hedged 100%, 97% and 61% of expected yen-based earnings for 2021, 2022 and 2023, respectively. To the extent currently unhedged, our International Businesses' future expected USD-equivalent of yen-based earnings will be impacted by yen exchange rate movements.

As a result of these arrangements, our International Businesses' results for 2021 and 2020 reflect the impact of translating yen-denominated earnings at fixed currency exchange rates of 103 and 104 yen per USD, respectively. We expect our 2022 results to reflect the impact of translating yen-denominated earnings at a fixed currency exchange rate of 104 yen per USD. Since determination of the fixed currency exchange rates for a given year is impacted by changes in foreign currency exchange rates over time, the segment's future earnings will ultimately be impacted by these changes in exchange rates.

For PGIM and certain other currencies within our International Businesses, the fixed currency exchange rates for the current year are predetermined during the third quarter of the prior year using forward currency exchange rates.

The table below presents, for the periods indicated, the increase (decrease) to revenues and adjusted operating income for the International Businesses, PGIM and Corporate and Other operations, reflecting the impact of these intercompany arrangements.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)			
Segment impacts of intercompany arrangements:				
International Businesses	\$ 6	\$ 15	\$ 7	\$ 46
PGIM	0	(3)	(1)	(1)
Impact of intercompany arrangements(1)	6	12	6	45
Corporate and Other:				
Impact of intercompany arrangements(1)	(6)	(12)	(6)	(45)
Settlement gains (losses) on forward currency contracts(2)	7	15	21	57
Net benefit (detriment) to Corporate and Other	1	3	15	12
Net impact on consolidated revenues and adjusted operating income	\$ 7	\$ 15	\$ 21	\$ 57

(1) Represents the difference between non-USD-denominated earnings translated on the basis of weighted average monthly currency exchange rates versus fixed currency exchange rates determined in connection with the foreign currency income hedging program.

(2) As of September 30, 2021 and 2020, the total notional amounts of these forward currency contracts within our Corporate and Other operations were \$0.8 billion and \$1.0 billion, respectively, of which \$0.2 billion and \$0.4 billion, respectively, were related to our Japanese insurance operations.

Impact of products denominated in non-local currencies on U.S. GAAP earnings

While our international insurance operations offer products denominated in local currency, several also offer products denominated in non-local currencies. This is most notable in our Japanese operations, which currently offer primarily USD-denominated products, but have also historically offered Australian dollar ("AUD")-denominated products. The non-local currency-denominated insurance liabilities related to these products are supported by investments denominated in corresponding currencies, including a significant portion designated as available-for-sale. While the impact from foreign currency exchange rate movements on these non-local currency-denominated assets and liabilities is economically matched, differences in the accounting for changes in the value of these assets and liabilities due to changes in foreign currency exchange rate movements have historically resulted in volatility in U.S. GAAP earnings.

In 2015, we implemented a structure in Gibraltar Life's operations that disaggregated the USD- and AUD-denominated businesses into separate divisions, each with its own functional currency that aligns with the underlying products and investments. The result of this alignment was to reduce differences in the accounting for changes in the value of these assets and liabilities that arise due to changes in foreign currency exchange rate movements. For the USD- and AUD-denominated assets that were transferred under this structure, the net cumulative unrealized investment gains associated with foreign exchange remeasurement that were recorded in "Accumulated other comprehensive income (loss)" ("AOCI") totaled \$2.1 billion and \$2.3 billion as of September 30, 2021 and December 31, 2020, respectively, and will be recognized in earnings within "Realized investment gains (losses), net" over time as these assets mature or are sold. Absent the sale of any of these assets prior to their stated maturity, approximately 3% of the \$2.1 billion balance as of September 30, 2021 will be recognized throughout the remainder of 2021, approximately 13% will be recognized in 2022, and the remaining balance will be recognized from 2023 through 2051.

Highly inflationary economy in Argentina

Our insurance operations in Argentina, Prudential of Argentina (“POA”), have historically utilized the Argentine peso as the functional currency given it is the currency of the primary economic environment in which the entity operates. During 2018, Argentina experienced a cumulative inflation rate that exceeded 100% over a 3-year period. As a result, Argentina’s economy was deemed to be highly inflationary resulting in reporting changes effective July 1, 2018. Under U.S. GAAP, the financial statements of a foreign entity in a highly inflationary economy are to be remeasured as if its functional currency (formerly the Argentine peso) is the reporting currency of its parent reporting entity (the USD) on a prospective basis. While this changed how the results of POA are remeasured and/or translated into USD, the impact to our financial statements was not material nor is it expected to be material in future periods given the relative size of our POA operations. It should also be noted that due to the macroeconomic environment in Argentina, the majority of POA’s balance sheet consists of USD-denominated product liabilities supported by USD-denominated assets. As a result, this accounting change serves to reduce the remeasurement impact reflected in net income given that the functional currency and currency in which the assets and liabilities are denominated will be more closely aligned.

Accounting Policies & Pronouncements

Application of Critical Accounting Estimates

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

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

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

Market Performance - Equity and Interest Rate Assumptions

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

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

The weighted average rate of return assumptions used in developing estimated market returns consider many factors specific to each product type, including asset durations, asset allocations and other factors. With regard to equity market assumptions, the near-term future rate of return assumption used in evaluating DAC, DSI and VOBA and liabilities for future policy benefits for certain of our products, primarily our domestic variable annuity and domestic and international variable life insurance products, is generally updated each quarter and is derived using a reversion to the mean approach, a common industry practice. Under this approach, we consider historical equity returns and adjust projected equity returns over an initial future period of five years (the “near-term”) so that equity returns converge to the long-term expected rate of return. If the near-term projected future rate of return is greater than our near-term maximum future rate of return of 15.0%, we use our maximum future rate of return. If the near-term projected future rate of return is lower than our near-term minimum future rate of return of 0%, we use our minimum future rate of return. As of September 30, 2021, our domestic variable annuities and variable life insurance businesses assume an 8.0% long-term equity expected rate of return and a 0.4% near-term mean reversion equity expected rate of return, and our international variable life insurance business assumes a 4.8% long-term equity expected rate of return and a 0% near-term mean reversion equity expected rate of return.

With regard to interest rate assumptions used in evaluating DAC, DSI and VOBA and liabilities for future policy benefits for certain of our products, we update the long-term and near-term future rates used to project fixed income returns annually and quarterly, respectively. As a result of our 2021 annual reviews and update of assumptions and other refinements, we kept our long-term expectation of the 10-year U.S. Treasury rate and 10-year Japanese Government Bond yield unchanged and continue to grade to rates of 3.25% and 1.00%, respectively, over ten years. As part of our quarterly market experience updates, we update our near-term projections of interest rates to reflect changes in current rates.

For a discussion of the impact that could result from changes in certain key assumptions, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Accounting Policies and Pronouncements—Sensitivities for Insurance Assets and Liabilities” in our Annual Report on Form 10-K for the year ended December 31, 2020.

Future Adoption of New Accounting Pronouncements

ASU 2018-12, *Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*, was issued by the Financial Accounting Standards Board (“FASB”) on August 15, 2018. In October 2019, the FASB issued ASU 2019-09, *Financial Services - Insurance (Topic 944): Effective Date* to affirm its decision to defer the effective date of ASU 2018-12 to January 1, 2022 (with early adoption permitted), representing a one year extension from the original effective date of January 1, 2021. As a result of the COVID-19 pandemic, in November 2020 the FASB issued ASU 2020-11, *Financial Services—Insurance (Topic 944): Effective Date and Early Application* to defer for an additional one year the effective date of ASU 2018-12 from January 1, 2022 to January 1, 2023, and to provide transition relief to facilitate the early adoption of the ASU. The transition relief would allow large calendar-year public companies that early adopt ASU 2018-12 to apply the guidance either as of January 1, 2020 or January 1, 2021 (and record transition adjustments as of January 1, 2020 or January 1, 2021, respectively) in the 2022 financial statements. Companies that do not early adopt ASU 2018-12 would apply the guidance as of January 1, 2021 (and record transition adjustments as of January 1, 2021) in the 2023 financial statements. The Company currently intends to adopt ASU 2018-12 effective January 1, 2023 using the modified retrospective transition method where permitted.

ASU 2018-12 will impact, at least to some extent, the accounting and disclosure requirements for all long-duration insurance and investment contracts issued by the Company. The Company expects the standard to have a significant financial impact on the Consolidated Financial Statements and it requires significantly enhanced disclosures. In addition to significant impacts to the balance sheet upon adoption, the Company also expects an impact to the pattern of earnings emergence following the transition date. See Note 2 to the Unaudited Interim Consolidated Financial Statements for a more detailed discussion of ASU 2018-12, as well as other accounting pronouncements issued but not yet adopted and newly adopted accounting pronouncements.

Results of Operations by Segment

PGIM

Business Updates

- In March 2021, we sold our 35% ownership stake in Pramerica SGR, an asset management joint venture in Italy, to our partner UBI Banca, (acquired in 2020 by Intesa Sanpaolo Group), resulting in a pre-tax gain of \$378 million. See Note 1 to the Unaudited Interim Consolidated Financial Statements for additional information.

- In August 2021, we completed the acquisition of Montana Capital Partners, a European-based private equity secondaries asset manager with approximately \$3 billion of assets under management.
- In October 2021, we signed a definitive agreement to acquire Green Harvest Asset Management LLC, a separately managed account platform providing customized solutions for the high net worth market, subject to regulatory approvals and customary closing conditions.

Operating Results

The following table sets forth PGIM's operating results for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)			
Operating results(1):				
Revenues	\$ 1,072	\$ 1,066	\$ 3,395	\$ 2,801
Expenses	745	696	2,102	1,943
Adjusted operating income	327	370	1,293	858
Realized investment gains (losses), net, and related adjustments	2	(2)	(1)	1
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	38	15	35	(27)
Other adjustments(2)	(2)	0	(2)	0
Income (loss) before income taxes and equity in earnings of operating joint ventures	\$ 365	\$ 383	\$ 1,325	\$ 832

(1) Certain of PGIM's investment activities are based in currencies other than the U.S. dollar and are therefore subject to foreign currency exchange rate risk. The financial results of PGIM include the impact of an intercompany arrangement with our Corporate and Other operations designed to mitigate the impact of exchange rate changes on PGIM's U.S. dollar-equivalent earnings. For more information related to this intercompany arrangement, see "—Results of Operations—Impact of Foreign Currency Exchange Rates," above.

(2) Includes certain components of consideration for business acquisitions, which are recognized as compensation expense over the requisite service periods.

Adjusted Operating Income

Three Month Comparison. Adjusted operating income decreased \$43 million, reflecting lower other related revenues, net of related expenses, primarily driven by the absence of more favorable seed and co-investment results from the impact of tightening credit spreads on fixed income investments in the prior year period, and lower performance-based incentive fees reflecting the absence of significant fees earned in the prior year period. Also contributing to the decrease were higher expenses due to business growth, as well as lower service, distribution and other revenues driven by the absence of earnings from our Pramerica SGR joint venture that was sold in the first quarter of 2021. These decreases were partially offset by higher asset management fees, net of related expenses, due to higher average assets under management as a result of market appreciation, including strong investment performance, and third-party inflows.

Nine Month Comparison. Adjusted operating income increased \$435 million, primarily reflecting an increase in service, distribution and other revenues driven by a gain from the sale of our Pramerica SGR joint venture in the current year period and higher asset management fees, net of related expenses, due to higher average assets under management as a result of market appreciation, including strong investment performance, and third-party inflows. The increases were partially offset by higher compensation expenses associated with business growth and certain long-term employee compensation plans, and lower other related revenues, net of related expenses, primarily driven by the absence of more favorable seed and co-investment results from the impact of tightening credit spreads on fixed income investments in the prior year period.

Revenues and Expenses

The following table sets forth PGIM's revenues, presented on a basis consistent with the table above under "—Operating Results," by type.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)			
Revenues by type:				
Asset management fees by source:				
Institutional customers	\$ 366	\$ 345	\$ 1,063	\$ 998
Retail customers(1)	332	262	941	718
General account	149	143	441	417
Total asset management fees	847	750	2,445	2,133
Other related revenues by source:				
Incentive fees	26	43	77	78
Transaction fees	5	5	14	13
Seed and co-investments	8	50	46	87
Commercial mortgage(2)	53	67	123	126
Total other related revenues	92	165	260	304
Service, distribution and other revenues	133	151	690	364
Total revenues	\$ 1,072	\$ 1,066	\$ 3,395	\$ 2,801

(1) Consists of fees from: individual mutual funds and variable annuities and variable life insurance separate account assets; funds invested in proprietary mutual funds through our defined contribution plan products; and third-party sub-advisory relationships. Revenues from fixed annuities and the fixed-rate accounts of variable annuities and variable life insurance are included in the general account.

(2) Includes mortgage origination revenues from our commercial mortgage origination and servicing business.

Three Month Comparison. Revenues increased \$6 million. Asset management fees increased primarily reflecting higher average assets under management as a result of market appreciation, including strong investment performance, and third-party inflows. Other related revenues decreased primarily driven by the absence of more favorable seed and co-investment results from the impact of tightening credit spreads in the prior year period, and lower performance-based incentive fees reflecting the absence of significant fees earned in the prior year period. Service, distribution and other revenues decreased primarily reflecting the sale of our Pramerica SGR joint venture in the first quarter of 2021.

Expenses increased \$49 million, primarily reflecting higher operational and compensation expenses associated with business growth, and higher variable expenses driven by an increase in asset management fees.

Nine Month Comparison. Revenues increased \$594 million. Service, distribution and other revenues increased primarily reflecting a gain from the sale of our Pramerica SGR joint venture in the current year period. Asset management fees increased primarily reflecting higher average assets under management as a result of market appreciation, including strong investment performance, and third-party inflows.

Expenses increased \$159 million, primarily reflecting higher variable expenses driven by an increase in asset management fees, and higher compensation expenses driven by business growth and certain long-term employee compensation plans tied to performance factors.

Assets Under Management

The following table sets forth assets under management by asset class as of the dates indicated.

	September 30, 2021	December 31, 2020	September 30, 2020(1)
	(in billions)		
Assets Under Management(2) (at fair value):			
Public equity	\$ 208.4	\$ 202.4	\$ 179.0
Public fixed income	985.6	1,004.5	981.0
Real estate	128.7	121.5	118.7
Private credit and other alternatives	109.1	106.5	103.3
Multi-asset	82.1	63.7	61.1
Total PGIM assets under management	<u>\$ 1,513.9</u>	<u>\$ 1,498.6</u>	<u>\$ 1,443.1</u>
Assets under management within other reporting segments(3)	212.7	222.3	205.0
Total PFI assets under management	<u>\$ 1,726.6</u>	<u>\$ 1,720.9</u>	<u>\$ 1,648.1</u>

(1) Prior period amounts have been updated to conform to current period presentation.

(2) "Public equity" represents stock ownership interest in a corporation or partnership (excluding hedge funds) or real estate investment trust. "Public fixed income" represents debt instruments that pay interest and usually have a maturity (excluding mortgages). "Real estate" includes direct real estate equity and real estate mortgages. "Private credit and other alternatives" includes private credit, private equity, hedge funds and other alternative strategies. "Multi-asset" includes funds or products that invest in more than one asset class, balancing equity and fixed income funds and target date funds.

(3) Primarily includes certain product-related assets in our U.S. Businesses and Corporate & Other operations, and certain general account assets in our International Businesses. These assets are not directly managed by PGIM, but rather are invested in non-proprietary funds or are managed by either the divisions themselves or by our Chief Investment Officer Organization.

PGIM's assets under management as of September 30, 2021 increased \$71 billion in comparison to the prior year quarter, primarily reflecting market appreciation including strong investment performance, and increased \$15 billion in comparison to the prior year end, primarily reflecting market appreciation.

The following table sets forth assets under management by source as of the dates indicated.

	September 30, 2021	December 31, 2020	September 30, 2020
	(in billions)		
Assets Under Management(1) (at fair value):			
Institutional customers	\$ 625.3	\$ 614.9	\$ 591.0
Retail customers	395.4	372.0	343.0
General account	493.2	511.7	509.1
Total PGIM assets under management	<u>\$ 1,513.9</u>	<u>\$ 1,498.6</u>	<u>\$ 1,443.1</u>
Assets under management within other reporting segments(2)	212.7	222.3	205.0
Total PFI assets under management	<u>\$ 1,726.6</u>	<u>\$ 1,720.9</u>	<u>\$ 1,648.1</u>

(1) "Institutional customers" consist of third-party institutional assets and group insurance contracts. "Retail customers" consist of individual mutual funds and variable annuities and variable life insurance separate account assets, funds invested in proprietary mutual funds through our defined contribution plan products, and third-party sub-advisory relationships. "General account" also includes fixed annuities and the fixed-rate accounts of variable annuities and variable life insurance.

(2) Primarily includes certain product-related assets in our U.S. Businesses and Corporate & Other operations, and certain general account assets in our International Businesses. These assets are not directly managed by PGIM, but rather are invested in non-proprietary funds or are managed by either the divisions themselves or by our Chief Investment Officer Organization.

The following table sets forth the component changes in PGIM's assets under management for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,
	2021	2020(1)	2021	2020(1)	2021
	(in billions)				
Beginning assets under management	\$ 1,511.4	\$ 1,394.5	\$ 1,498.6	\$ 1,331.0	\$ 1,443.1
Institutional third-party flows	0.7	2.0	7.4	0.5	9.9
Retail third-party flows	(0.4)	5.3	3.7	13.4	7.5
Total third-party flows	0.3	7.3	11.1	13.9	17.4
Affiliated flows(2)	6.1	(1.5)	(3.5)	(4.9)	(7.1)
Market appreciation (depreciation)(3)	0.3	43.0	17.2	82.6	81.3
Foreign exchange rate impact	(1.4)	3.4	(9.1)	2.7	(5.0)
Net money market activity and other increases (decreases)	(2.8)	(3.6)	(0.4)	17.8	(15.8)
Ending assets under management	\$ 1,513.9	\$ 1,443.1	\$ 1,513.9	\$ 1,443.1	\$ 1,513.9

(1) Prior period amounts have been updated to conform to current period presentation.

(2) Represents assets that PGIM manages for the benefit of other reporting segments within the Company. Additions and withdrawals of these assets are attributable to third-party product inflows and outflows in other reporting segments.

(3) Includes income reinvestment, where applicable.

Private Capital Deployment

Private capital deployment is indicative of the pace and magnitude of capital that is invested and will result in future revenues that may include management fees, transaction fees, incentive fees and servicing revenues, as well as future costs to manage these assets.

Private capital deployment represents the gross value of private capital invested in real estate debt and equity, and private credit and equity asset classes. Assets under management resulting from private capital deployment are included in "Real estate" and "Private credit and other alternatives" in the "—Assets Under Management— by asset class table" above. As of September 30, 2021, these assets increased approximately \$7.1 billion compared to December 31, 2020, primarily reflecting private capital deployed, partially offset by capital returned to investors.

Private capital deployment includes PGIM's real estate agency debt business, which consists of agency commercial loans that are originated and sold to third party investors. PGIM continues to service these commercial loans; however, they are not included in assets under management.

The following table sets forth PGIM's private capital deployed by asset class for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in billions)			
Private capital deployed:				
Real estate debt and equity	\$ 8.6	\$ 6.2	\$ 20.8	\$ 14.1
Private credit and equity	3.2	3.0	9.8	7.8
Total private capital deployed	\$ 11.8	\$ 9.2	\$ 30.6	\$ 21.9

Seed and Co-Investments

As of September 30, 2021 and December 31, 2020, PGIM had approximately \$1,181 million and \$1,205 million of seed investments and \$561 million and \$685 million of co-investments at carrying value, respectively, primarily consisting of public fixed income, public equity and real estate investments.

U.S. Businesses

Operating Results

The following table sets forth the operating results for our U.S. Businesses for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020(1)	2021(1)	2020(1)
(in millions)				
Adjusted operating income before income taxes:				
U.S. Businesses:				
Retirement	\$ 571	\$ 347	\$ 1,635	\$ 860
Group Insurance	(135)	22	(250)	71
Individual Annuities	499	408	1,415	1,030
Individual Life	210	101	312	17
Assurance IQ	(55)	(30)	(132)	(69)
Total U.S. Businesses	1,090	848	2,980	1,909
Reconciling Items:				
Realized investment gains (losses), net, and related adjustments	20	584	1,769	(1,869)
Charges related to realized investment gains (losses), net	(6)	(62)	(233)	(328)
Market experience updates	(199)	(130)	331	(974)
Other adjustments(2)	(7)	(12)	(33)	65
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	1	1	3	2
Income (loss) before income taxes and equity in earnings of operating joint ventures	\$ 899	\$ 1,229	\$ 4,817	\$ (1,195)

(1) Effective third quarter of 2021, the results of the Full Service Retirement business are included in the Divested and Run-off Businesses in Corporate and Other. Prior period amounts have been updated to conform to current period presentation. See Note 1 to the Unaudited Interim Consolidated Financial Statements for additional information about this disposition.

(2) Represents adjustments not included in the above reconciling items. Also includes certain components of the consideration for the Assurance IQ acquisition, which are recognized as compensation expense over the requisite service periods, as well as changes in the fair value of the associated contingent consideration. See Note 14 to the Unaudited Interim Consolidated Financial Statements for additional information.

Three Month Comparison. Adjusted operating income for our U.S. Businesses increased by \$242 million primarily due to:

- Higher net investment spread results driven by higher income on non-coupon investments; and
- Higher fee income, net of distribution expenses and other associated costs, primarily in our Individual Annuities business.
- Partially offsetting these increases were lower underwriting results primarily driven by higher COVID-19 related mortality claims in our Group Insurance business.

Nine Month Comparison. Adjusted operating income for our U.S. Businesses increased by \$1,071 million primarily due to:

- Higher net investment spread results driven by higher income on non-coupon investments;
- Higher fee income, net of distribution expenses and other associated costs, primarily in our Individual Annuities business; and
- A favorable comparative net impact from our annual reviews and update of assumptions and other refinements.
- Partially offsetting these increases were lower underwriting results primarily driven by COVID-19 related mortality claims in our Group Insurance and Individual Life businesses.

Retirement

Business Update

- In July 2021, the Company entered into a definitive agreement to sell its Full Service Retirement business to Great-West Life & Annuity Insurance Company (“Great-West”). The transaction involves the sale of legal entities, reinsurance, and the transfer of contracts and brokerage accounts, and is expected to close by the end of the first quarter of 2022, subject to the receipt of regulatory approvals and the satisfaction of customary closing conditions. See Note 1 to the Unaudited Interim Consolidated Financial Statements for additional information.

Beginning with the third quarter of 2021, the Company is reporting the assets and liabilities of the Full Service Retirement business as “held-for-sale” and has transferred the results of this business to Divested and Run-off Businesses within Corporate and Other operations. All prior period amounts have been restated to conform to current period presentation. As such, the following results are now solely reflective of Retirement’s Institutional Investment Products business. See “Business—Retirement” included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020 for more information about the Institutional Investment Products business.

Operating Results

The following table sets forth Retirement’s operating results for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)			
Operating results:				
Revenues	\$ 8,386	\$ 2,193	\$ 12,658	\$ 6,647
Benefits and expenses	7,815	1,846	11,023	5,787
Adjusted operating income	571	347	1,635	860
Realized investment gains (losses), net, and related adjustments	107	111	17	81
Charges related to realized investment gains (losses), net	3	7	(5)	(5)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	1	1	3	2
Income (loss) before income taxes and equity in earnings of operating joint ventures	<u>\$ 682</u>	<u>\$ 466</u>	<u>\$ 1,650</u>	<u>\$ 938</u>

Adjusted Operating Income

Three Month Comparison. Adjusted operating income increased \$224 million, primarily driven by higher net investment spread results, reflecting higher income on non-coupon investments.

Nine Month Comparison. Adjusted operating income increased \$775 million, including a favorable comparative net impact from our annual reviews and update of assumptions and other refinements. Results for the second quarter of 2021 and 2020 included net charges of \$14 million and \$20 million, respectively, from these updates, primarily driven by an increase in expected benefit payments. Excluding this item, adjusted operating income increased \$769 million, primarily driven by higher net investment spread results, reflecting higher income on non-coupon investments.

Revenues, Benefits and Expenses

Three Month Comparison. Revenues increased \$6,193 million. This increase primarily reflected higher pension risk transfer premiums due to new sales in the current quarter, with corresponding offsets in policyholders’ benefits, as discussed below, and higher net investment income and other income, primarily reflecting higher income on non-coupon investments.

Benefits and expenses increased \$5,969 million. Policyholders’ benefits, including the change in policy reserves, increased primarily related to the increase in pension risk transfer premiums discussed above.

Nine Month Comparison. Revenues increased \$6,011 million. This increase primarily reflected higher pension risk transfer premiums due to new sales in the current quarter, with corresponding offsets in policyholders’ benefits, as discussed below, and higher net investment income and other income, primarily reflecting higher income on non-coupon investments.

Benefits and expenses increased \$5,236 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, benefits and expenses increased \$5,242 million. Policyholders' benefits, including the change in policy reserves, increased primarily related to the higher pension risk transfer premiums discussed above.

Account Values

Account values are a significant driver of our operating results, and are primarily driven by net additions (withdrawals) and the impact of market changes. The investment income and interest we credit to policyholders on our spread-based products varies with the level of general account values. The income we earn on most of our fee-based products varies with the level of fee-based account values as many policy fees are determined by these values.

The following table shows the changes in the account values of Retirement's products for the periods indicated. Account values include both internally- and externally-managed client balances as the total balances drive revenue for the Retirement business. For more information on internally-managed balances, see "—PGIM."

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,
	2021	2020	2021	2020	2021
	(in millions)				
Beginning total account value	\$ 243,843	\$ 231,142	\$ 243,387	\$ 227,596	\$ 234,696
Additions(1)	8,045	2,780	18,466	14,218	26,717
Withdrawals and benefits	(4,546)	(4,189)	(15,932)	(13,226)	(20,994)
Change in market value, interest credited and interest income	618	1,944	1,311	7,379	2,786
Other(2)	(1,892)	3,019	(1,164)	(1,271)	2,863
Ending total account value	<u>\$ 246,068</u>	<u>\$ 234,696</u>	<u>\$ 246,068</u>	<u>\$ 234,696</u>	<u>\$ 246,068</u>

(1) Additions primarily include: group annuities and funded pension reinsurance calculated based on premiums received; international reinsurance contracts calculated as the present value of future projected benefits; investment-only stable value contracts calculated as the fair value of customers' funds held in a client-owned trust; and funding agreements issued.

(2) "Other" activity includes the effect of foreign exchange rate changes associated with our British pounds sterling denominated international reinsurance business and changes in asset balances for externally-managed accounts. For the three months ended September 30, 2021 and 2020, "Other" activity also includes \$793 million in receipts offset by \$735 million in payments and \$869 million in receipts offset by \$831 million in payments, respectively, and for the nine months ended September 30, 2021 and 2020, includes \$2,096 million in receipts offset by \$2,231 million in payments and \$6,235 million in receipts offset by \$6,107 million in payments, respectively, related to funding agreements backed by commercial paper which typically have maturities of less than 90 days.

The increase in account values for the three months and nine months ended September 30, 2021 reflected net additions primarily driven by pension risk transfer activity, partially offset by investment-only stable value account withdrawals, and a favorable change in the market value of account assets. These increases were partially offset by a decrease in other activity primarily driven by the negative impact of foreign exchange rate changes.

The increase in account values for the twelve months ended September 30, 2021 reflected net additions primarily driven by pension risk transfer activity, including international reinsurance and funded pension risk transfer sales, partially offset by investment-only stable value account withdrawals. Also contributing were an increase in the market value of account assets and an increase in other activity primarily driven by the positive impact of foreign exchange rate changes.

Group Insurance

Operating Results

The following table sets forth Group Insurance's operating results and benefits and administrative operating expense ratios for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(\$ in millions)			
Operating results:				
Revenues	\$ 1,553	\$ 1,457	\$ 4,627	\$ 4,352
Benefits and expenses	1,688	1,435	4,877	4,281
Adjusted operating income	(135)	22	(250)	71
Realized investment gains (losses), net, and related adjustments	6	4	(19)	75
Income (loss) before income taxes and equity in earnings of operating joint ventures	\$ (129)	\$ 26	\$ (269)	\$ 146
Benefits ratio(1)(4):				
Group life(2)	105.2 %	93.9 %	100.2 %	91.8 %
Group disability(2)	85.9 %	73.5 %	82.4 %	74.5 %
Total Group Insurance(2)	100.7 %	89.4 %	96.2 %	88.0 %
Administrative operating expense ratio(3)(4):				
Group life	11.7 %	12.2 %	11.2 %	12.1 %
Group disability	32.3 %	25.2 %	32.4 %	25.4 %
Total Group Insurance	16.8 %	15.1 %	16.2 %	15.0 %

(1) Ratio of policyholder benefits to earned premiums plus policy charges and fee income.

(2) Benefit ratios for the nine months ended September 30, 2021 and 2020 reflect the impact of our annual reviews and update of assumptions and other refinements. Excluding these impacts, the group life, group disability and total Group Insurance benefit ratios were 100.2%, 82.5% and 96.2% for the nine months ended September 30, 2021, respectively, and 91.9%, 75.0% and 88.2% for the nine months ended September 30, 2020, respectively.

(3) Ratio of general and administrative expenses (excluding commissions) to gross premiums plus policy charges and fee income.

(4) The benefits and administrative ratios are measures used to evaluate profitability and efficiency.

Adjusted Operating Income

Three Month Comparison. Adjusted operating income decreased \$157 million, primarily reflecting lower underwriting results in our group life business driven by unfavorable claim experience mostly due to COVID-19 impacts on non-experience-rated contracts, lower underwriting results in our group disability business driven by less favorable claims experience on long-term disability contracts and higher expenses. These decreases were partially offset by higher net investment spread results driven by higher income on non-coupon investments.

Nine Month Comparison. Adjusted operating income decreased \$321 million, including an unfavorable comparative net impact from our annual reviews and update of assumptions and other refinements. Results for 2021 and 2020 included net benefits from this update of \$1 million and \$11 million, respectively. Excluding this item, adjusted operating income decreased \$311 million, primarily reflecting lower underwriting results in our group life business driven by less favorable claim experience mostly due to COVID-19 impacts on non-experience-rated contracts, and lower underwriting results in our group disability business driven by less favorable claims experience on long-term disability contracts. These decreases were partially offset by higher net investment spread results driven by higher income on non-coupon investments.

Revenues, Benefits and Expenses

Three Month Comparison. Revenues increased \$96 million. The increase primarily reflected higher premiums and policy charges and fee income in our group life business due to COVID-19 impacts on experience-rated contracts, with offsets in policyholders' benefits and changes in reserves, as discussed below, as well as growth in our group disability business and higher net investment income from higher income on non-coupon investments.

Benefits and expenses increased \$253 million. The increase primarily reflected higher policyholders' benefits, including changes in reserves, in our group life business mostly due to COVID-19 impacts on both non-experience- and experience-rated contracts, and increases in our group disability business driven by an unfavorable impact from claims experience on long-term disability contracts.

Nine Month Comparison. Revenues increased \$275 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, revenues increased \$297 million. The increase primarily reflected higher premiums and policy charges and fee income in our group life business due to COVID-19 impacts on experience-rated contracts, with offsets in policyholders' benefits and changes in reserves, as discussed below, as well as growth in our group disability business and higher net investment income from higher income on non-coupon investments.

Benefits and expenses increased \$596 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, benefits and expenses increased \$608 million. The increase primarily reflected higher policyholders' benefits, including changes in reserves, in our group life business mostly due to COVID-19 impacts on both non-experience- and experience-rated contracts, and increases in our group disability business driven by a less favorable impact from claims experience on long-term disability contracts.

Sales Results

The following table sets forth Group Insurance's annualized new business premiums, as defined under "—Segment Measures" above, for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
(in millions)				
Annualized new business premiums(1):				
Group life	\$ 51	\$ 46	\$ 242	\$ 227
Group disability	17	17	172	143
Total	<u>\$ 68</u>	<u>\$ 63</u>	<u>\$ 414</u>	<u>\$ 370</u>

(1) Amounts exclude new premiums resulting from rate changes on existing policies, from additional coverage under our Servicemembers' Group Life Insurance contract and from excess premiums on group universal life insurance that build cash value but do not purchase face amounts.

Total annualized new business premiums for the three months ended September 30, 2021 increased \$5 million compared to the prior year period, driven by higher sales in our group life business. Total annualized new business premiums for the nine months ended September 30, 2021 increased \$44 million compared to the prior year period, driven by higher sales in both our group life and group disability businesses.

Individual Annuities

Business Update

- In September 2021, the Company entered into a definitive agreement to sell its equity interest in Prudential Annuities Life Assurance Corporation ("PALAC"), which represents a portion of its in-force traditional variable annuity block of business, to Fortitude Group Holdings, LLC. The transaction is expected to close in the first half of 2022, subject to the receipt of regulatory approvals and the satisfaction of customary closing conditions.

Beginning with the third quarter of 2021, the Company is reporting the assets and liabilities of this block of business as "held-for-sale"; however, its results will continue to be reported within Individual Annuities' operating results until the sale is completed. See Note 1 to the Unaudited Interim Consolidated Financial Statements for additional information.

Operating Results

The following table sets forth Individual Annuities' operating results for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
(in millions)				
Operating results:				
Revenues	\$ 1,260	\$ 1,148	\$ 3,687	\$ 3,249
Benefits and expenses	761	740	2,272	2,219
Adjusted operating income	499	408	1,415	1,030
Realized investment gains (losses), net, and related adjustments	(4)	518	1,895	(2,525)
Charges related to realized investment gains (losses), net	(38)	(166)	(408)	(67)
Market experience updates	(83)	(58)	321	(686)
Income (loss) before income taxes and equity in earnings of operating joint ventures	<u>\$ 374</u>	<u>\$ 702</u>	<u>\$ 3,223</u>	<u>\$ (2,248)</u>

Adjusted Operating Income

Three Month Comparison. Adjusted operating income increased \$91 million primarily driven by higher fee income, net of distribution expenses and other associated costs, resulting from higher average separate account values due to favorable equity markets, partially offset by net outflows, and favorable impacts from our living benefit guarantees. Also contributing to the increase were higher net investment spread results, driven by higher income on non-coupon investments, and lower operating expenses.

Nine Month Comparison. Adjusted operating income increased \$385 million, including a favorable comparative net impact from our annual reviews and update of assumptions and other refinements. Results for 2021 included a \$15 million net charge from these updates primarily reflecting the impact of unfavorable policyholder behavior updates. Results for 2020 included a \$136 million net charge from these updates primarily driven by unfavorable impacts related to a decrease in long-term interest rate assumptions. Excluding this item, adjusted operating income increased \$264 million. The increase was primarily driven by higher fee income, net of distribution expenses and other associated costs, resulting from higher average separate account values due to favorable equity markets, partially offset by net outflows, and favorable impacts from our living benefit guarantees. Also contributing to the increase were higher net investment spread results, driven by higher income on non-coupon investments, and lower operating expenses.

Revenues, Benefits and Expenses

Three Month Comparison. Revenues increased \$112 million primarily driven by higher policy charges and fee income, as well as higher asset management and service fees, reflecting higher average separate account values and favorable impacts from our living benefit guarantees. Also contributing to the increase was higher net investment income, primarily reflecting higher income on non-coupon investments.

Benefits and expenses increased \$21 million driven by higher distribution and asset management expenses reflecting higher average separate account values, as discussed above, partially offset by lower operating expenses.

Nine Month Comparison. Revenues increased \$438 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, revenues increased \$309 million. The increase was primarily driven by higher policy charges and fee income, as well as higher asset management and service fees, reflecting higher average separate account values and favorable impacts from our living benefit guarantees. Also contributing to the increase was higher net investment income, primarily reflecting higher income on non-coupon investments.

Benefits and expenses increased \$53 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, benefits and expenses increased \$44 million primarily driven by higher general and administrative expenses, net of capitalization, driven by higher distribution and asset management expenses reflecting higher average separate account values, as discussed above, partially offset by lower operating expenses. This increase was partially offset by lower interest expense.

Account Values

Account values are a significant driver of our operating results. Since most fees are determined by the level of separate account assets, fee income varies primarily based on the level of account values. Additionally, our fee income generally drives other items such as the pattern of amortization of DAC and other costs. Account values are driven by net flows from new business sales, surrenders, withdrawals and benefit payments, policy charges and the impact of positive or negative market value changes. The annuity industry's competitive and regulatory landscapes, which have been dynamic over the last few years, may impact our net flows, including new business sales. The following table sets forth account value information for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,
	2021	2020	2021	2020	2021
(in millions)					
Total Individual Annuities(1):					
Beginning total account value	\$ 182,411	\$ 159,276	\$ 176,280	\$ 169,681	\$ 164,198
Sales	1,500	1,562	5,048	4,835	7,028
Full surrenders and death benefits	(2,573)	(1,811)	(7,748)	(5,740)	(9,853)
Sales, net of full surrenders and death benefits	(1,073)	(249)	(2,700)	(905)	(2,825)
Partial withdrawals and other benefit payments	(1,334)	(1,205)	(4,091)	(3,750)	(5,532)
Net flows	(2,407)	(1,454)	(6,791)	(4,655)	(8,357)
Change in market value, interest credited and other activity	(422)	7,270	11,928	1,806	26,482
Policy charges	(904)	(894)	(2,739)	(2,634)	(3,645)
Ending total account value(2)	\$ 178,678	\$ 164,198	\$ 178,678	\$ 164,198	\$ 178,678

(1) Includes gross variable and fixed annuities sold as retail investment products. Investments sold through defined contribution plan products are included with such products within our Retirement business. Variable annuity account values were \$172.8 billion and \$158.6 billion as of September 30, 2021 and 2020, respectively. Fixed annuity account values were \$5.9 billion and \$5.6 billion as of September 30, 2021 and 2020, respectively.

(2) Includes approximately \$30 billion of account values that are classified as "held-for-sale" as of September 30, 2021 in relation to the planned PALAC sale, as discussed above.

Sales for both the three months and the nine months ended September 30, 2021 reflected our product pivot strategy and consisted largely of indexed variable annuities, as sales of traditional variable annuities with guaranteed living benefit riders were discontinued as of December 31, 2020. Sales, net of full surrenders and death benefits, for both the three months and the nine months ended September 30, 2021 declined in comparison to the prior year periods driven by an increase in surrender activity from both market value appreciation and the general uncertainty about COVID-19 in the prior year periods.

The decrease in account values for the three months ended September 30, 2021 was driven by net outflows and policyholder charges on contractholder accounts. The increases in account values for the nine months and twelve months ended September 30, 2021 were driven by market value appreciation, partially offset by net outflows and policy charges on contractholder accounts.

Risks and Risk Mitigants

The following is a summary of certain risks associated with Individual Annuities' products, certain strategies in mitigating those risks including any updates to those strategies since the previous year-end, and the related financial results.

Fixed Annuity Risks and Risk Mitigants. The primary risk exposure of our fixed annuity products relates to investment risks we bear for providing customers a minimum guaranteed interest rate or an index-linked interest rate required to be credited to the customer's account value, which include interest rate fluctuations and/or sustained periods of low interest rates, and credit risk related to the underlying investments. We manage these risk exposures primarily through our investment strategies and product design features, which include credit rate resetting subject to the minimum guaranteed interest rate as well as surrender charges applied during the early years of the contract that help to provide protection for premature withdrawals. In addition, a portion of our fixed products has a market value adjustment provision that affords protection of lapse in the case of rising interest rates. We also manage these risk exposures through external reinsurance for certain of our fixed annuity products.

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

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. We manage our exposure to certain risks driven by fluctuations in capital markets primarily through a combination of i) Product Design Features, ii) our Asset Liability Management Strategy, and iii) our Capital Hedge Program, as discussed below. We also manage these risk exposures through external reinsurance for certain of our variable annuity products. Sales of traditional variable annuities with guaranteed living benefit riders were discontinued as of December 31, 2020, and, in the third quarter of 2021, we announced that we had entered into an agreement to sell a portion of our in-force traditional variable annuity block, as described above.

i. Product Design Features:

A portion of the variable annuity contracts that we offered include an automatic rebalancing feature, also referred to as 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 accounts. The objective of the automatic rebalancing feature is to reduce our exposure to equity market risk and market volatility. Other product design features we utilize include, among others, asset allocation restrictions, minimum issuance age requirements and certain limitations on the amount of purchase payments, as well as a required minimum allocation to our general account 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.

ii. Asset Liability Management ("ALM") 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 ("OTC") equity, interest rate and credit derivatives, including, but not limited to: equity and treasury futures; total return, credit default and interest rate swaps; and options including equity options, swaptions, and floors and caps. The intent of this strategy is to more efficiently manage the capital and liquidity associated with these products while continuing to mitigate fluctuations in net income due to movements in capital markets. To achieve this, we periodically review and recalibrate the ALM strategy by optimizing the mix of derivatives and fixed income instruments to achieve expected outcomes.

The difference between the change in value of our hedging instruments and the change in value of the portion of the economic liability that is being hedged, has historically been reflected in adjusted operating income over time. Beginning with the second quarter of 2020, this impact is excluded from adjusted operating income which the Company believes enhances the understanding of underlying performance trends.

The valuation of the economic liability we seek to defray excludes certain items that are included within the U.S. GAAP liability, such as non-performance risk ("NPR") in order to maximize protection irrespective of the possibility of our own default, as well as risk margins (required by U.S. GAAP but different from our best estimate) and valuation methodology differences. The following table, which includes the portion of the traditional variable annuities block of business that is classified as "held-for-sale", as discussed above, provides a reconciliation between the liability reported under U.S. GAAP and the economic liability we manage through our ALM strategy as of the periods indicated:

	September 30, 2021	December 31, 2020
	(in millions)	
U.S. GAAP liability, including NPR, net of reinsurance recoverables	\$ 13,330	\$ 18,537
NPR adjustment, net of reinsurance recoverables	2,813	4,103
Subtotal	16,143	22,640
Adjustments including risk margins and valuation methodology differences	(3,447)	(5,080)
Economic liability managed through the ALM strategy	\$ 12,696	\$ 17,560

As of September 30, 2021, the fair value of our fixed income instruments and derivative assets exceed the economic liability within the entities in which the risks reside.

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

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

iii. Capital Hedge Program:

We employ a capital hedge program to protect a portion of the overall capital position of the variable annuities business against its exposure to the equity markets. The capital hedge program is conducted using equity derivatives which include equity call and put options, total return swaps and futures contracts. The changes in value of these derivatives have historically been recognized in adjusted operating income over the expected duration of the capital hedge program. Beginning with the second quarter of 2020, changes in value of these derivatives are excluded from adjusted operating income which the Company believes enhances the understanding of underlying performance trends.

Results excluded from adjusted operating income

The following table provides the net impact to the Unaudited Interim Consolidated Statements of Operations from the results excluded from adjusted operating income, which is primarily driven by the changes in the U.S. GAAP embedded derivative liability and hedge positions under the ALM strategy as described above, and the related amortization of DAC and other costs.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)(1)			
Results excluded from adjusted operating income:				
Change in value of U.S. GAAP liability, pre-NPR(2)	\$ 639	\$ 3,852	\$ 7,079	\$ (11,219)
Change in the NPR adjustment	(292)	(597)	(1,292)	2,420
Change in fair value of hedge assets, excluding capital hedges(3)	(404)	(2,391)	(3,916)	6,214
Change in fair value of capital hedges(4)	(12)	(360)	(805)	(113)
Other	65	14	829	173
Realized investment gains (losses), net, and related adjustments	(4)	518	1,895	(2,525)
Market experience updates(5)	(83)	(58)	321	(686)
Charges related to realized investment gains (losses), net	(38)	(166)	(408)	(67)
Total results excluded from adjusted operating income(6)	<u>\$ (125)</u>	<u>\$ 294</u>	<u>\$ 1,808</u>	<u>\$ (3,278)</u>

(1) Positive amounts represent income; negative amounts represent a loss.

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

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

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

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

(6) Excludes amounts from the change in unrealized gains and losses on fixed income instruments recorded in OCI (versus net income) of \$(25) million, and \$(33) million for the three months ended September 30, 2021 and 2020, respectively, and \$(1,763) million and \$1,668 million for the nine months ended September 30, 2021 and 2020, respectively.

For the three months ended September 30, 2021, the loss of \$125 million was driven by an unfavorable NPR adjustment driven by tightening credit spreads and unfavorable market experience updates from unfavorable market performance. This was partially offset by a favorable impact related to the U.S. GAAP liability before NPR, net of the change in fair value of hedge assets (excluding capital hedges) largely due to favorable hedge breakage and rising interest rates.

For the three months ended September 30, 2020, the gain of \$294 million was driven by the favorable impact related to the U.S. GAAP liability before NPR, net of the change in fair value of hedge assets (excluding capital hedges) largely due to tightening credit spreads and favorable equity markets. These gains were partially offset by an unfavorable NPR adjustment driven by tightening credit spreads and losses associated with our capital hedge program driven by favorable equity markets, as well as charges related to the amortization of DAC and other costs.

For the nine months ended September 30, 2021, the gain of \$1,808 million was driven by a favorable impact related to the U.S. GAAP liability before NPR, net of the change in fair value of hedge assets (excluding capital hedges) as well as favorable market experience updates largely due to favorable equity markets and rising interest rates. These impacts were partially offset by an unfavorable NPR adjustment, losses associated with our capital hedge program and charges related to the amortization of DAC and other costs.

For the nine months ended September 30, 2020, the loss of \$3,278 million was driven by an unfavorable impact related to the U.S. GAAP liability before NPR, net of the change in fair value of hedge assets (excluding capital hedges) driven by declining interest rates, widening of credit spreads and unfavorable equity market performance, as well as unfavorable market experience updates due to unfavorable equity markets and declining interest rates. These losses were partially offset by a favorable NPR adjustment, reflecting the impact of widening credit spreads.

Product Specific Risks and Risk Mitigants

As noted above, the risks associated with our products are mitigated through product design features, including automatic rebalancing, as well as through our ALM strategy and external reinsurance. The following table sets forth the risk management profile of our living benefit guarantees and guaranteed minimum death benefit ("GMDB") features as of the periods indicated:

	September 30, 2021		December 31, 2020		September 30, 2020	
	Account Value	% of Total	Account Value	% of Total	Account Value	% of Total
(\$ in millions)						
Living benefit/GMDB features(1):						
Both ALM strategy and automatic rebalancing(2)(3)	\$ 110,999	64 %	\$ 112,177	66 %	\$ 104,815	66 %
ALM strategy only(3)	7,205	4 %	7,410	4 %	6,955	4 %
Automatic rebalancing only	582	1 %	634	1 %	634	1 %
External reinsurance(4)	3,229	2 %	3,173	2 %	2,944	2 %
PDI	17,239	10 %	18,540	11 %	17,888	11 %
Other products	2,431	1 %	2,492	1 %	2,306	1 %
Total living benefit/GMDB features	\$ 141,685		\$ 144,426		\$ 135,542	
GMDB features and other(5)	31,130	18 %	26,120	15 %	23,104	15 %
Total variable annuity account value(6)	<u>\$ 172,815</u>		<u>\$ 170,546</u>		<u>\$ 158,646</u>	

(1) All contracts with living benefit guarantees also contain GMDB features, which cover the same insured contract.

(2) Contracts with living benefits that are included in our ALM strategy and that have an automatic rebalancing feature.

(3) Excludes PDI which is presented separately within this table.

(4) Represents contracts subject to a reinsurance transaction with an external counterparty covering certain Highest Daily Lifetime Income ("HDI") v.3.0 business for the period April 1, 2015 through December 31, 2016. These contracts with living benefits also have an automatic rebalancing feature.

(5) Includes contracts that have a GMDB feature and do not have an automatic rebalancing feature.

(6) Includes approximately \$30 billion of account values that are classified as "held-for-sale" as of September 30, 2021 in relation to the planned PALAC sale, as discussed above.

Individual Life

Operating Results

The following table sets forth Individual Life's operating results for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
(in millions)				
Operating results:				
Revenues	\$ 1,839	\$ 1,609	\$ 5,090	\$ 4,702
Benefits and expenses	<u>1,629</u>	<u>1,508</u>	<u>4,778</u>	<u>4,685</u>
Adjusted operating income	210	101	312	17
Realized investment gains (losses), net, and related adjustments	(89)	(49)	(124)	500
Charges related to realized investment gains (losses), net	29	97	180	(256)
Market experience updates	<u>(116)</u>	<u>(72)</u>	<u>10</u>	<u>(288)</u>
Income (loss) before income taxes and equity in earnings of operating joint ventures	<u>\$ 34</u>	<u>\$ 77</u>	<u>\$ 378</u>	<u>\$ (27)</u>

Adjusted Operating Income

Three Month Comparison. Adjusted operating income increased \$109 million, primarily reflecting higher net investment spread results, driven by higher income on non-coupon investments.

Nine Month Comparison. Adjusted operating income increased \$295 million, including a favorable comparative net impact from our annual reviews and update of assumptions and other refinements. Results for 2021 included a \$7 million net benefit from these updates, mainly driven by favorable impacts related to assumptions for investment returns, partially offset by updates to reinsurance premiums. Results for 2020 included a \$92 million net charge from these updates, mainly driven by unfavorable impacts related to a decrease in long-term interest rate assumptions. Excluding this item, adjusted operating income increased \$196 million, primarily reflecting higher net investment spread results driven by higher income on non-coupon investments. These increases were partially offset by lower underwriting results, driven by an unfavorable impact from mortality experience, net of reinsurance, primarily attributable to COVID-19 related claims.

Revenues, Benefits and Expenses

Three Month Comparison. Revenues increased \$230 million, primarily driven by higher net investment income from higher income on non-coupon investments and higher average invested assets, partially offset by lower reinvestment yields. The increase also reflected higher policy charges and fee income driven by lower ceded reinsurance, which were mostly offset by reserve changes in policyholders' benefits, as discussed below.

Benefits and expenses increased \$121 million, reflecting higher policyholders' benefits driven by reserve changes from lower ceded reinsurance, partially offset by a favorable comparative impact from mortality experience, net of reinsurance, primarily attributable to COVID-19 related claims in the prior year period. The increase also reflected higher expenses.

Nine Month Comparison. Revenues increased \$388 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, revenues increased \$495 million. This increase was primarily driven by higher net investment income from higher income on non-coupon investments and higher average invested assets, partially offset by lower investment yields. The increase also reflected higher policy charges and fee income driven by lower ceded reinsurance, which were mostly offset by reserve changes in policyholders' benefits, as discussed below.

Benefits and expenses increased \$93 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, benefits and expenses increased \$299 million. This increase reflected higher policyholders' benefits, including changes in reserves, primarily driven by an unfavorable impact from mortality experience, net of reinsurance, primarily attributable to COVID-19 related claims, as well as reserve changes from lower ceded reinsurance.

Sales Results

The following table sets forth Individual Life's annualized new business premiums, as defined under "—Results of Operations—Segment Measures" above, by distribution channel and product, for the periods indicated.

	Three Months Ended September 30, 2021			Three Months Ended September 30, 2020		
	Prudential Advisors	Third-Party	Total	Prudential Advisors	Third-Party	Total
	(in millions)					
Term Life	\$ 4	\$ 22	\$ 26	\$ 6	\$ 28	\$ 34
Guaranteed Universal Life(1)	0	5	5	1	19	20
Other Universal Life(1)	2	12	14	3	17	20
Variable Life	29	115	144	22	76	98
Total	\$ 35	\$ 154	\$ 189	\$ 32	\$ 140	\$ 172

	Nine Months Ended September 30, 2021			Nine Months Ended September 30, 2020		
	Prudential Advisors	Third-Party	Total	Prudential Advisors	Third-Party	Total
	(in millions)					
Term Life	\$ 16	\$ 75	\$ 91	\$ 19	\$ 95	\$ 114
Guaranteed Universal Life(1)	0	35	35	4	79	83
Other Universal Life(1)	6	39	45	15	58	73
Variable Life	89	313	402	64	209	273
Total	\$ 111	\$ 462	\$ 573	\$ 102	\$ 441	\$ 543

(1) Single pay life premiums and excess (unscheduled) premiums are included in annualized new business premiums based on a 10% credit and represented approximately 1% and 5% of Guaranteed Universal Life and 2% and 2% of Other Universal Life annualized new business premiums for the three months ended September 30, 2021 and 2020, respectively, and approximately 1% and 9% of Guaranteed Universal Life and 4% and 7% of Other Universal Life annualized new business premiums for the nine months ended September 30, 2021 and 2020, respectively.

Total annualized new business premiums for the third quarter of 2021 increased \$17 million compared to the prior year period, primarily driven by higher sales of variable universal life products, partially offset by lower sales of guaranteed universal life, other universal life and term life products due to pricing and product actions. Total annualized new business premiums for the first nine months of 2021 increased \$30 million compared to the prior year period, primarily driven by higher sales of variable life products, partially offset by lower sales across all other products, as described above.

Assurance IQ

Operating Results

The following table sets forth Assurance IQ's operating results for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)			
Operating results:				
Revenues	\$ 110	\$ 75	\$ 331	\$ 194
Expenses	165	105	463	263
Adjusted operating income	(55)	(30)	(132)	(69)
Other adjustments(1)	(7)	(12)	(33)	65
Income (loss) before income taxes and equity in earnings of operating joint ventures	<u>\$ (62)</u>	<u>\$ (42)</u>	<u>\$ (165)</u>	<u>\$ (4)</u>

(1) Includes certain components of the consideration for the Assurance IQ acquisition, which are recognized as compensation expense over the requisite service periods, as well as changes in the fair value of associated contingent consideration. See Note 14 to the Unaudited Interim Consolidated Financial Statements for additional information.

Adjusted Operating Income

Three Month Comparison. Adjusted operating income decreased \$25 million, reflecting higher operating and variable expenses supporting business growth, partially offset by increased revenues primarily related to growth in the Medicare and Personal Finance product lines.

Nine Month Comparison. Adjusted operating income decreased \$63 million, reflecting higher operating and variable expenses supporting business growth, partially offset by increased revenues primarily related to growth in the Medicare, Personal Finance and Life product lines.

Revenues and Expenses

Three Month Comparison. Revenues increased \$35 million, primarily due to commissions and case referral revenues from the Medicare product line, driven by business growth and from a strategic shift by the business to emphasize Medicare products, as well as from higher case referral sales in the Personal Finance and other product lines. Expenses increased \$60 million, driven by higher marketing and distribution costs primarily related to the Medicare and Personal Finance product lines, and higher general and administrative operating expenses supporting business growth.

Nine Month Comparison. Revenues increased \$137 million, primarily due to commissions and case referral revenues from the Medicare product line, driven by business growth and from a strategic shift by the business to emphasize Medicare products, as well as from higher case referral sales in the Personal Finance and Life product lines. Expenses increased \$200 million, driven by higher marketing and distribution costs primarily related to the Medicare, Life and Personal Finance product lines, and higher general and administrative operating expenses supporting business growth.

International Businesses

Business Updates

- In the second quarter of 2021, the Company completed the sale of The Prudential Life Insurance Company of Taiwan Inc. ("POT") to Taishin Financial Holding Co, Ltd. for cash consideration of approximately NT 5.5 billion, equal to approximately \$200 million at then current exchange rates, and contingent consideration with a fair value of approximately \$21 million as of September 30, 2021. See Note 1 to the Unaudited Interim Consolidated Financial Statements for additional information. Effective in the third quarter of 2020, the results of this business and the impact of its sale were reflected in Divested and Run-off Businesses that are included in Corporate and Other, and all prior period amounts have been updated to conform to the current period presentation. See "—Divested and Run-off Businesses."

- In the first quarter of 2021, the Company acquired a 24% interest (through a private equity limited partnership managed by LeapFrog Investments) in ICEA LION, a Kenya-based insurer and asset manager, for approximately \$100 million. This investment is consistent with the Company's strategic focus internationally on higher-growth emerging markets, and furthers the partnership's specific objective to identify and make strategic investments in high quality financial services companies in selected African geographies.

Operating Results

The results of our International Businesses' operations are translated on the basis of weighted average monthly exchange rates, inclusive of the effects of the intercompany arrangement discussed in "—Results of Operations—Impact of Foreign Currency Exchange Rates" above. To provide a better understanding of operating performance within the International Businesses, where indicated below, we have analyzed our results of operations excluding the effect of the year over year change in foreign currency exchange rates. Our results of operations, excluding the effect of foreign currency fluctuations, were derived by translating foreign currencies to USD at uniform exchange rates for all periods presented, including for constant dollar information discussed below. For our Japan operations, we used an exchange rate of 103 yen per USD, which was determined in connection with the foreign currency income hedging program discussed in "—Results of Operations—Impact of Foreign Currency Exchange Rates" above. In addition, for constant dollar information discussed below, activity denominated in USD is generally reported based on the amounts as transacted in USD. Annualized new business premiums presented on a constant exchange rate basis in the "Sales Results" section below reflect translation based on these same uniform exchange rates.

The following table sets forth the International Businesses' operating results for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020(1)	2021	2020(1)
	(in millions)			
Operating results:				
Revenues:				
Life Planner	\$ 2,695	\$ 2,548	\$ 8,108	\$ 7,591
Gibraltar Life and Other	2,923	2,933	8,534	8,610
Total revenues	5,618	5,481	16,642	16,201
Benefits and expenses:				
Life Planner	2,220	2,134	6,762	6,513
Gibraltar Life and Other	2,511	2,572	7,319	7,526
Total benefits and expenses	4,731	4,706	14,081	14,039
Adjusted operating income:				
Life Planner	475	414	1,346	1,078
Gibraltar Life and Other	412	361	1,215	1,084
Total adjusted operating income	887	775	2,561	2,162
Realized investment gains (losses), net, and related adjustments	107	168	(76)	843
Charges related to realized investment gains (losses), net	(5)	(11)	(25)	(33)
Market experience updates	0	3	0	(39)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(19)	8	(57)	(22)
Income (loss) before income taxes and equity in earnings of operating joint ventures	\$ 970	\$ 943	\$ 2,403	\$ 2,911

(1) Effective second quarter of 2020, the results of POK and the impact of its sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Effective third quarter of 2020, the results of POT and the impact of its sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Prior period amounts have been updated to conform to current period presentation. See Note 1 to the Unaudited Interim Consolidated Financial Statements for additional information about these dispositions.

Adjusted Operating Income

Three Month Comparison. Adjusted operating income from our Life Planner operations increased \$61 million, including a net unfavorable impact of \$1 million from currency fluctuations, inclusive of the currency hedging program discussed above. Excluding this item, adjusted operating income from our Life Planner operations increased \$62 million primarily reflecting higher net investment spread results driven by higher income on non-coupon investments, and more favorable underwriting results primarily due to the growth of business in force in our Japan and Brazil operations, partially offset by unfavorable impacts from mortality experience due to COVID-19 related claims, primarily in Brazil and Japan.

Adjusted operating income from our Gibraltar Life and Other operations increased \$51 million, including a net unfavorable impact of \$3 million from currency fluctuations, inclusive of the currency hedging program discussed above. Excluding this item, adjusted operating income from our Gibraltar Life and Other operations increased \$54 million primarily reflecting higher earnings from our joint venture investments and lower expenses primarily due to the absence of certain costs associated with COVID-19 incurred in the prior year period. Also contributing to the increase were higher net investment spread results driven by higher income on non-coupon investments and higher prepayment fee income, partially offset by lower reinvestment yields. These increases were partially offset by less favorable underwriting results due to unfavorable mortality experience, including COVID-19 related claims, and policyholder experience.

Nine Month Comparison. Adjusted operating income from our Life Planner operations increased \$268 million, including a net unfavorable impact of \$5 million from currency fluctuations, inclusive of the currency hedging program discussed above. Both periods also include the impact of our annual reviews and update of assumptions and other refinements, which resulted in a \$2 million net benefit in 2021 compared to a \$42 million net charge in 2020. The net charge in 2020 was primarily driven by unfavorable impacts related to a decrease in long-term interest rate assumptions.

Excluding the impact of currency fluctuations, as well as the impact from our annual reviews and update of assumptions and other refinements as discussed above, adjusted operating income from our Life Planner operations increased \$229 million primarily reflecting higher net investment spread results driven by higher income on non-coupon investments, partially offset by lower reinvestment yields. Also contributing to the increase were more favorable underwriting results primarily due to the growth of business in force in our Japan and Brazil operations, partially offset by unfavorable impacts from mortality experience due to COVID-19 related claims, primarily in Brazil and Japan.

Adjusted operating income from our Gibraltar Life and Other operations increased \$131 million, including a net unfavorable impact of \$12 million from currency fluctuations, inclusive of the currency hedging program discussed above. Both periods also include the impact of our annual reviews and update of assumptions and other refinements, which resulted in a \$16 million net charge in 2021 compared to a \$52 million net charge in 2020. The net charge in 2021 reflected unfavorable impacts primarily related to lapse assumption updates. The net charge in 2020 was primarily driven by updates of reserves reflecting the impact of a decrease in long-term interest rate assumptions, as well as other refinements.

Excluding the impact of currency fluctuations, as well as the impact from our annual reviews and update of assumptions and other refinements as discussed above, adjusted operating income from our Gibraltar Life and Other operations increased \$107 million primarily reflecting higher net investment spread results driven by higher income on non-coupon investments, partially offset by lower reinvestment yields. Also contributing to the increase were lower expenses, primarily due to the absence of certain costs associated with COVID-19 incurred in the prior year period, and higher earnings from our joint venture investments.

Revenues, Benefits and Expenses

Three Month Comparison. Revenues from our Life Planner operations increased \$147 million, including a net unfavorable impact of \$32 million from currency fluctuations. Excluding this item, revenues increased \$179 million, primarily reflecting higher net investment income driven by higher income on non-coupon investments, partially offset by lower reinvestment yields. Also contributing to the increase were higher premiums and policy charges and fee income attributable to the growth of business in force.

Benefits and expenses of our Life Planner operations increased \$86 million, including a net favorable impact of \$32 million from currency fluctuations. Excluding this item, benefits and expenses increased \$118 million, primarily reflecting higher policyholders' benefits, including changes in reserves, driven by the growth of business in force as well as unfavorable impacts from mortality experience due to COVID-19 related claims, primarily in Brazil and Japan. Also contributing to the increase were higher expenses supporting business growth, partially offset by the absence of certain costs associated with COVID-19 incurred in the prior year period.

Revenues from our Gibraltar Life and Other operations decreased \$10 million, including a net unfavorable impact of \$28 million from currency fluctuations. Excluding this item, revenues increased \$18 million, primarily reflecting higher net investment income driven by higher income on non-coupon investments and higher prepayment fee income, partially offset by lower reinvestment yields, and higher other income driven by a more favorable impact from our joint venture investments. These increases were partially offset by lower premiums and policy charges and fee income.

Benefits and expenses of our Gibraltar Life and Other operations decreased \$61 million, including a net favorable impact of \$25 million from currency fluctuations. Excluding this item, benefits and expenses decreased \$36 million, primarily driven by lower expenses primarily due to the absence of certain costs associated with COVID-19 incurred in the prior year period.

Nine Month Comparison. Revenues from our Life Planner operations increased \$517 million, including a net unfavorable impact of \$57 million from currency fluctuations and a net charge of \$34 million from our annual reviews and update of assumptions and other refinements. Excluding these items, revenues increased \$608 million, primarily reflecting higher net investment income driven by higher income on non-coupon investments, partially offset by lower reinvestment yields. Also contributing to the increase were higher premiums and policy charges and fee income attributable to the growth of business in force.

Benefits and expenses of our Life Planner operations increased \$249 million, including a net favorable impact of \$52 million from currency fluctuations and a net benefit of \$78 million from our annual reviews and update of assumptions and other refinements. Excluding these items, benefits and expenses increased \$379 million, primarily reflecting higher policyholders' benefits, including changes in reserves, driven by the growth of business in force.

Revenues from our Gibraltar Life and Other operations decreased \$76 million, including a net favorable impact of \$18 million from currency fluctuations and a net benefit of \$9 million from our annual reviews and update of assumptions and other refinements. Excluding these items, revenues decreased \$103 million, primarily reflecting lower premiums and policy charges and fee income. The decrease was partially offset by higher net investment income driven by higher income on non-coupon investments, partially offset by lower reinvestment yields.

Benefits and expenses of our Gibraltar Life and Other operations decreased \$207 million, including a net unfavorable impact of \$30 million from currency fluctuations and a net benefit of \$27 million from our annual reviews and update of assumptions and other refinements. Excluding these items, benefits and expenses decreased \$210 million, primarily driven by lower policyholders' benefits, including changes in reserves, and lower expenses primarily due to the absence of certain costs associated with COVID-19 incurred in the prior year period.

Sales Results

The following table sets forth annualized new business premiums, as defined under “—Results of Operations—Segment Measures” above, on an actual and constant exchange rate basis for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020(1)	2021	2020(1)
	(in millions)			
Annualized new business premiums:				
On an actual exchange rate basis:				
Life Planner	\$ 234	\$ 381	\$ 713	\$ 839
Gibraltar Life and Other	269	407	788	911
Total	<u>\$ 503</u>	<u>\$ 788</u>	<u>\$ 1,501</u>	<u>\$ 1,750</u>
On a constant exchange rate basis:				
Life Planner	\$ 248	\$ 393	\$ 751	\$ 863
Gibraltar Life and Other	271	408	793	915
Total	<u>\$ 519</u>	<u>\$ 801</u>	<u>\$ 1,544</u>	<u>\$ 1,778</u>

(1) Effective second quarter of 2020, the results of POK and the impact of its sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Effective third quarter of 2020, the results of POT and the impact of its sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Prior period amounts have been updated to conform to current period presentation. See Note 1 to the Unaudited Interim Consolidated Financial Statements for additional information about these dispositions.

The amount of annualized new business premiums and the sales mix in terms of types and currency denomination of products for any given period can be significantly impacted by several factors, including but not limited to: the addition of new products, discontinuation of existing products, changes in credited interest rates for certain products and other product modifications, changes in premium rates, changes in interest rates or fluctuations in currency markets, changes in tax laws, changes in life insurance regulations or changes in the competitive environment. Sales volume may increase or decrease prior to certain of these changes becoming effective, and then fluctuate in the other direction following such changes.

Our diverse product portfolio in Japan, in terms of currency mix and premium payment structure, allows us to adapt to changing market and competitive dynamics, including the extremely low interest rate environment. We regularly examine our product offerings and their related profitability and, as a result, we have repriced or discontinued sales of certain products that do not meet our profit expectations. The impact of these actions, coupled with the introduction of certain new products, has resulted in an increase in sales of products denominated in USD relative to products denominated in other currencies.

The table below presents annualized new business premiums on a constant exchange rate basis, by product and distribution channel, for the periods indicated.

	Three Months Ended September 30, 2021					Three Months Ended September 30, 2020(1)				
	Life	Accident & Health	Retirement(2)	Annuity	Total	Life	Accident & Health	Retirement(2)	Annuity	Total
	(in millions)									
Life Planner	\$ 135	\$ 17	\$ 95	\$ 1	\$ 248	\$ 197	\$ 18	\$ 178	\$ 0	\$ 393
Gibraltar Life and Other:										
Life Consultants	\$ 65	\$ 6	\$ 14	\$ 68	\$ 153	\$ 122	\$ 9	\$ 26	\$ 11	\$ 168
Banks(3)	54	0	3	14	71	152	0	6	9	167
Independent Agency	20	1	22	4	47	44	1	26	2	73
Subtotal	139	7	39	86	271	318	10	58	22	408
Total	\$ 274	\$ 24	\$ 134	\$ 87	\$ 519	\$ 515	\$ 28	\$ 236	\$ 22	\$ 801

(1) Effective second quarter of 2020, the results of POK and the impact of its sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Effective third quarter of 2020, the results of POT and the impact of its sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Prior period amounts have been updated to conform to current period presentation. See Note 1 to the Unaudited Interim Consolidated Financial Statements for additional information about these dispositions.

(2) Includes retirement income, endowment and savings variable universal life.

(3) Single pay life annualized new business premiums, which include 10% of first year premiums, and 3-year limited pay annualized new business premiums, which include 100% of new business premiums, represented 0% and 66%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the three months ended September 30, 2021, and 1% and 73%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the three months ended September 30, 2020.

Three Month Comparison. Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations decreased \$145 million, reflecting the absence of higher sales of USD-denominated products ahead of pricing increases in the prior year period.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life and Other operations decreased \$137 million. Bank channel, Independent Agency and Life Consultants sales decreased \$96 million, \$26 million and \$15 million, respectively, all reflecting the absence of higher sales of USD-denominated products ahead of pricing increases in the prior year period. The decrease in Life Consultants sales was partially offset by higher sales of USD-denominated fixed annuity products driven by higher crediting rates reflecting rising interest rates in the current year period.

The table below presents annualized new business premiums on a constant exchange rate basis, by product and distribution channel, for the periods indicated.

	Nine Months Ended September 30, 2021					Nine Months Ended September 30, 2020(1)				
	Life	Accident & Health	Retirement(2)	Annuity	Total	Life	Accident & Health	Retirement(2)	Annuity	Total
	(in millions)									
Life Planner	\$ 408	\$ 55	\$ 286	\$ 2	\$ 751	\$ 442	\$ 52	\$ 369	\$ 0	\$ 863
Gibraltar Life and Other:										
Life Consultants	\$ 199	\$ 20	\$ 31	\$ 146	\$ 396	\$ 263	\$ 25	\$ 50	\$ 50	\$ 388
Banks(3)	202	0	8	40	250	329	0	19	13	361
Independent Agency	55	22	63	7	147	84	4	74	4	166
Subtotal	456	42	102	193	793	676	29	143	67	915
Total	\$ 864	\$ 97	\$ 388	\$ 195	\$ 1,544	\$ 1,118	\$ 81	\$ 512	\$ 67	\$ 1,778

(1) Effective second quarter of 2020, the results of POK and the impact of its sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Effective third quarter of 2020, the results of POT and the impact of its sale are excluded from the International Businesses and are included in the Divested and Run-off Businesses in Corporate and Other. Prior period amounts have been updated to conform to current period presentation. See Note 1 to the Unaudited Interim Consolidated Financial Statements for additional information about these dispositions.

(2) Includes retirement income, endowment and savings variable universal life.

(3) Single pay life annualized new business premiums, which include 10% of first year premiums, and 3-year limited pay annualized new business premiums, which include 100% of new business premiums, represented 4% and 66%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the nine months ended September 30, 2021, and 3% and 71%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the nine months ended September 30, 2020.

Nine Month Comparison. Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations decreased \$112 million, reflecting the absence of higher sales of USD-denominated products ahead of pricing increases in the third quarter of 2020, as well as lower sales in the current year period as a result of those pricing increases, partially offset by higher sales resulting from an easing of COVID-19 restrictions in the current year period.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life and Other operations decreased \$122 million. Bank channel sales decreased \$111 million, reflecting the absence of higher sales of USD-denominated products ahead of pricing increases in the third quarter of 2020, as well as lower sales in the current year period as a result of those pricing increases. Independent Agency sales decreased \$19 million primarily driven by the absence of higher sales of USD-denominated products ahead of pricing increases in the third quarter of 2020, as well as lower sales in the current year period as a result of those pricing increases, partially offset by higher sales of accident & health products to a single large client in the current year period. Life Consultants sales increased \$8 million, primarily resulting from an easing of COVID-19 restrictions compared to the prior year period, and higher sales of USD-denominated fixed annuity products driven by higher crediting rates reflecting rising interest rates, partially offset by the absence of higher sales of USD-denominated products ahead of pricing increases in the third quarter of 2020, as well as lower sales in the current year period as a result of those pricing increases.

Corporate and Other

Corporate and Other includes corporate operations, after allocations to our business segments, and Divested and Run-off Businesses other than those that qualify for “discontinued operations” accounting treatment under U.S. GAAP.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020(1)	2021(1)	2020(1)
	(in millions)			
Operating results:				
Interest expense on debt	\$ (209)	\$ (233)	\$ (628)	\$ (678)
Investment income	40	25	112	100
Pension and employee benefits	75	40	217	148
Other corporate activities(2)	(366)	(325)	(819)	(1,016)
Adjusted operating income	(460)	(493)	(1,118)	(1,446)
Realized investment gains (losses), net, and related adjustments	(13)	(514)	73	(1,733)
Charges related to realized investment gains (losses), net	(7)	4	4	8
Market experience updates	0	(7)	(1)	(3)
Divested and Run-off Businesses	48	(83)	432	(567)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(23)	(23)	(34)	(15)
Income (loss) before income taxes and equity in earnings of operating joint ventures	<u>\$ (455)</u>	<u>\$ (1,116)</u>	<u>\$ (644)</u>	<u>\$ (3,756)</u>

(1) Effective second quarter of 2020, the results of POK and the impact of its sale are excluded from the International Businesses and are included in Divested and Run-off Businesses. Effective third quarter of 2020, the results of POT and the impact of its sale are excluded from the International Businesses and are included in Divested and Run-off Businesses. Effective third quarter of 2021, the results of the Full Service Retirement business are excluded from the Retirement segment and are included in Divested and Run-off Businesses. Prior period amounts have been updated to conform to current period presentation. See Note 1 to the Unaudited Interim Consolidated Financial Statements for additional information about these divestitures.

(2) Includes consolidating adjustments.

Three Month Comparison. The loss from Corporate and Other operations, on an adjusted operating income basis, decreased \$33 million. Pension and employee benefits results were favorable by \$35 million driven by lower interest costs on our qualified pension plan obligations. Interest expense on debt decreased \$24 million, primarily reflecting lower average debt balances and a decline in interest rates. Investment income increased \$15 million reflecting higher asset balances. These items were partially offset by a \$41 million increase in net charges from other corporate activities reflecting a \$94 million cost related to the early extinguishment of debt in the current year period, which was partially offset by a decrease in other expenses.

Nine Month Comparison. The loss from Corporate and Other operations, on an adjusted operating income basis, decreased \$328 million. Net charges from other corporate activities decreased \$197 million primarily reflecting the absence of a significant charge to legal reserves incurred in the prior year period as well as lower expenses, partially offset by increased costs related to the early extinguishment of debt in the current year period. Also contributing to the decrease were favorable results of \$69 million from pension and employee benefits, primarily driven by lower interest costs on our qualified pension plan obligations, as well as \$50 million of lower interest expense on debt, primarily reflecting lower average debt balances and a decline in interest rates.

Divested and Run-off Businesses

Divested and Run-off Businesses Included in Corporate and Other

Income from our Divested and Run-off Businesses includes results from several businesses that have been or will be sold or exited, including businesses that have been placed in wind down status that do not qualify for “discontinued operations” accounting treatment under U.S. GAAP. The results of these Divested and Run-off Businesses are reflected in our Corporate and Other operations, but are excluded from adjusted operating income. A summary of the results of the Divested and Run-off Businesses reflected in our Corporate and Other operations is as follows for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)			
Long-Term Care	\$ 56	\$ 78	\$ 302	\$ 266
Other(1)	(8)	(161)	130	(833)
Total Divested and Run-off Businesses income (loss) excluded from adjusted operating income	\$ 48	\$ (83)	\$ 432	\$ (567)

(1) Effective second quarter of 2020, the results of POK and the impact of its sale are excluded from the International Businesses and are included herein. Effective third quarter of 2020, the results of POT and the impact of its sale are excluded from the International Businesses and are included herein. Effective third quarter of 2021, the results of the Full Service Retirement business are excluded from the Retirement segment and are included herein. Prior period amounts have been updated to conform to current period presentation. See Note 1 to the Unaudited Interim Consolidated Financial Statements for additional information about these divestitures.

Long-Term Care

Three Month Comparison. Results decreased \$22 million compared to the prior year period primarily driven by a less favorable impact from changes in the market value of equity securities, partially offset by a favorable comparative impact from changes in the market value of derivatives used for duration management and higher investment income, including higher income on non-coupon investments.

Nine Month Comparison. Results increased \$36 million, including a favorable comparative net impact from our annual reviews and update of assumptions and other refinements. Results for 2021 included a \$62 million net benefit from these updates, while results for 2020 included a \$33 million net charge from these updates. Excluding this item, results decreased \$59 million primarily driven by an unfavorable impact from changes in the market value of derivatives used for duration management, partially offset by a favorable impact from changes in the market value of equity securities, higher underwriting results driven by favorable comparative policy and claim experience, and higher investment results, including higher income on non-coupon investments.

Other Divested and Run-off Businesses

Results for the third quarter of 2021 increased \$153 million compared to the prior year period primarily driven by the absence of losses incurred in the third quarter of 2020 related to the sale of POT. Results for the nine months ended September 30, 2021 increased \$963 million compared to the prior year period primarily driven by the absence of losses incurred in 2020 related to the sales of POK and POT. See Note 1 to the Unaudited Interim Consolidated Financial Statements for additional information about these divestitures.

Closed Block Division

The Closed Block division includes certain in-force traditional domestic participating life insurance and annuity products and assets that are used for the payment of benefits and policyholder dividends on these policies (collectively the “Closed Block”), as well as certain related assets and liabilities. We no longer offer these traditional domestic participating policies. See Note 7 to the Unaudited Interim Consolidated Financial Statements for additional information.

Each year, the Board of Directors of The Prudential Insurance Company of America (“PICA”) determines the dividends payable on participating policies for the following year based on the experience of the Closed Block, including investment income, net realized and unrealized investment gains (losses), mortality experience and other factors. Although the Closed Block experience for dividend action decisions is based upon statutory results, at the time the Closed Block was established, we developed, as required by U.S. GAAP, an actuarial calculation of the timing of the maximum future earnings from the policies included in the Closed Block. If actual cumulative earnings in any given period are greater than the cumulative earnings we expected, we record this excess as a policyholder dividend obligation. We will subsequently pay this excess to Closed Block policyholders as an additional dividend unless it is otherwise offset by future Closed Block performance that is less favorable than we originally expected. The policyholder dividends we charge to expense within the Closed Block division will include any change in our policyholder dividend obligation that we recognize for the excess of actual cumulative earnings in any given period over the cumulative earnings we expected in addition to the actual policyholder dividends declared by the Board of Directors of PICA.

As of September 30, 2021, the excess of actual cumulative earnings over the expected cumulative earnings was \$3,908 million, which was recorded as a policyholder dividend obligation. Actual cumulative earnings, as required by U.S. GAAP, reflect the recognition of realized investment gains and losses in the current period, as well as changes in assets and related liabilities that support the Closed Block policies. Additionally, the accumulation of net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block has been reflected as a policyholder dividend obligation of \$3,820 million at September 30, 2021, to be paid to Closed Block policyholders unless offset by future experience, with a corresponding amount reported in AOCI.

Operating Results

The following table sets forth the Closed Block division's results for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)			
U.S. GAAP results:				
Revenues	\$ 1,321	\$ 1,301	\$ 4,299	\$ 3,318
Benefits and expenses	1,294	1,293	4,207	3,333
Income (loss) before income taxes and equity in earnings of operating joint ventures	<u>\$ 27</u>	<u>\$ 8</u>	<u>\$ 92</u>	<u>\$ (15)</u>

Income (loss) Before Income Taxes and Equity in Earnings of Operating Joint Ventures

Three Month Comparison. Income (loss) before income taxes and equity in earnings of operating joint ventures increased \$19 million. Net investment activity results increased primarily reflecting higher realized investment gains driven by favorable changes in the fair value of derivatives used in risk management activities, and an increase in net investment income driven by higher income on non-coupon investments, partially offset by a decrease in other income due to less favorable changes in the value of equity securities. Net insurance activity results reflected a favorable comparative change driven by a decrease in the 2021 dividend scale and run-off of the business in force. As a result of the above and other variances, a \$259 million increase in the policyholder dividend obligation was recorded in the third quarter of 2021, compared to a \$161 million increase in the third quarter of 2020. If actual cumulative earnings fall below expected cumulative earnings in future periods, earnings volatility in the Closed Block division, which is primarily due to changes in investment results, may not be offset by changes in the cumulative earnings policyholder dividend obligation. For a discussion of the Closed Block division's realized investment gains (losses), net, see "—General Account Investments."

Nine Month Comparison. Income (loss) before income taxes and equity in earnings of operating joint ventures increased \$107 million. Net investment activity results increased primarily reflecting higher other income driven by favorable changes in the value of equity securities, and an increase in realized investment gains driven by favorable changes in the fair value of derivatives used in risk management activities. Net insurance activity results reflected an unfavorable comparative change driven by unfavorable mortality, partially offset by a decrease in the 2021 dividend scale. As a result of the above and other variances, a \$988 million increase in the policyholder dividend obligation was recorded in the first nine months of 2021, compared to a \$192 million reduction in the first nine months of 2020. If actual cumulative earnings fall below expected cumulative earnings in future periods, earnings volatility in the Closed Block division, which is primarily due to changes in investment results, may not be offset by changes in the cumulative earnings policyholder dividend obligation. For a discussion of the Closed Block division's realized investment gains (losses), net, see "—General Account Investments."

Revenues, Benefits and Expenses

Three Month Comparison. Revenues increased \$20 million primarily driven by an increase in net realized investment gains and net investment income, partially offset by a decrease in other income and lower premiums due to runoff of policies in force, as discussed above.

Benefits and expenses increased \$1 million primarily driven by an increase in dividends to policyholders, reflecting an increase in the policyholder dividend obligation expense due to changes in cumulative earnings, as discussed above.

Nine Month Comparison. Revenues increased \$981 million primarily driven by an increase in other income, net realized investment gains, and net investment income, partially offset by lower premiums due to runoff of policies in force, as discussed above.

Benefits and expenses increased \$874 million primarily driven by an increase in dividends to policyholders, reflecting an increase in the policyholder dividend obligation expense due to changes in cumulative earnings, as discussed above.

Income Taxes

For information regarding income taxes, see Note 8 to the Unaudited Interim Consolidated Financial Statements.

Experience-Rated Contractholder Liabilities, Assets Supporting Experience-Rated Contractholder Liabilities and Other Related Investments

Certain products included in the International Businesses and the divested Full Service Retirement business are experience-rated in that investment results associated with these products are expected to ultimately accrue to contractholders. The majority of investments supporting these experience-rated products are carried at fair value.

International Businesses. In our International Businesses, the experience-rated products are fully participating. As a result, the entire return on the underlying investments is passed back to policyholders through a corresponding adjustment to the related liability. These investments are reflected on the Unaudited Interim Consolidated Statements of Financial Position as “Assets supporting experience-rated contractholder liabilities, at fair value.” Realized and unrealized gains (losses) for these investments are reported in “Other income (loss).”

Full Service Retirement Business. Beginning with the third quarter of 2021, the Company is reporting the assets and liabilities of the Full Service Retirement business as “held-for-sale,” and has transferred the results of this business from the Retirement segment to the Divested and Run-off Businesses within Corporate & Other operations. See Note 1 to the Unaudited Interim Consolidated Financial Statements for additional information.

Our divested Full Service Retirement business has two types of experience-rated products that are supported by assets supporting experience-rated contractholder liabilities and other related investments. Fully participating products are those for which the entire return on underlying investments is passed back to the policyholders. Partially participating products are those for which only a portion of the return on underlying investments is passed back to the policyholders over time through changes to the contractual crediting rates. The crediting rates are typically reset semiannually, often subject to a minimum crediting rate, and returns are required to be passed back within ten years.

As of the third quarter of 2021, the assets and liabilities associated with these products are included in the Unaudited Interim Consolidated Statements of Financial Position as “Assets held-for-sale” and “Liabilities held-for-sale,” respectively. For additional information on the accounting treatment of these assets and liabilities in prior periods, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Experience-Rated Contractholder Liabilities, Assets Supporting Experience-Rated Contractholder Liabilities and Other Related Investments” in our Annual Report on Form 10-K for the year ended December 31, 2020.

The following table sets forth the impact on results for the periods indicated of these items that are excluded from adjusted operating income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)			
International Businesses:				
Investment gains (losses) on assets supporting experience-rated contractholder liabilities, net	\$ 62	\$ 76	\$ 308	\$ (97)
Change in experience-rated contractholder liabilities due to asset value changes	(62)	(76)	(308)	97
Gains (losses), net, on experienced rated contracts	\$ 0	\$ 0	\$ 0	\$ 0
Divested and Run-off Businesses:				
Investment gains (losses) on assets supporting experience-rated contractholder liabilities, net	\$ (91)	\$ 77	\$ (418)	\$ 556
Change in experience-rated contractholder liabilities due to asset value changes	88	(93)	394	(553)
Gains (losses), net, on experienced rated contracts(1)(2)	\$ (3)	\$ (16)	\$ (24)	\$ 3
Total:				
Investment gains (losses) on assets supporting experience-rated contractholder liabilities, net	\$ (29)	\$ 153	\$ (110)	\$ 459
Change in experience-rated contractholder liabilities due to asset value changes	26	(169)	86	(456)
Gains (losses), net, on experienced rated contracts(1)(2)	\$ (3)	\$ (16)	\$ (24)	\$ 3

(1) Decreases to contractholder liabilities due to asset value changes are limited by certain floors and therefore do not reflect cumulative declines in recorded asset values of \$2 million and \$3 million as of September 30, 2021 and 2020, respectively. We have recovered and expect to recover in future periods these declines in recorded asset values through subsequent increases in recorded asset values or reductions in crediting rates on contractholder liabilities.

(2) Included in the amounts above related to the change in the liability to contractholders as a result of commercial mortgage and other loans are increases of \$14 million and \$5 million for the three months ended September 30, 2021 and 2020, respectively, and an increase of \$42 million and a decrease of \$1 million for the nine months ended September 30, 2021 and 2020, respectively. As prescribed by U.S. GAAP, changes in the fair value of commercial mortgage and other loans held for investment in our general account, other than when associated with impairments, are not recognized in income in the current period, while the impact of these changes in fair value are reflected as a change in the liability to fully participating contractholders in the current period.

For our divested Retirement Full Service business, the net impact of changes in experience-rated contractholder liabilities and investment gains (losses) on assets supporting experience-rated contractholder liabilities and other related investments reflects timing differences between the recognition of the mark-to-market adjustments and the recognition of the recovery of these adjustments in future periods through subsequent increases in asset values or reductions in crediting rates on contractholder liabilities for partially participating products. These impacts also reflect the difference between the fair value of the underlying commercial mortgages and other loans and the amortized cost, less any valuation allowance, of these loans.

Valuation of Assets and Liabilities

Fair Value of Assets and Liabilities

The authoritative guidance related to fair value measurement establishes a framework that includes a three-level hierarchy used to classify the inputs used in measuring fair value. The level in the hierarchy within which the fair value falls is determined based on the lowest level input that is significant to the measurement. The fair values of assets and liabilities classified as Level 3 include at least one significant unobservable input in the measurement. See Note 6 to the Unaudited Interim Consolidated Financial Statements for an additional description of the valuation hierarchy levels as well as for the balances of assets and liabilities measured at fair value on a recurring basis by hierarchy level presented on a consolidated basis.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis, as of the periods indicated, and the portion of such assets and liabilities that are classified in Level 3 of the valuation hierarchy. The table also provides details about these assets and liabilities excluding those held in the Closed Block division. We believe the amounts excluding the Closed Block division are most relevant to an understanding of our operations that are pertinent to investors in Prudential Financial because substantially all Closed Block division assets support obligations and liabilities relating to the Closed Block policies only. See Note 7 to the Unaudited Interim Consolidated Financial Statements for additional information on the Closed Block.

	As of September 30, 2021(1)				As of December 31, 2020			
	PFI excluding Closed Block Division		Closed Block Division		PFI excluding Closed Block Division		Closed Block Division	
	Total at Fair Value	Total Level 3(2)	Total at Fair Value	Total Level 3(2)	Total at Fair Value	Total Level 3(2)	Total at Fair Value	Total Level 3(2)
(in millions)								
Fixed maturities, available-for-sale	\$ 334,864	\$ 5,332	\$ 38,388	\$ 1,274	\$ 370,681	\$ 5,005	\$ 42,224	\$ 1,038
Assets supporting experience-rated contractholder liabilities:								
Fixed maturities	1,096	0	0	0	21,414	615	0	0
Equity securities	2,263	0	0	0	2,043	0	0	0
All other(3)	58	0	0	0	619	20	0	0
Subtotal	3,417	0	0	0	24,076	635	0	0
Fixed maturities, trading	8,359	350	1,189	14	3,636	230	278	13
Equity securities	5,259	634	2,308	123	5,653	576	2,345	84
Commercial mortgage and other loans	1,106	0	0	0	1,092	0	0	0
Other invested assets(4)	2,583	376	0	0	2,268	366	3	0
Short-term investments	3,281	272	220	55	6,222	146	88	31
Cash equivalents	6,458	0	732	0	5,241	1	241	0
Other assets	111	111	0	0	268	268	0	0
Separate account assets	216,725	1,291	0	0	304,270	1,821	0	0
Total assets	\$ 582,163	\$ 8,366	\$ 42,837	\$ 1,466	\$ 723,407	\$ 9,048	\$ 45,179	\$ 1,166
Future policy benefits	\$ 9,230	\$ 9,230	\$ 0	\$ 0	\$ 18,879	\$ 18,879	\$ 0	\$ 0
Policyholders' account balances	1,320	1,320	0	0	1,914	1,914	0	0
Other liabilities(4)	740	0	7	0	385	0	0	0
Total liabilities	\$ 11,290	\$ 10,550	\$ 7	\$ 0	\$ 21,178	\$ 20,793	\$ 0	\$ 0

(1) Excludes amounts for financial instruments reclassified to "Assets held-for-sale" of \$128,234 million and "Liabilities held-for-sale" of \$5,790 million. Assets held-for-sale and liabilities held-for-sale are valued on a basis consistent with similar instruments described herein. See Note 1 for additional information on the pending dispositions.

(2) Level 3 assets expressed as a percentage of total assets measured at fair value on a recurring basis for PFI excluding the Closed Block division and for the Closed Block division totaled 1.4% and 3.4%, respectively, as of September 30, 2021, and 1.3% and 2.6%, respectively, as of December 31, 2020.

(3) "All other" represents cash equivalents and short-term investments.

(4) "Other invested assets" and "Other liabilities" primarily include derivatives. The amounts include the impact of netting subject to master netting agreements.

The determination of fair value, which for certain assets and liabilities is dependent on the application of estimates and assumptions, can have a significant impact on our results of operations and may require the application of a greater degree of judgment depending on market conditions, as the ability to value assets and liabilities can be significantly impacted by a decrease in market activity or a lack of transactions executed in an orderly manner. The continued impact of the COVID-19 pandemic on the global economy may have adverse effects on the valuation of assets and liabilities. Due to the highly uncertain nature of these conditions, it is not possible to estimate the overall impacts at this time.

Fixed maturity securities included in Level 3 in our fair value hierarchy are generally priced based on internally-developed valuations or indicative broker quotes. For certain private fixed maturity and equity securities, the internal valuation models use significant unobservable inputs and, accordingly, such securities are included in Level 3 in our fair value hierarchy. Level 3 fixed maturity securities for PFI excluding the Closed Block division included approximately \$1.7 billion of public fixed maturities as of September 30, 2021, with values primarily based on indicative broker quotes, and approximately \$4.7 billion of private fixed maturities, with values primarily based on internally-developed models. Significant unobservable inputs used in their valuation included: issue specific spread adjustments, material non-public financial information, management judgment, estimation of future earnings and cash flows, default rate assumptions, liquidity assumptions and indicative quotes from market makers. Separate account assets included in Level 3 in our fair value hierarchy primarily include corporate securities and commercial mortgage loans.

Embedded derivatives reported in “Future policy benefits” and “Policyholders’ account balances” that are included in Level 3 of our fair value hierarchy represent general account liabilities pertaining to living benefit features of the Company’s variable annuity contracts and the index-linked interest credited features on certain life and annuity products. These are carried at fair value with changes in fair value included in “Realized investment gains (losses), net.” These embedded derivatives are valued using internally-developed models that require significant estimates and assumptions developed by management. Changes in these estimates and assumptions can have a significant impact on the results of our operations.

For additional information about the valuation techniques and the key estimates and assumptions used in our determination of fair value, see Note 6 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020.

General Account Investments

Portfolio Composition

Our investment portfolio consists of public and private fixed maturity securities, commercial mortgage and other loans, policy loans and non-coupon investments, which include equity securities and other invested assets such as limited partnerships and limited liability companies (“LPs/LLCs”), real estate held through direct ownership, derivative instruments and seed money investments in separate accounts. The composition of our general account reflects, within the discipline provided by our risk management approach, our need for competitive results and the selection of diverse investment alternatives available primarily through our PGIM segment. The size of our portfolio enables us to invest in asset classes that may be unavailable to the typical investor.

The following tables set forth the composition of our general account investment portfolio apportioned between PFI excluding the Closed Block division and the Closed Block division, as of the dates indicated:

	September 30, 2021		
	PFI Excluding Closed Block Division(1)	Closed Block Division	Total
	(\$ in millions)		
Fixed maturities:			
Public, available-for-sale, at fair value	\$ 279,788	66.0 % \$ 27,777	\$ 307,565
Public, held-to-maturity, at amortized cost, net of allowance	1,464	0.4 0	1,464
Private, available-for-sale, at fair value	54,589	12.9 10,611	65,200
Private, held-to-maturity, at amortized cost, net of allowance	180	0.1 0	180
Fixed maturities, trading, at fair value	8,146	1.9 1,189	9,335
Assets supporting experience-rated contractholder liabilities, at fair value	3,424	0.8 0	3,424
Equity securities, at fair value	4,721	1.1 2,308	7,029
Commercial mortgage and other loans, at book value, net of allowance	48,432	11.4 8,227	56,659
Policy loans, at outstanding balance	6,599	1.6 3,872	10,471
Other invested assets, net of allowance(2)	11,911	2.8 4,120	16,031
Short-term investments, net of allowance	4,358	1.0 339	4,697
Total general account investments	423,612	100.0 % 58,443	482,055
Invested assets of other entities and operations(3)	6,735	0	6,735
Total investments	\$ 430,347	\$ 58,443	\$ 488,790

December 31, 2020				
	PFI Excluding Closed Block Division		Closed Block Division	Total
(\$ in millions)				
Fixed maturities:				
Public, available-for-sale, at fair value	\$ 309,813	63.7 %	\$ 29,475	\$ 339,288
Public, held-to-maturity, at amortized cost, net of allowance	1,719	0.4	0	1,719
Private, available-for-sale, at fair value	60,224	12.4	12,749	72,973
Private, held-to-maturity, at amortized cost, net of allowance	211	0.1	0	211
Fixed maturities, trading, at fair value	3,425	0.7	277	3,702
Assets supporting experience-rated contractholder liabilities, at fair value	24,115	5.0	0	24,115
Equity securities, at fair value	5,108	1.1	2,345	7,453
Commercial mortgage and other loans, at book value, net of allowance	55,892	11.5	8,421	64,313
Policy loans, at outstanding balance	7,207	1.5	4,064	11,271
Other invested assets, net of allowance(2)	10,716	2.1	3,610	14,326
Short-term investments, net of allowance	7,640	1.5	124	7,764
Total general account investments	486,070	100.0 %	61,065	547,135
Invested assets of other entities and operations(3)	6,485		0	6,485
Total investments	\$ 492,555		\$ 61,065	\$ 553,620

(1) Excludes “Assets held-for-sale” of \$42,443 million as of September 30, 2021. See Note 1 of the Unaudited Interim Consolidated Statements for additional information on the pending dispositions.

(2) Other invested assets consist of investments in LPs/LLCs, investment real estate held through direct ownership, derivative instruments and other miscellaneous investments. For additional information regarding these investments, see “—Other Invested Assets” below.

(3) Includes invested assets of our investment management and derivative operations. Excludes assets of our investment management operations that are managed for third-parties and those assets classified as “Separate account assets” on our balance sheet. For additional information regarding these investments, see “—Invested Assets of Other Entities and Operations” below.

The decrease in general account investments attributable to PFI excluding the Closed Block division in the first nine months of 2021 was primarily due to an increase in U.S. interest rates and the translation impact of the U.S. dollar strengthening against the yen, partially offset by the reinvestment of net investment income and net business inflows. Also included in the decrease are balances that were reclassified to “Assets held-for-sale”. For information regarding the methodology used in determining the fair value of our fixed maturities, see Note 6 to the Unaudited Interim Consolidated Financial Statements.

As of September 30, 2021 and December 31, 2020, 48% and 43%, respectively, of our general account investments attributable to PFI excluding the Closed Block division related to our Japanese insurance operations. The following table sets forth the composition of the investments of our Japanese insurance operations’ general account, as of the dates indicated:

	September 30, 2021	December 31, 2020
	(in millions)	
Fixed maturities:		
Public, available-for-sale, at fair value	\$ 147,669	\$ 154,261
Public, held-to-maturity, at amortized cost, net of allowance	1,464	1,719
Private, available-for-sale, at fair value	21,291	21,748
Private, held-to-maturity, at amortized cost, net of allowance	180	211
Fixed maturities, trading, at fair value	824	550
Assets supporting experience-rated contractholder liabilities, at fair value	3,359	3,149
Equity securities, at fair value	2,243	2,134
Commercial mortgage and other loans, at book value, net of allowance	19,894	19,915
Policy loans, at outstanding balance	2,774	3,078
Other invested assets(1)	3,817	3,045
Short-term investments, net of allowance	547	438
Total Japanese general account investments	<u>\$ 204,062</u>	<u>\$ 210,248</u>

(1) Other invested assets consist of investments in LPs/LLCs, investment real estate held through direct ownership, derivative instruments and other miscellaneous investments.

The decrease in general account investments related to our Japanese insurance operations in the first nine months of 2021 was primarily due to an increase in U.S. interest rates and the translation impact of the U.S. dollar strengthening against the yen, partially offset by portfolio growth as a result of net business inflows and the reinvestment of net investment income.

As of September 30, 2021, our Japanese insurance operations had \$91.0 billion, at carrying value, of investments denominated in U.S. dollars, including \$1.8 billion that were hedged to yen through third-party derivative contracts and \$78.1 billion that support liabilities denominated in U.S. dollars, with the remainder constituting part of the hedging of foreign currency exchange rate exposure to U.S. dollar-equivalent equity. As of December 31, 2020, our Japanese insurance operations had \$89.2 billion, at carrying value, of investments denominated in U.S. dollars, including \$1.8 billion that were hedged to yen through third-party derivative contracts and \$74.8 billion that support liabilities denominated in U.S. dollars, with the remainder constituting part of the hedging of foreign currency exchange rate exposure of U.S. dollar-equivalent equity. The \$1.8 billion increase in the carrying value of U.S. dollar-denominated investments from December 31, 2020 was primarily attributable to reinvestment of net investment income and portfolio growth as a result of net business inflows, partially offset by an increase in U.S. interest rates.

Our Japanese insurance operations had \$8.5 billion and \$10.2 billion, at carrying value, of investments denominated in Australian dollars that support liabilities denominated in Australian dollars as of September 30, 2021 and December 31, 2020, respectively. The \$1.7 billion decrease in the carrying value of Australian dollar-denominated investments from December 31, 2020 was primarily attributable to run-off of the portfolio and an increase in Australian government bond rates. For additional information regarding U.S. and Australian dollar investments held in our Japanese insurance operations and a discussion of our yen hedging strategy, see “—Results of Operations by Segment—Impact of Foreign Currency Exchange Rates” above.

Investment Results

The following tables set forth the investment results of our general account apportioned between PFI excluding the Closed Block division, and the Closed Block division, for the periods indicated. The yields are based on net investment income as reported under U.S. GAAP and as such do not include certain interest-related items, such as settlements of duration management swaps which are included in “Realized investment gains (losses), net.”

2021 to 2020 Three Month Comparison

Three Months Ended September 30, 2021

	PFI Excluding Closed Block Division and Japanese Operations(6)		Japanese Insurance Operations		PFI Excluding Closed Block Division(6)		Closed Block Division	Total(5)
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount	Amount	Amount
(\$ in millions)								
Fixed maturities(2)	4.51 %	\$ 1,753	2.73 %	\$ 994	3.65 %	\$ 2,747	\$ 362	\$ 3,109
Assets supporting experience-rated contractholder liabilities	2.82	139	0.89	7	2.54	146	0	146
Equity securities	1.06	7	1.02	6	1.04	13	10	23
Commercial mortgage and other loans	3.85	344	3.79	189	3.83	533	84	617
Policy loans	5.00	48	3.79	27	4.48	75	57	132
Short-term investments and cash equivalents	0.57	16	0.52	1	0.57	17	1	18
Gross investment income	4.04	2,307	2.81	1,224	3.51	3,531	514	4,045
Investment expenses	(0.10)	(40)	(0.14)	(62)	(0.12)	(102)	(32)	(134)
Investment income after investment expenses	3.94 %	2,267	2.67 %	1,162	3.39 %	3,429	482	3,911
Other invested assets(3)		491		133		624	168	792
Investment results of other entities and operations(4)		14		0		14	0	14
Total investment income		\$ 2,772		\$ 1,295		\$ 4,067	\$ 650	\$ 4,717

Three Months Ended September 30, 2020

	PFI Excluding Closed Block Division and Japanese Operations		Japanese Insurance Operations		PFI Excluding Closed Block Division		Closed Block Division	Total(5)
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount	Amount	Amount
(\$ in millions)								
Fixed maturities(2)	4.55 %	\$ 1,859	2.80 %	\$ 986	3.74 %	\$ 2,845	\$ 398	\$ 3,243
Assets supporting experience-rated contractholder liabilities	3.09	161	2.21	15	2.99	176	0	176
Equity securities	3.32	19	1.17	6	2.34	25	11	36
Commercial mortgage and other loans	3.81	335	3.75	181	3.79	516	87	603
Policy loans	5.35	60	3.02	24	4.37	84	61	145
Short-term investments and cash equivalents	0.48	27	0.43	2	0.48	29	1	30
Gross investment income	3.96	2,461	2.86	1,214	3.52	3,675	558	4,233
Investment expenses	(0.13)	(65)	(0.14)	(60)	(0.13)	(125)	(31)	(156)
Investment income after investment expenses	3.83 %	2,396	2.72 %	1,154	3.39 %	3,550	527	4,077
Other invested assets(3)		138		85		223	55	278
Investment results of other entities and operations(4)		91		0		91	0	91
Total investment income		\$ 2,625		\$ 1,239		\$ 3,864	\$ 582	\$ 4,446

(1) For interim periods, yields are annualized. The denominator in the yield percentage is based on quarterly average carrying values for all asset types except for fixed maturities which are based on amortized cost, net of allowance. Amounts for fixed maturities, short-term investments and cash equivalents are also netted for securities lending activity (i.e., income netted for rebate expenses and asset values netted for securities lending liabilities). A yield is not presented for other invested assets as it is not considered a meaningful measure of investment performance. Yields exclude investment income and assets related to other invested assets.

(2) Includes fixed maturity securities classified as available-for-sale and held-to-maturity and excludes fixed maturity securities classified as trading, which are included in other invested assets.

- (3) Other invested assets consist of investments in LPs/LLCs, investment real estate held through direct ownership, derivative instruments, fixed maturities classified as trading and other miscellaneous investments.
- (4) Includes net investment income of our investment management operations.
- (5) The total yield was 3.46% and 3.48% for the three months ended September 30, 2021 and 2020, respectively.
- (6) The denominator in the yield percentage includes "Assets held-for-sale". See Note 1 of the Unaudited Interim Consolidated Statement for additional information on the pending dispositions.

The increase in investment income after investment expenses yield attributable to our general account investments, excluding both the Closed Block division and the Japanese insurance operations' portfolio, for the three months ended September 30, 2021, compared to the three months ended September 30, 2020, was primarily the result of the absence of lower yielding fixed income securities previously held within businesses divested over the last twelve months.

The decrease in investment income after investment expenses yield attributable to the Japanese insurance operations' portfolio, for the three months ended September 30, 2021, compared to the three months ended September 30, 2020, was primarily the result of lower fixed income reinvestment rates.

Both the U.S. dollar-denominated and Australian dollar-denominated fixed maturities that are not hedged to yen through third-party derivative contracts provide a yield that is substantially higher than the yield on comparable yen-denominated fixed maturities. The average amortized cost of U.S. dollar-denominated fixed maturities that are not hedged to yen through third-party derivative contracts was approximately \$60.3 billion and \$55.3 billion for the three months ended September 30, 2021 and 2020, respectively. The majority of U.S. dollar-denominated fixed maturities support liabilities that are denominated in U.S. dollars. The average amortized cost of Australian dollar-denominated fixed maturities that are not hedged to yen through third-party derivative contracts was approximately \$7.7 billion and \$8.1 billion for the three months ended September 30, 2021 and 2020, respectively. The majority of Australian dollar-denominated fixed maturities support liabilities that are denominated in Australian dollars. For additional information regarding U.S. and Australian dollar investments held in our Japanese insurance operations, see "—Results of Operations by Segment—Impact of Foreign Currency Exchange Rates" above.

2021 to 2020 Nine Month Comparison

Nine Months Ended September 30, 2021								
	PFI Excluding Closed Block Division and Japanese Operations(6)		Japanese Insurance Operations		PFI Excluding Closed Block Division(6)		Closed Block Division	Total(5)
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount	Amount	Amount
(\$ in millions)								
Fixed maturities(2)	4.55 %	\$ 5,293	2.71 %	\$ 2,939	3.66 %	\$ 8,232	\$ 1,117	\$ 9,349
Assets supporting experience-rated contractholder liabilities	2.95	444	0.95	23	2.67	467	0	467
Equity securities	1.13	24	2.84	46	1.87	70	34	104
Commercial mortgage and other loans	3.93	1,043	3.81	564	3.89	1,607	265	1,872
Policy loans	5.12	151	4.06	87	4.67	238	165	403
Short-term investments and cash equivalents	0.50	42	0.46	3	0.50	45	2	47
Gross investment income	4.08	6,997	2.82	3,662	3.54	10,659	1,583	12,242
Investment expenses	(0.13)	(187)	(0.14)	(180)	(0.13)	(367)	(93)	(460)
Investment income after investment expenses	3.95 %	6,810	2.68 %	3,482	3.41 %	10,292	1,490	11,782
Other invested assets(3)		1,034		348		1,382	375	1,757
Investment results of other entities and operations(4)		112		0		112	0	112
Total investment income		\$ 7,956		\$ 3,830		\$ 11,786	\$ 1,865	\$ 13,651

Nine Months Ended September 30, 2020									
	PFI Excluding Closed Block Division and Japanese Operations		Japanese Insurance Operations		PFI Excluding Closed Block Division		Closed Block Division	Total(5)	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount	Amount	Amount	Amount
(\$ in millions)									
Fixed maturities(2)	4.58 %	\$ 5,606	2.79 %	\$ 2,884	3.76 %	\$ 8,490	\$ 1,192	\$	9,682
Assets supporting experience-rated contractholder liabilities	3.22	476	2.16	43	3.09	519	0		519
Equity securities	2.36	40	3.05	45	2.68	85	34		119
Commercial mortgage and other loans	3.95	1,035	3.87	550	3.92	1,585	269		1,854
Policy loans	5.36	186	3.42	78	4.59	264	185		449
Short-term investments and cash equivalents	0.92	158	0.95	12	0.93	170	6		176
Gross investment income	4.05	7,501	2.90	3,612	3.59	11,113	1,686		12,799
Investment expenses	(0.12)	(212)	(0.14)	(184)	(0.13)	(396)	(106)		(502)
Investment income after investment expenses	3.93 %	7,289	2.76 %	3,428	3.46 %	10,717	1,580		12,297
Other invested assets(3)		157		137		294	58		352
Investment results of other entities and operations(4)		185		0		185	0		185
Total investment income		\$ 7,631		\$ 3,565		\$ 11,196	\$ 1,638	\$	12,834

(1) For interim periods, yields are annualized. The denominator in the yield percentage is based on quarterly average carrying values for all asset types except for fixed maturities which are based on amortized cost, net of allowance. Amounts for fixed maturities, short-term investments and cash equivalents are also netted for securities lending activity (i.e., income netted for rebate expenses and asset values netted for securities lending liabilities). A yield is not presented for other invested assets as it is not considered a meaningful measure of investment performance. Yields exclude investment income and assets related to other invested assets.

(2) Includes fixed maturity securities classified as available-for-sale and held-to-maturity and excludes fixed maturity securities classified as trading, which are included in other invested assets.

(3) Other invested assets consist of investments in LPs/LLCs, investment real estate held through direct ownership, derivative instruments, fixed maturities classified as trading and other miscellaneous investments.

(4) Includes net investment income of our investment management operations.

(5) The total yield was 3.48% and 3.54% for the nine months ended September 30, 2021 and 2020, respectively.

(6) The denominator in the yield percentage includes "Assets held-for-sale". See Note 1 of the Unaudited Interim Consolidated Statement for additional information on the pending dispositions.

The increase in investment income after investment expenses yield attributable to our general account investments, excluding both the Closed Block division and the Japanese insurance operations' portfolio, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, was primarily the result of the absence of lower yielding fixed income securities previously held within businesses divested over the last twelve months.

The decrease in investment income after investment expenses yield attributable to the Japanese insurance operations' portfolio, for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, was primarily the result of lower fixed income reinvestment rates.

Both the U.S. dollar-denominated and Australian dollar-denominated fixed maturities that are not hedged to yen through third-party derivative contracts provide a yield that is substantially higher than the yield on comparable yen-denominated fixed maturities. The average amortized cost of U.S. dollar-denominated fixed maturities that are not hedged to yen through third-party derivative contracts was approximately \$59.9 billion and \$53.3 billion for the nine months ended September 30, 2021 and 2020, respectively. The majority of U.S. dollar-denominated fixed maturities support liabilities that are denominated in U.S. dollars. The average amortized cost of Australian dollar-denominated fixed maturities that are not hedged to yen through third-party derivative contracts was approximately \$8.0 billion and \$8.0 billion for the nine months ended September 30, 2021 and 2020, respectively. The majority of Australian dollar-denominated fixed maturities support liabilities that are denominated in Australian dollars. For additional information regarding U.S. and Australian dollar investments held in our Japanese insurance operations, see "—Results of Operations by Segment—Impact of Foreign Currency Exchange Rates" above.

Realized Investment Gains and Losses

The following table sets forth “Realized investment gains (losses), net” of our general account apportioned between PFI excluding Closed Block division, and the Closed Block division, by investment type as well as “Related adjustments” and “Charges related to realized investment gains (losses), net” for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)			
PFI excluding Closed Block Division:				
Realized investment gains (losses), net:				
(Addition to) release of allowance for credit losses on fixed maturities	\$ (11)	\$ 89	\$ 28	\$ (129)
Write-downs on fixed maturities(1)	0	(106)	0	(206)
Net gains (losses) on sales and maturities	144	329	1,343	784
Fixed maturity securities(2)	133	312	1,371	449
(Addition to) release of allowance for credit losses on loans	38	2	92	(1)
Net gains (losses) on sales and maturities	0	0	1	9
Commercial mortgage and other loans	38	2	93	8
Derivatives	14	(416)	1,021	(3,017)
OTTI losses on other invested assets recognized in earnings	(31)	0	(46)	(9)
(Addition to) release of allowance for credit losses on other invested assets	0	0	0	0
Other net gains (losses)	43	1	136	22
Other	12	1	90	13
Subtotal	197	(101)	2,575	(2,547)
Investment results of other entities and operations(3)	67	4	66	117
Total — PFI excluding Closed Block Division	264	(97)	2,641	(2,430)
Related adjustments(4)	(148)	333	(876)	(328)
Realized investment gains (losses), net, and related adjustments	116	236	1,765	(2,758)
Charges related to realized investment gains (losses), net(4)	(18)	(69)	(254)	(353)
Realized investment gains (losses), net, and charges related to realized investment gains (losses), net and adjustments	<u>\$ 98</u>	<u>\$ 167</u>	<u>\$ 1,511</u>	<u>\$ (3,111)</u>
Closed Block Division:				
Realized investment gains (losses), net:				
(Addition to) release of allowance for credit losses on fixed maturities	\$ (1)	\$ (3)	\$ 16	\$ (23)
Write-downs on fixed maturities(1)	0	(27)	0	(83)
Net gains (losses) on sales and maturities	87	121	359	329
Fixed maturity securities(2)	86	91	375	223
(Addition to) release of allowance for credit losses on loans	5	8	12	5
Net gains (losses) on sales and maturities	0	(6)	0	(3)
Commercial mortgage and other loans	5	2	12	2
Derivatives	77	(71)	116	49
Other net gains (losses)	0	(4)	2	(8)
Other	0	(4)	2	(8)
Subtotal — Closed Block Division	168	18	505	266
Consolidated PFI realized investment gains (losses), net	<u>\$ 432</u>	<u>\$ (79)</u>	<u>\$ 3,146</u>	<u>\$ (2,164)</u>

(1) Amounts represent write-downs of credit adverse securities, write-downs on securities approaching maturities related to foreign exchange movements and securities actively marketed for sale.

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

(3) Includes “realized investment gains (losses), net” of our investment management operations.

(4) Prior period amounts have been updated to conform to current period presentation.

Three Month Comparison. Net gains on sales and maturities of fixed maturity securities were \$144 million for the third quarter of 2021 primarily driven by the impact of foreign currency exchange rate movements on U.S. and Australian dollar-denominated securities that matured or were sold within our International Businesses segment. Net gains on sales and maturities of fixed maturity securities were \$329 million for the third quarter of 2020 primarily driven by the impact of foreign currency exchange rate movements on U.S. and Australian dollar-denominated securities that matured or were sold within our International Businesses segment and other sales of fixed maturity securities within our domestic segments driven by interest rate declines during the investment holding period.

For the third quarter of 2021, the \$11 million net addition to allowance for credit losses for fixed maturities was due to adverse projected cash flows on investments in the transportation and capital goods sectors within corporate securities, partially offset by a net release on restructured securities within the energy sector. In the third quarter of 2020, the \$89 million net release of allowance for credit losses for fixed maturities was primarily related to a release on restructured securities in the energy sector within corporate securities and foreign government securities.

Net realized gains on derivative instruments of \$14 million for the third quarter of 2021 primarily included:

- \$206 million of gains on foreign currency hedges due to U.S. dollar appreciation versus the British pound sterling and Euro; and
- \$27 million of gains for fees earned on fee-based synthetic guaranteed investment contracts.

Partially offsetting these gains were:

- \$140 million of losses on interest rate derivatives due to an increase in the swap and U.S. Treasury rates;
- \$61 million of losses on capital hedges due to increases in equity indices; and
- \$24 million of losses on product-related embedded derivatives and related hedge positions associated with certain variable annuity contracts.

Net realized losses on derivative instruments of \$416 million for the third quarter of 2020 primarily included:

- \$839 million of losses on capital hedges due to increases in equity indices;
- \$289 million of losses on foreign currency hedges due to U.S. dollar depreciation versus the British pound sterling, euro and Australian dollar; and
- \$207 million of losses on interest rate derivatives due to increases in the swap and U.S. Treasury rates.

Partially offsetting these losses were:

- \$883 million of gains on product-related embedded derivatives and related hedge positions associated with certain variable annuity contracts.

For a discussion of living benefit guarantees and related hedge positions in our Individual Annuities segment, see “—Results of Operations by Segment—U.S. Businesses—Individual Annuities” above.

Included in the table above are “Related adjustments,” which include the portions of “Realized investment gains (losses), net” that are either (1) included in adjusted operating income or (2) included in other reconciling line items to adjusted operating income, such as “Market experience updates” and “Divested and Run-off Businesses.” “Related adjustments” also includes the portions of “Other income (loss)” and “Net investment income” that are excluded from adjusted operating income. These adjustments are made to arrive at “Realized investment gains (losses), net, and related adjustments” which is excluded from adjusted operating income. See Note 13 for additional details on adjusted operating income and its reconciliation to “Income (loss) before income taxes and equity in earnings of operating joint ventures.” Results for the third quarter of 2021 and 2020 reflect net related adjustments of \$(148) million and \$333 million, respectively. Both periods include changes in the fair value of equity securities and fixed income securities that are designated as trading, as well as settlements and changes in the value of derivatives.

Also included in the table above are “Charges related to realized investment gains (losses), net,” which are excluded from adjusted operating income and which may be reflected as either a net charge or net benefit. Results for the third quarter of 2021 and 2020 reflect net charges of \$18 million and \$69 million, respectively, and were primarily driven by the impact of derivative activity on the amortization of DAC and other costs, and certain policyholder reserves.

Nine Month Comparison. Net gains on sales and maturities of fixed maturity securities were \$1,343 million for the first nine months of 2021 primarily driven by sales of U.S. treasuries acquired in a higher interest-rate environment within our domestic segments and the impact of foreign currency exchange rate movements on U.S. and Australian dollar-denominated securities that matured or were sold within our International Businesses segment. Net gains on sales and maturities of fixed maturity securities were \$784 million for the first nine months of 2020 primarily driven by the impact of foreign currency exchange rate movements on U.S. and Australian dollar-denominated securities that matured or were sold within our International Businesses segment and other sales of fixed maturity securities within our domestic segments from interest rate declines during the investment holding period.

The net release of the allowance for credit losses related to fixed maturity securities was \$28 million in the first nine months of 2021 due to the overall improved credit environment in the energy and consumers cyclical sectors within corporate securities, partially offset by net additions in the transportation and utility sectors within corporate securities due to adverse projected cash flows. The net addition to the allowance for credit losses related to fixed maturity securities was \$129 million in the first nine months of 2020 and was concentrated in the energy, communications and consumer cyclical sectors within corporate securities due to liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers. Partially offsetting the addition was a release related to restructured securities in the energy sector within corporate securities and foreign government securities.

Net realized gains on derivative instruments of \$1,021 million for the first nine months of 2021 primarily included:

- \$2,224 million of gains on product-related embedded derivatives and related hedge positions associated with certain variable annuity contracts; and
- \$303 million of gains on foreign currency hedges due to U.S. dollar appreciation versus the British pound sterling and Euro.

Partially offsetting these gains were:

- \$856 million of losses on capital hedges due to increases in equity indices; and
- \$765 million of losses on interest rate derivatives due to increases in the swap and U.S. Treasury rates.

Net realized losses on derivative instruments of \$3,017 million for the first nine months of 2020 primarily included:

- \$4,708 million of losses on product-related embedded derivatives and related hedge positions associated with certain variable annuity contracts; and
- \$1,071 million of losses on capital hedges due to increases in equity indices.

Partially offsetting these losses were:

- \$2,000 million of gains on interest rate derivatives due to decreases in swap and U.S. Treasury rates;
- \$608 million of gains on foreign currency hedges due to U.S. dollar appreciation versus the British pound sterling and due to USD interest rates declining more than foreign interest rates; and
- \$102 million of gains for fees earned on fee-based synthetic GICs.

For a discussion of living benefit guarantees and related hedge positions in our Individual Annuities segment, see “—Results of Operations by Segment—U.S. Businesses—Individual Annuities” above.

Results for the first nine months of 2021 and 2020 reflect net related adjustments of \$(876) million and \$(328) million, respectively. Both periods include changes in the fair value of equity securities and fixed income securities that are designated as trading, as well as settlements and changes in the value of derivatives.

Results for the first nine months of 2021 and 2020 reflect net charges of \$254 million and \$353 million, respectively, and were primarily driven by the impact of derivative activity on the amortization of DAC and other costs, and certain policyholder reserves.

Credit Losses

The level of credit losses generally reflects current and expected economic conditions and is expected to increase when economic conditions worsen and to decrease when economic conditions improve. Historically, the causes of credit losses have been specific to each individual issuer and have not directly resulted in credit losses to other securities within the same industry or geographic region. We may also realize additional credit and interest rate-related losses through sales of investments pursuant to our credit risk and portfolio management objectives.

We maintain separate monitoring processes for public and private fixed maturities and create watch lists to highlight securities that require special scrutiny and management. For private placements, our credit and portfolio management processes help ensure prudent controls over valuation and management. We have separate pricing and authorization processes to establish “checks and balances” for new investments. We apply consistent standards of credit analysis and due diligence for all transactions, whether they originate through our own in-house staff or through agents. Our regional offices closely monitor the portfolios in their regions. We set all valuation standards centrally, and we assess the fair value of all investments quarterly. Our public and private fixed maturity investment managers formally review all public and private fixed maturity holdings on a quarterly basis and more frequently when necessary to identify potential credit deterioration whether due to ratings downgrades, unexpected price variances and/or company or industry-specific concerns.

For LPs/LLCs accounted for using the equity method and for wholly-owned investment real estate, the carrying value of these investments is written down or impaired to fair value when a decline in value is considered to be other-than-temporary. For additional information regarding our OTTI policies, see Note 2 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020.

COVID-19

We believe our investment portfolio has been diligently constructed with a strong focus on ALM discipline, risk management, and capital preservation. Throughout the COVID-19 pandemic we have benefited from our experience in managing highly specialized asset classes throughout credit cycles. While the economy continues to re-open and recover, there could be periods of volatility. The market expectations for credit migration and related losses continue to decrease significantly. The sectors most impacted from COVID-19 have started to recover but may lag the general economic improvement. We continue to monitor our portfolio for potential credit issues and opportunities as part of our overall portfolio and risk management process.

General Account Investments of PFI excluding Closed Block Division

In the following sections, we provide details about our investment portfolio, excluding investments held in the Closed Block division. We believe the details of the composition of our investment portfolio excluding the Closed Block division are most relevant to an understanding of our operations that are pertinent to investors in Prudential Financial, Inc. because substantially all Closed Block division assets support obligations and liabilities relating to the Closed Block policies only. See Note 7 to the Unaudited Interim Consolidated Financial Statements for additional information on the Closed Block.

Fixed Maturity Securities

In the following sections, we provide details about our fixed maturity securities portfolio, which excludes fixed maturity securities classified as assets supporting experience-rated contractholder liabilities and classified as trading.

Fixed Maturity Securities by Industry

The following table sets forth the composition of the portion of our fixed maturity, available-for-sale portfolio by industry category attributable to PFI excluding the Closed Block division and the associated gross unrealized gains and losses, as well as the allowance for credit losses (“ACL”), as of the dates indicated:

Industry(1)	September 30, 2021					December 31, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	ACL	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	ACL	Fair Value
(in millions)										
Corporate securities:										
Finance	\$ 36,775	\$ 3,591	\$ 164	\$ 0	\$ 40,202	\$ 37,577	\$ 5,240	\$ 70	\$ 0	\$ 42,747
Consumer non-cyclical	29,134	3,680	172	1	32,641	28,891	5,085	52	0	33,924
Utility	23,420	3,241	115	19	26,527	24,235	4,504	60	11	28,668
Capital goods	13,646	1,409	70	5	14,980	13,711	1,947	49	2	15,607
Consumer cyclical	10,459	1,069	45	0	11,483	11,196	1,536	52	13	12,667
Foreign agencies	5,162	676	23	0	5,815	5,323	903	11	0	6,215
Energy	11,650	1,377	62	2	12,963	12,257	1,583	118	58	13,664
Communications	6,573	1,059	52	31	7,549	6,013	1,343	35	22	7,299
Basic industry	5,913	670	33	0	6,550	5,895	914	17	0	6,792
Transportation	9,387	1,043	68	19	10,343	10,067	1,568	40	0	11,595
Technology	4,502	289	37	3	4,751	3,717	381	14	0	4,084
Industrial other	4,369	513	45	0	4,837	4,485	778	21	0	5,242
Total corporate securities	160,990	18,617	886	80	178,641	163,367	25,782	539	106	188,504
Foreign government(2)	85,012	12,497	460	0	97,049	93,521	16,229	236	0	109,514
Residential mortgage-backed(3)	2,616	137	11	0	2,742	2,572	198	0	0	2,770
Asset-backed	8,429	113	6	0	8,536	11,584	137	67	0	11,654
Commercial mortgage-backed	8,332	508	8	0	8,832	10,296	883	8	0	11,171
U.S. Government	22,303	4,736	85	0	26,954	25,959	8,348	15	0	34,292
State & Municipal	9,978	1,660	15	0	11,623	10,142	1,991	1	0	12,132
Total fixed maturities, available-for-sale(4)	\$ 297,660	\$ 38,268	\$ 1,471	\$ 80	\$ 334,377	\$ 317,441	\$ 53,568	\$ 866	\$ 106	\$ 370,037

(1) Investment data has been classified based on standard industry categorizations for domestic public holdings and similar classifications by industry for all other holdings.

(2) As of September 30, 2021 and December 31, 2020, based on amortized cost, 89% and 86%, respectively, represent Japanese government bonds held by our Japanese insurance operations with no other individual country representing more than 4% of the balance at both periods.

(3) As of both September 30, 2021 and December 31, 2020, based on amortized cost, 97% were rated A or higher.

(4) Excluded from the table above are securities held outside the general account in other entities and operations. For additional information regarding investments held outside the general account, see “—Invested Assets of Other Entities and Operations” below. Also excludes “Assets held-for-sale” of \$15,643 million (amortized cost of \$14,985 million) as of September 30, 2021. Unrealized gains of \$783 million, unrealized losses of \$123 million and the allowance for credit losses of \$2 million related to these held for sale assets are also excluded from the presentation. See Note 1 of the Unaudited Interim Consolidated Financial Statements for additional information on the pending dispositions.

The decrease in net unrealized gains from December 31, 2020 to September 30, 2021 was primarily due to an increase in U.S. interest rates.

The following table sets forth the composition of the portion of our fixed maturity, held-to-maturity portfolio by industry category attributable to PFI excluding the Closed Block division and the associated gross unrealized gains and losses, as well as the allowance for credit losses, as of the dates indicated:

Industry(1)	September 30, 2021					December 31, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	ACL	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	ACL
(in millions)										
Corporate securities:										
Finance	\$ 500	\$ 54	\$ 0	\$ 554	\$ 6	\$ 651	\$ 67	\$ 0	\$ 718	\$ 9
Basic industry	81	1	0	82	0	87	2	0	89	0
Total corporate securities	581	55	0	636	6	738	69	0	807	9
Foreign government(2)	859	235	0	1,094	0	935	270	0	1,205	0
Residential mortgage-backed(3)	210	16	0	226	0	266	20	0	286	0
Total fixed maturities, held-to-maturity	\$ 1,650	\$ 306	\$ 0	\$ 1,956	\$ 6	\$ 1,939	\$ 359	\$ 0	\$ 2,298	\$ 9

(1) Investment data has been classified based on standard industry categorizations for domestic public holdings and similar classifications by industry for all other holdings.

(2) As of September 30, 2021 and December 31, 2020, based on amortized cost, 97% and 98%, respectively, represent Japanese government bonds held by our Japanese insurance operations.

(3) As of both September 30, 2021 and December 31, 2020, based on amortized cost, all were rated A or higher.

Fixed Maturity Securities Credit Quality

The Securities Valuation Office (“SVO”) of the National Association of Insurance Commissioners (“NAIC”) evaluates the investments of insurers for statutory reporting purposes and assigns fixed maturity securities to one of six categories called “NAIC Designations.” In general, NAIC Designations of “1” highest quality, or “2” high quality, include fixed maturities considered investment grade, which include securities rated Baa3 or higher by Moody’s Investor Service, Inc. (“Moody’s”) or BBB- or higher by Standard & Poor’s Rating Services (“S&P”). NAIC Designations of “3” through “6” generally include fixed maturities referred to as below investment grade, which include securities rated Ba1 or lower by Moody’s and BB+ or lower by S&P. The NAIC Designations for commercial mortgage-backed securities and non-agency residential mortgage-backed securities, including our asset-backed securities collateralized by sub-prime mortgages, are based on security level expected losses as modeled by an independent third-party (engaged by the NAIC) and the statutory carrying value of the security, including any purchase discounts or impairment charges previously recognized.

As a result of time lags between the funding of investments, the finalization of legal documents, and the completion of the SVO filing process, the fixed maturity portfolio includes certain securities that have not yet been designated by the SVO as of each balance sheet date. Pending receipt of SVO designations, the categorization of these securities by NAIC Designation is based on the expected ratings indicated by internal analysis.

Investments of our international insurance companies are not subject to NAIC guidelines. Investments of our Japanese insurance operations are regulated locally by the Financial Services Agency (“FSA”), an agency of the Japanese government. The FSA has its own investment quality criteria and risk control standards. Our Japanese insurance companies comply with the FSA’s credit quality review and risk monitoring guidelines. The credit quality ratings of the investments of our Japanese insurance companies are based on ratings assigned by nationally recognized credit rating agencies, including Moody’s and S&P, or rating equivalents based on ratings assigned by Japanese credit ratings agencies.

The following table sets forth our fixed maturity, available-for-sale portfolio by NAIC Designation or equivalent rating attributable to PFI excluding the Closed Block division, as of the dates indicated:

NAIC Designation(1) (2)	September 30, 2021					December 31, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses(3)	ACL	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses(3)	ACL	Fair Value
(in millions)										
1	\$ 210,587	\$ 29,521	\$ 784	\$ 0	\$ 239,324	\$ 229,951	\$ 41,311	\$ 381	\$ 0	\$ 270,881
2	68,365	7,625	366	0	75,624	68,458	10,683	180	0	78,961
Subtotal High or Highest Quality Securities(4)	278,952	37,146	1,150	0	314,948	298,409	51,994	561	0	349,842
3	11,745	799	153	0	12,391	11,913	1,192	95	0	13,010
4	5,133	193	112	0	5,214	5,119	211	119	23	5,188
5	1,417	81	45	31	1,422	1,629	123	67	16	1,669
6	413	49	11	49	402	371	48	24	67	328
Subtotal Other Securities(5) (6)	18,708	1,122	321	80	19,429	19,032	1,574	305	106	20,195
Total fixed maturities, available-for- sale(7)	\$ 297,660	\$ 38,268	\$ 1,471	\$ 80	\$ 334,377	\$ 317,441	\$ 53,568	\$ 866	\$ 106	\$ 370,037

(1) Reflects equivalent ratings for investments of the international insurance operations.

(2) Includes, as of September 30, 2021 and December 31, 2020, 597 securities with amortized cost of \$4,035 million (fair value, \$4,068 million) and 102 securities with amortized cost of \$356 million (fair value, \$382 million), respectively, that have been categorized based on expected NAIC Designations pending receipt of SVO ratings.

(3) As of September 30, 2021, includes gross unrealized losses of \$195 million on public fixed maturities and \$126 million on private fixed maturities considered to be other than high or highest quality and, as of December 31, 2020, includes gross unrealized losses of \$184 million on public fixed maturities and \$121 million on private fixed maturities considered to be other than high or highest quality.

(4) On an amortized cost basis, as of September 30, 2021, includes \$236,714 million of public fixed maturities and \$42,238 million of private fixed maturities and, as of December 31, 2020, includes \$253,387 million of public fixed maturities and \$45,022 million of private fixed maturities.

(5) On an amortized cost basis, as of September 30, 2021, includes \$9,753 million of public fixed maturities and \$8,955 million of private fixed maturities and, as of December 31, 2020, includes \$9,592 million of public fixed maturities and \$9,440 million of private fixed maturities.

(6) On an amortized cost basis, as of September 30, 2021, securities considered below investment grade based on low issue composite ratings total \$15,454 million, or 5% of the total fixed maturities, and include securities considered high or highest quality by the NAIC based on the rules described above.

(7) Excludes "Assets held-for-sale" of \$15,643 million at fair value as of September 30, 2021. See Note 1 of the Unaudited Interim Consolidated Financial Statements for additional information on the pending dispositions.

The following table sets forth our fixed maturity, held-to-maturity portfolio by NAIC Designation or equivalent rating attributable to PFI excluding the Closed Block division, as of the dates indicated:

NAIC Designation(1)	September 30, 2021					December 31, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses(2)	Fair Value	ACL	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses(2)	Fair Value	ACL
	(in millions)									
1	\$ 1,556	\$ 298	\$ 0	\$ 1,854	\$ 4	\$ 1,839	\$ 349	\$ 0	\$ 2,188	\$ 7
2	94	8	0	102	2	100	10	0	110	2
Subtotal High or Highest Quality Securities(3)	1,650	306	0	1,956	6	1,939	359	0	2,298	9
3	0	0	0	0	0	0	0	0	0	0
4	0	0	0	0	0	0	0	0	0	0
5	0	0	0	0	0	0	0	0	0	0
6	0	0	0	0	0	0	0	0	0	0
Subtotal Other Securities	0	0	0	0	0	0	0	0	0	0
Total fixed maturities, held-to-maturity	\$ 1,650	\$ 306	\$ 0	\$ 1,956	\$ 6	\$ 1,939	\$ 359	\$ 0	\$ 2,298	\$ 9

(1) Reflects equivalent ratings for investments of the international insurance operations.

(2) As of both September 30, 2021 and December 31, 2020, there were no gross unrealized losses on public fixed maturities and private fixed maturities considered to be other than high or highest quality.

(3) On an amortized cost basis, as of September 30, 2021, includes \$1,470 million of public fixed maturities and \$180 million of private fixed maturities and, as of December 31, 2020, includes \$1,728 million of public fixed maturities and \$211 million of private fixed maturities.

Asset-Backed and Commercial Mortgage-Backed Securities

The following table sets forth the amortized cost and fair value of asset-backed and commercial mortgage-backed securities within our fixed maturity available-for-sale portfolio attributable to PFI excluding the Closed Block division by credit quality, as of the dates indicated:

Low Issue Composite Rating(1)	September 30, 2021				December 31, 2020			
	Asset-Backed Securities(2)		Commercial Mortgage-Backed Securities(3)		Asset-Backed Securities(2)		Commercial Mortgage-Backed Securities(3)	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)							
AAA	\$ 7,487	\$ 7,530	\$ 8,321	\$ 8,821	\$ 11,327	\$ 11,323	\$ 10,284	\$ 11,159
AA	836	838	0	0	139	144	1	2
A	11	11	2	2	16	17	2	2
BBB	16	18	9	9	12	13	9	8
BB and below	79	139	0	0	90	157	0	0
Total(4)	\$ 8,429	\$ 8,536	\$ 8,332	\$ 8,832	\$ 11,584	\$ 11,654	\$ 10,296	\$ 11,171

(1) The table above provides ratings as assigned by nationally recognized rating agencies as of September 30, 2021, including S&P, Moody's, Fitch Ratings, Inc. ("Fitch") and Morningstar, Inc. ("Morningstar"). Low issue composite rating uses ratings from the major credit rating agencies or if these are not available an equivalent internal rating. For securities where the ratings assigned are not equivalent, the second lowest rating is utilized.

(2) Includes collateralized loan obligations ("CLOs"), credit-tranched securities collateralized by home equity and other asset types.

(3) As of September 30, 2021 and December 31, 2020, based on amortized cost, 99% and 98%, respectively, were securities with vintages of 2013 or later.

(4) Excludes fixed maturity securities classified as "Assets supporting experience-rated contractholder liabilities" and "Fixed maturities, trading," as well as securities held outside the general account in other entities and operations. Also excludes "Assets held-for-sale" of \$1,609 million and \$1,154 million at fair value of asset-backed securities and commercial mortgage-backed securities, respectively, as of September 30, 2021. See Note 1 of the Unaudited Interim Consolidated Financial Statements for additional information on the pending dispositions.

Included in "Asset-backed securities" above are investments in CLOs. The following table sets forth information pertaining to these investments in CLOs within our fixed maturity available-for-sale portfolio attributable to PFI excluding the Closed Block division, as of the dates indicated:

Low Issue Composite Rating(1)	September 30, 2021		December 31, 2020	
	Collateralized Loan Obligations			
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
AAA	\$ 6,574	\$ 6,593	\$ 9,554	\$ 9,506
AA	734	732	2	2
A	9	9	1	1
BBB	8	8	1	1
BB and below	9	9	1	1
Total(2)(3)	\$ 7,334	\$ 7,351	\$ 9,559	\$ 9,511

(1) The table above provides ratings as assigned by nationally recognized rating agencies as of September 30, 2021, including S&P, Moody's, Fitch and Morningstar. Low issue composite rating uses ratings from the major credit rating agencies or if these are not available an equivalent internal rating. For securities where the ratings assigned are not equivalent, the second lowest rating is utilized.

(2) There was no allowance for credit losses as of both September 30, 2021 and December 31, 2020.

(3) Excludes fixed maturity securities classified as "Assets supporting experience-rated contractholder liabilities" and "Fixed maturities, trading," as well as securities held outside the general account in other entities and operations. Also excludes "Assets held-for-sale" of \$1,491 million at fair value as of September 30, 2021. See Note 1 of the Unaudited Interim Consolidated Financial Statements for additional information on the pending dispositions.

Assets Supporting Experience-Rated Contractholder Liabilities

For information regarding the composition of "Assets supporting experience-rated contractholder liabilities," see Note 3 to the Unaudited Interim Consolidated Financial Statements.

Commercial Mortgage and Other Loans

Investment Mix

The following table sets forth the composition of our commercial mortgage and other loans portfolio attributable to PFI excluding the Closed Block division, as of the dates indicated:

	September 30, 2021	December 31, 2020
	(in millions)	
Commercial mortgage and agricultural property loans	\$ 47,816	\$ 55,223
Uncollateralized loans	574	655
Residential property loans	74	101
Other collateralized loans	68	120
Total recorded investment gross of allowance(1)	48,532	56,099
Allowance for credit losses	(100)	(207)
Total net commercial mortgage and other loans(2)	\$ 48,432	\$ 55,892

(1) As a percentage of recorded investment gross of allowance, more than 99% of these assets were current as of both September 30, 2021 and December 31, 2020, respectively.

(2) Excluded from the table above are commercial mortgage and other loans held outside the general account in other entities and operations. For additional information regarding commercial mortgage and other loans held outside the general account, see "—Invested Assets of Other Entities and Operations" below. Also excluded are "Assets held-for-sale" of \$7,539 million net of allowance for credit losses of \$12 million as of September 30, 2021. See Note 1 of the Unaudited Interim Consolidated Financial Statements for additional information on the pending dispositions.

We originate commercial mortgage and agricultural property loans using a dedicated sales and underwriting staff through our various regional offices in the U.S. and international offices primarily in London and Tokyo. All loans are underwritten consistently to our standards using a proprietary quality rating system that has been developed from our industry experience in real estate and mortgage lending.

Uncollateralized loans primarily represent corporate loans held by the Company's international insurance operations.

Residential property loans primarily include Japanese recourse loans. Upon default of these recourse loans, we can make a claim against the personal assets of the property owner, in addition to the mortgaged property. These loans are also backed by third-party guarantors.

Other collateralized loans include consumer loans.

Composition of Commercial Mortgage and Agricultural Property Loans

Our commercial mortgage and agricultural property loan portfolio strategy emphasizes diversification by property type and geographic location. The following tables set forth the breakdown of the gross carrying values of commercial mortgage and agricultural property loans attributable to PFI excluding the Closed Block division by geographic region and property type, as of the dates indicated:

	September 30, 2021		December 31, 2020	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
(\$ in millions)				
Commercial mortgage and agricultural property loans by region:				
U.S. Regions(1):				
Pacific	\$ 17,558	36.7 %	\$ 19,186	34.7 %
South Atlantic	7,673	16.1	8,710	15.8
Middle Atlantic	5,748	12.0	6,500	11.8
East North Central	2,596	5.4	3,018	5.5
West South Central	4,328	9.1	5,426	9.8
Mountain	2,006	4.2	2,239	4.1
New England	1,159	2.4	1,664	3.0
West North Central	446	0.9	531	0.9
East South Central	760	1.6	836	1.5
Subtotal-U.S.	42,274	88.4	48,110	87.1
Europe	3,374	7.1	4,605	8.3
Asia	951	2.0	979	1.8
Other	1,217	2.5	1,529	2.8
Total commercial mortgage and agricultural property loans(2)	\$ 47,816	100.0 %	\$ 55,223	100.0 %

(1) Regions as defined by the United States Census Bureau.

(2) Excludes "Assets held-for-sale" of \$7,551 million as of September 30, 2021. See Note 1 of the Unaudited Interim Consolidated Financial Statements for additional information on the pending dispositions.

	September 30, 2021		December 31, 2020	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
(\$ in millions)				
Commercial mortgage and agricultural property loans by property type:				
Industrial	\$ 11,809	24.7 %	\$ 13,819	25.0 %
Retail	5,137	10.7	5,718	10.4
Office	8,638	18.1	10,719	19.4
Apartments/Multi-Family	13,769	28.8	15,316	27.7
Agricultural properties	3,342	7.0	3,273	5.9
Hospitality	1,601	3.3	2,056	3.7
Other	3,520	7.4	4,322	7.9
Total commercial mortgage and agricultural property loans(1)	<u>\$ 47,816</u>	<u>100.0 %</u>	<u>\$ 55,223</u>	<u>100.0 %</u>

(1) Excludes "Assets held-for-sale" of \$7,551 million as of September 30, 2021. See Note 1 of the Unaudited Interim Consolidated Financial Statements for additional information on the pending dispositions.

Loan-to-value and debt service coverage ratios are measures commonly used to assess the quality of commercial mortgage and agricultural property loans. The loan-to-value ratio compares the amount of the loan to the fair value of the underlying property collateralizing the loan and is commonly expressed as a percentage. A loan-to-value ratio less than 100% indicates an excess of collateral value over the loan amount. Loan-to-value ratios greater than 100% indicate that the loan amount exceeds the collateral value. The debt service coverage ratio compares a property's net operating income to its debt service payments. Debt service coverage ratios less than 1.0 times indicate 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 times indicates an excess of net operating income over the debt service payments.

As of September 30, 2021, our commercial mortgage and agricultural property loans attributable to PFI excluding the Closed Block division had a weighted-average debt service coverage ratio of 2.49 times and a weighted-average loan-to-value ratio of 68%. As of September 30, 2021, 95% of commercial mortgage and agricultural property loans were fixed rate loans. For those commercial mortgage and agricultural property loans that were originated in 2021, the weighted-average debt service coverage ratio was 3.18 times, and the weighted-average loan-to-value ratio was 62%.

The values utilized in calculating these loan-to-value ratios are developed as part of our periodic review of the commercial mortgage and agricultural property loan portfolio, which includes an internal evaluation of the underlying collateral value. Our periodic review also includes a credit quality re-rating process, whereby we update the internal quality rating originally assigned at underwriting based on the proprietary quality rating system mentioned above. As discussed below, the internal credit quality rating is a key input in determining our allowance for credit losses.

For loans with collateral under construction, renovation or lease-up, a stabilized value and projected net operating income are used in the calculation of the loan-to-value and debt service coverage ratios. Our commercial mortgage and agricultural property loan portfolio included \$2.3 billion and \$2.4 billion of such loans as of September 30, 2021 and December 31, 2020, respectively. All else being equal, these loans are inherently riskier than those collateralized by properties that have already stabilized. As of September 30, 2021 and December 31, 2020, there were less than \$1 million and \$1 million, respectively, of allowance related to these loans. In addition, these unstabilized loans are included in the calculation of our portfolio reserve, as discussed below.

The following table sets forth the gross carrying value of our commercial mortgage and agricultural property loans attributable to PFI excluding the Closed Block division by loan-to-value and debt service coverage ratios, as of the date indicated:

	September 30, 2021				Total Commercial Mortgage and Agricultural Property Loans
	Debt Service Coverage Ratio				
	≥ 1.2x	1.0x to < 1.2x	< 1.0x		
<u>Loan-to-Value Ratio</u>	(in millions)				
0%-59.99%	\$ 22,556	\$ 659	\$ 380	\$ 23,595	
60%-69.99%	14,024	1,299	748	16,071	
70%-79.99%	6,291	709	552	7,552	
80% or greater	159	341	98	598	
Total commercial mortgage and agricultural property loans(1)	\$ 43,030	\$ 3,008	\$ 1,778	\$ 47,816	

(1) Excludes “Assets held-for-sale” of \$7,551 million. See Note 1 of the Unaudited Interim Consolidated Financial Statements for additional information on the pending dispositions.

The following table sets forth the breakdown of our commercial mortgage and agricultural property loans attributable to PFI excluding the Closed Block division by year of origination, as of the date indicated:

	September 30, 2021	
	Gross Carrying Value	% of Total
Year of Origination	(\$ in millions)	
2021	\$ 3,784	7.9 %
2020	4,121	8.6
2019	8,147	17.0
2018	7,457	15.6
2017	5,357	11.2
2016	4,918	10.3
2015	4,587	9.6
2014 & Prior	9,445	19.8
Total commercial mortgage and agricultural property loans(1)	<u>\$ 47,816</u>	<u>100.0 %</u>

(1) Excludes “Assets held-for-sale” of \$7,551 million. See Note 1 of the Unaudited Interim Consolidated Financial Statements for additional information on the pending dispositions.

Commercial Mortgage and Other Loans Quality

The commercial mortgage and other loans portfolio is monitored on an ongoing basis. If certain criteria are met, loans are assigned to either of the following “watch list” categories:

- (1) “Closely Monitored,” which includes a variety of considerations, such as when loan metrics fall below acceptable levels, the borrower is not cooperative or has requested a material modification, or the portfolio manager has directed a change in category; or
- (2) “Not in Good Standing,” which includes loans in default or with a high probability of loss of principal, such as when the loan is in the process of foreclosure or the borrower is in bankruptcy.

Our workout and special servicing professionals manage the loans on the watch list.

The current expected credit loss (“CECL”) allowance represents the Company’s best estimate of expected credit losses over the remaining life of the assets. The determination of the allowance considers historical credit loss experience, current conditions, and reasonable and supportable forecasts. The allowance is calculated separately for commercial mortgage loans, agricultural mortgage loans, uncollateralized loans, other collateralized loans and residential property loans.

For commercial mortgage and agricultural mortgage loans, the allowance is calculated using an internally developed CECL model.

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.

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

The CECL allowance for other collateralized and uncollateralized 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.

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

	September 30, 2021	December 31, 2020
	(in millions)	
Allowance, beginning of year	\$ 207	\$ 102
Cumulative effect of adoption of ASU 2016-13	0	101
Addition to (release of) allowance for credit losses	(92)	1
Reclassified as "Assets held-for-sale"(1)	(12)	0
Other	(3)	3
Allowance, end of period	<u>\$ 100</u>	<u>\$ 207</u>

(1) See Note 1 of the Unaudited Interim Consolidated Financial Statements for additional information on the pending dispositions.

The allowance for credit losses as of September 30, 2021 decreased compared to December 31, 2020, primarily reflecting the improving credit environment.

Equity Securities

The equity securities attributable to PFI excluding the Closed Block division consist principally of investments in Common and Preferred Stock of publicly-traded companies, as well as mutual fund shares. The following table sets forth the composition of our equity securities portfolio and the associated gross unrealized gains and losses, as of the dates indicated:

	September 30, 2021				December 31, 2020			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)							
Mutual funds(1)	\$ 905	\$ 566	\$ 0	\$ 1,471	\$ 956	\$ 404	\$ 5	\$ 1,355
Other Common Stocks(1)	2,028	1,104	26	3,106	2,726	1,019	62	3,683
Non-redeemable Preferred Stocks	85	64	5	144	54	22	6	70
Total equity securities, at fair value(2)	<u>\$ 3,018</u>	<u>\$ 1,734</u>	<u>\$ 31</u>	<u>\$ 4,721</u>	<u>\$ 3,736</u>	<u>\$ 1,445</u>	<u>\$ 73</u>	<u>\$ 5,108</u>

(1) Prior period amounts have been updated to conform to current period presentation.

(2) Amounts presented exclude investments in private equity and hedge funds and other investments which are reported in "Other invested assets". Excludes "Assets held-for-sale" of \$236 million at fair value as of September 30, 2021. See Note 1 of the Unaudited Interim Consolidated Financial Statements for additional information on the pending dispositions.

The net change in unrealized gains (losses) from equity securities attributable to PFI excluding Closed Block division, including "Assets held-for-sale", still held at period end, recorded within "Other income (loss)," was \$85 million and \$213

million during the three months ended September 30, 2021 and 2020, respectively, and \$328 million and \$(173) million during the nine months ended September 30, 2021 and 2020, respectively.

Other Invested Assets

The following table sets forth the composition of “Other invested assets” attributable to PFI excluding the Closed Block division, as of the dates indicated:

	September 30, 2021	December 31, 2020
	(in millions)	
LPs/LLCs:		
Equity method:		
Private equity(1)	\$ 4,755	\$ 3,411
Hedge funds	2,040	1,770
Real estate-related(1)	1,341	1,214
Subtotal equity method	8,136	6,395
Fair value:		
Private equity	1,139	1,063
Hedge funds	1,031	1,111
Real estate-related	33	41
Subtotal fair value	2,203	2,215
Total LPs/LLCs	10,339	8,610
Real estate held through direct ownership(2)	939	1,176
Derivative instruments	222	199
Other(3)	411	731
Total other invested assets(4)	\$ 11,911	\$ 10,716

(1) Prior period amounts have been updated to conform to current period presentation.

(2) As of September 30, 2021 and December 31, 2020, real estate held through direct ownership had mortgage debt of \$276 million and \$409 million, respectively.

(3) Primarily includes leveraged leases and member and activity stock held in the Federal Home Loan Banks of New York and Boston. For additional information regarding our holdings in the Federal Home Loan Banks of New York and Boston, see Note 17 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020.

(4) Excludes “Assets held-for-sale” of \$160 million as of September 30, 2021. See Note 1 of the Unaudited Interim Consolidated Financial Statements for additional information on the pending dispositions.

Invested Assets of Other Entities and Operations

“Invested Assets of Other Entities and Operations” presented below includes investments held outside the general account and primarily represents investments associated with our investment management operations and derivative operations. Our derivative operations act on behalf of affiliates primarily to manage interest rate, foreign currency, credit and equity exposures. Assets within our investment management operations that are managed for third-parties and those assets classified as “Separate account assets” on our balance sheet are not included.

	September 30, 2021	December 31, 2020
	(in millions)	
Fixed maturities:		
Public, available-for-sale, at fair value(1)	\$ 487	\$ 644
Fixed maturities, trading, at fair value(1)	213	212
Equity securities, at fair value	698	682
Commercial mortgage and other loans, at book value(2)	1,127	1,112
Other invested assets	4,174	3,799
Short-term investments	36	36
Total investments	\$ 6,735	\$ 6,485

(1) As of September 30, 2021 and December 31, 2020, balances include investments in CLOs with fair value of \$366 million and \$496 million, respectively.

(2) Book value is generally based on unpaid principal balance, net of any allowance for credit losses, or at fair value, when the fair value option has been elected.

Fixed Maturities, Trading

“Fixed maturities, trading, at fair value” are primarily related to assets associated with consolidated VIEs for which the Company is the investment manager. The assets of the consolidated VIEs are generally offset by liabilities for which the fair value option has been elected. For further information on these consolidated VIEs, see Note 4 to the Unaudited Interim Consolidated Financial Statements.

Commercial Mortgage and Other Loans

Our investment management operations include our commercial mortgage operations, which provide mortgage origination, investment management and servicing for our general account, institutional clients, the Federal Housing Administration and government-sponsored entities such as Fannie Mae and Freddie Mac.

The mortgage loans of our commercial mortgage operations are included in “Commercial mortgage and other loans.” Derivatives and other hedging instruments related to our commercial mortgage operations are primarily included in “Other invested assets.”

Other Invested Assets

“Other invested assets” primarily include assets of our derivative operations used to manage interest rate, foreign currency, credit, and equity exposures.

Furthermore, other invested assets include strategic investments made as part of our investment management operations. We make these strategic investments in real estate, as well as fixed income, public equity and real estate securities, including controlling interests. Certain of these investments are made primarily for purposes of co-investment in our managed funds and structured products. Other strategic investments are made with the intention to sell or syndicate to investors, including our general account, or for placement in funds and structured products that we offer and manage (seed investments). As part of our investment management operations, we also make loans to our managed funds that are secured by equity commitments from investors or assets of the funds. “Other invested assets” also include certain assets in consolidated investment funds where the Company is deemed to exercise control over the funds.

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 businesses, 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 businesses, general economic conditions and our access to the capital markets and the alternate 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 Prudential Financial and its subsidiaries 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 across 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 Prudential Financial and its subsidiaries.

Our businesses are subject to comprehensive regulation and supervision by domestic and international regulators. These regulations currently include requirements (many of which are the subject of ongoing rule-making) relating to capital and liquidity management. For information on these regulatory initiatives and their potential impact on us, see “Business—Regulation” and “Risk Factors” included in our Annual Report on Form 10-K for the year ended December 31, 2020.

From the beginning of 2021 through the date of this report, we took the following significant actions that have impacted, or are expected to impact, our liquidity and capital positions:

- In February 2021, Prudential Financial’s Board of Directors (the “Board”) authorized the Company to repurchase at management’s discretion up to \$1.5 billion of its outstanding Common Stock during the period from January 1, 2021 through December 31, 2021. In May 2021, the Board increased this current share repurchase authorization by \$500 million, bringing the aggregate share repurchase authorization for calendar year 2021 to \$2.0 billion. In July 2021, the Board further increased this authorization by an additional \$500 million, bringing the aggregate share repurchase authorization for the calendar year 2021 to \$2.5 billion.
- During 2021, we entered into agreements for a number of business dispositions, including for the sale of our Full Service Retirement business and a portion of our in-force traditional variable annuity block of business. For more information about these transactions, see Note 1 to our Unaudited Interim Consolidated Financial Statements contained herein.
- In July 2021, the Company amended and restated its \$4.0 billion five-year credit facility, extending the term of the facility to July 2026. The extension also includes certain sustainability-linked pricing adjustments, by which the applicable interest rate margins and commitment fee may be adjusted based on the Company’s ability to meet certain targets.
- In August 2021, we redeemed our \$700 million 3.500% medium-term notes due 2021 and \$210 million of our \$600 million 3.878% medium-term notes due 2028.

Capital

The primary components of the Company’s capitalization consist of equity and outstanding capital debt, including junior subordinated debt. As shown in the table below, as of September 30, 2021, the Company had \$52.6 billion in capital, all of which was available to support the aggregate capital requirements of its businesses and its Corporate and Other operations. Based on our assessment of these businesses and operations, we believe this level of capital is consistent with our ratings targets.

	September 30, 2021	December 31, 2020
	(in millions)	
Equity(1)	\$ 40,051	\$ 36,687
Junior subordinated debt (including hybrid securities)	7,617	7,615
Other capital debt	4,975	5,856
Total capital	\$ 52,643	\$ 50,158

(1) Amounts attributable to Prudential Financial, excluding AOCL.

We manage PICA, The Prudential Life Insurance Company, Ltd. (“Prudential of Japan”), Gibraltar Life, and other significant insurance subsidiaries to regulatory capital levels consistent with our “AA” ratings targets. We utilize the risk-based capital (“RBC”) ratio as a primary measure of the capital adequacy of our domestic insurance subsidiaries and the solvency margin ratio as a primary measure of the capital adequacy of our Japanese insurance subsidiaries.

The table below presents the RBC ratios of our most significant domestic insurance subsidiaries as of December 31, 2020, the most recent statutory fiscal year-end and RBC reporting date for these subsidiaries.

	Ratio(1)
PICA(2)	394 %
Prudential Annuities Life Assurance Corporation (“PALAC”)	465 %
Composite Major U.S. Insurance Subsidiaries(3)	411 %

(1) The 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.

(2) Includes Prudential Retirement Insurance and Annuity Company (“PRIAC”), Pruco Life Insurance Company (“Pruco Life”), Pruco Life Insurance Company of New Jersey (“PLNJ”), which is a subsidiary of Pruco Life, and Prudential Legacy Insurance Company of New Jersey (“PLIC”).

(3) Includes PICA and its subsidiaries, as noted above, and PALAC. Composite RBC is not reported to regulators and is based on the summation of total adjusted capital and risk charges for the included companies as determined under statutory accounting and RBC guidance to calculate a composite numerator and denominator, respectively, for purposes of calculating the composite ratio.

Similar to the RBC ratios that are employed by U.S. insurance regulators, regulatory authorities in the international jurisdictions in which we operate generally establish some form of minimum solvency margin requirements for insurance companies based on local statutory accounting practices. These solvency margins are a primary measure of the capital adequacy of our international insurance operations. Maintenance of our solvency margins at certain levels is also important to our competitive positioning, as in certain jurisdictions, such as Japan, these solvency margins are required to be disclosed to the public and therefore impact the public perception of an insurer's financial strength.

The table below presents the solvency margin ratios of our most significant international insurance subsidiaries as of June 30, 2021, the most recent date for which this information is available.

	Ratio
Prudential of Japan consolidated(1)	828 %
Gibraltar Life consolidated(2)	938 %

(1) Includes Prudential Trust Co., Ltd., a subsidiary of Prudential of Japan.

(2) Includes Prudential Gibraltar Financial Life Insurance Co., Ltd. ("PGFL"), a subsidiary of Gibraltar Life.

All of our domestic and significant international insurance subsidiaries have capital levels that substantially exceed the minimum level required by applicable insurance regulations; however, market conditions could negatively impact the statutory capital of our insurance companies and constrain our overall capital flexibility. Our regulatory capital levels also 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. For additional information on the calculation of RBC and solvency margin ratios, as well as regulatory minimums, see Note 19 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

Captive Reinsurance Companies

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

Shareholder Distributions

Share Repurchase Program and Shareholder Dividends

In February 2021, Prudential Financial's Board of Directors authorized the Company to repurchase, at management's discretion, up to \$1.5 billion of its outstanding Common Stock during the period from January 1, 2021 through December 31, 2021. This authorization was increased by \$500 million in each of May 2021 and July 2021, bringing the aggregate share repurchase authorization for calendar year 2021 to \$2.5 billion.

In general, the timing and amount of share repurchases are determined by management based on market conditions and other considerations, including any increased capital needs of our businesses due to, among other things, credit migration and losses in our investment portfolio, changes in regulatory capital requirements and opportunities for growth and acquisitions. Repurchases may be executed in the open market, through derivative, accelerated repurchase and other negotiated transactions and through plans designed to comply with Rule 10b5-1(c) under the Securities Exchange Act of 1934.

The following table sets forth information about declarations of Common Stock dividends, as well as repurchases of shares of Prudential Financial's Common Stock, for the nine months ended September 30, 2021.

Three months ended:	Dividend Amount		Shares Repurchased	
	Per Share	Aggregate	Shares	Total Cost
	(in millions, except per share data)			
March 31, 2021	\$ 1.15	\$ 467	4.3	\$ 375
June 30, 2021	\$ 1.15	\$ 460	8.4	\$ 875
September 30, 2021	\$ 1.15	\$ 451	8.4	\$ 875

Liquidity

Liquidity management and stress testing are performed on a legal entity basis as the ability to transfer funds between subsidiaries is limited due in part to regulatory restrictions. Liquidity needs are determined through daily and quarterly cash flow forecasting at the holding company and within our operating subsidiaries. We seek to maintain a minimum balance of highly liquid assets to ensure that adequate liquidity is available at Prudential Financial to cover fixed expenses in the event that we experience reduced cash flows from our operating subsidiaries at a time when access to capital markets is also not available.

We seek to mitigate the risk of having limited or no access to financing due to stressed market conditions by generally pre-funding debt in advance of maturity. We mitigate the refinancing risk associated with our debt that is used to fund operating needs by matching the term of debt with the assets financed. To ensure adequate liquidity in stress scenarios, stress testing is performed for our major operating subsidiaries. We seek to further mitigate liquidity risk by maintaining our access to alternative sources of liquidity, as discussed below.

Liquidity of Prudential Financial

The principal sources of funds available to Prudential Financial, the parent holding company, are dividends, returns of capital and loans from subsidiaries, and proceeds from debt issuances and certain stock-based compensation activity. These sources of funds may be supplemented by Prudential Financial's access to the capital markets as well as the "—Alternative Sources of Liquidity" described below.

The primary uses of funds at Prudential Financial include servicing debt, making capital contributions and loans to subsidiaries, making acquisitions, paying declared shareholder dividends and repurchasing outstanding shares of Common Stock executed under authority from the Board.

As of September 30, 2021, Prudential Financial had highly liquid assets with a carrying value totaling \$4,519 million, a decrease of \$1,960 million from December 31, 2020. Highly liquid assets predominantly include cash, short-term investments, U.S. Treasury securities, obligations of other U.S. government authorities and agencies, and/or foreign government bonds. We maintain an intercompany liquidity account that is designed to optimize the use of cash by facilitating the lending and borrowing of funds between Prudential Financial and its subsidiaries on a daily basis. Excluding the net borrowings from this intercompany liquidity account, Prudential Financial had highly liquid assets of \$3,764 million as of September 30, 2021, a decrease of \$1,796 million from December 31, 2020.

The following table sets forth Prudential Financial's principal sources and uses of highly liquid assets, excluding net borrowings from our intercompany liquidity account, for the periods indicated.

	Nine Months Ended September 30,	
	2021	2020(1)
	(in millions)	
Highly Liquid Assets, beginning of period	\$ 5,560	\$ 4,061
Dividends and/or returns of capital from subsidiaries(2)	2,030	2,821
Affiliated (borrowings)/loans - (capital activities)(3)	406	(668)
Capital contributions to subsidiaries(4)	(84)	(85)
Total Business Capital Activity	2,352	2,068
Share repurchases(5)	(2,097)	(500)
Common stock dividends(6)	(1,374)	(1,325)
Business dispositions	648	1,627
Total Share Repurchases, Dividends and Business Disposition Activity	(2,823)	(198)
Proceeds from the issuance of debt	0	2,768
Repayments of debt	(908)	(1,937)
Total Debt Activity	(908)	831
Proceeds from stock-based compensation and exercise of stock options	272	212
Net income tax receipts & payments	212	136
Interest income on intercompany agreements	31	18
Interest paid on external debt	(702)	(727)
Affiliated (borrowings)/loans - (operating activities)(7)	(39)	44
Swap terminations	(69)	(153)
Other, net	(122)	(203)
Total Other Activity	(417)	(673)
Net increase/(decrease) in highly liquid assets	(1,796)	2,028
Highly Liquid Assets, end of period	\$ 3,764	\$ 6,089

(1) Prior period amounts have been updated to conform to current period presentation.

(2) 2021 includes \$420 million from Prudential Annuities Holding Company, \$393 million from PGIM subsidiaries, and \$1,159 million from international insurance and investment subsidiaries (including \$994 million in the form of in-kind dividends), and \$58 million from other subsidiaries. 2020 includes \$670 million from Prudential Annuities Holding Company, \$1,905 million from international insurance subsidiaries (including \$470 million in the form of in-kind dividends), \$238 million from PGIM subsidiaries, and \$8 million from other subsidiaries.

(3) 2021 reflects net receipts of \$406 million from the issuance of notes to international insurance subsidiaries, which includes \$994 million received by PFI in the form of the extinguishment of debt (offset by the in-kind dividends referred to in footnote 2 above).

(4) 2021 includes capital contributions of \$75 million to international insurance subsidiaries and \$9 million to PGIM subsidiaries. 2020 includes capital contributions of \$85 million to international insurance subsidiaries.

(5) Excludes cash payments made on trades that settled in the subsequent period.

(6) Includes cash payments made on dividends declared in prior periods.

(7) Represent loans to and from subsidiaries to support business operating needs.

Dividends and Returns of Capital from Subsidiaries

Domestic insurance subsidiaries. During the first nine months of 2021, Prudential Financial received dividends of \$420 million from Prudential Annuities Holding Company, of which \$380 million was from PALAC.

International insurance subsidiaries. During the first nine months of 2021, Prudential Financial received dividends of \$1,159 million from its international insurance subsidiaries, which includes \$994 million of in-kind dividends in the form of the extinguishment of debt held by international insurance subsidiaries. In addition to paying Common Stock dividends, our international insurance operations may return capital to Prudential Financial by other means, such as the repayment of preferred stock obligations held by Prudential Financial or other affiliates, affiliated lending, affiliated derivatives and reinsurance with U.S.- and Bermuda-based affiliates.

Other subsidiaries. During the first nine months of 2021, Prudential Financial received dividends and returns of capital of \$393 million from PGIM subsidiaries and dividends of \$58 million from other subsidiaries.

Restriction on dividends and returns of capital from subsidiaries. Our insurance companies are subject to limitations on the payment of dividends and other transfers of funds to Prudential Financial and other affiliates under applicable insurance law and regulation. Further, market conditions could negatively impact capital positions of our insurance companies, which could further restrict their ability to pay dividends. More generally, the payment of dividends by any of our subsidiaries is subject to declaration by their Board of Directors and can be affected by market conditions and other factors.

With respect to our domestic insurance subsidiaries, PICA is permitted to pay ordinary dividends based on calculations specified under New Jersey insurance law, subject to prior notification to the New Jersey Department of Banking and Insurance (“NJDOBI”). Any distributions above this amount in any twelve-month period are considered to be “extraordinary” dividends, and the approval of the NJDOBI is required prior to payment. The laws regulating dividends of the states where our other domestic insurance companies are domiciled are similar, but not identical, to New Jersey’s. Dividends from PRIAC are currently prohibited prior to the closing of its sale to Great-West under the terms of the sale agreement.

Capital redeployment from our international insurance subsidiaries is subject to local regulatory requirements in the international jurisdictions in which they operate. Our most significant international insurance subsidiaries, Prudential of Japan and Gibraltar Life, are permitted to pay common stock dividends based on calculations specified by Japanese insurance law, subject to prior notification to the FSA. Dividends in excess of these amounts and other forms of capital distribution require the prior approval of the FSA. The regulatory fiscal year end for both Prudential of Japan and Gibraltar Life is March 31, after which time the common stock dividend amount permitted to be paid without prior approval from the FSA can be determined.

The ability of our PGIM subsidiaries and the majority of our other operating subsidiaries to pay dividends is largely unrestricted from a regulatory standpoint.

See Note 19 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2020, for information on specific dividend restrictions.

Liquidity of Insurance Subsidiaries

We manage the liquidity of our insurance operations to ensure stable, reliable and cost-effective sources of cash flows to meet all of our obligations. Liquidity within each of our insurance subsidiaries is provided by a variety of sources, including portfolios of liquid assets. The investment portfolios of our subsidiaries are integral to the overall liquidity of our insurance operations. We segment our investment portfolios and employ an asset/liability management approach specific to the requirements of each of our product lines. This enhances the discipline applied in managing the liquidity, as well as the interest rate and credit risk profiles, of each portfolio in a manner consistent with the unique characteristics of the product liabilities.

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

The principal sources of liquidity for our insurance subsidiaries are premiums, investment and fee income, investment maturities, sales of investments, and sales associated with our insurance and annuity operations, as well as internal and external borrowings. The principal uses of liquidity include benefits, claims and dividends paid to policyholders, and payments to policyholders and contractholders in connection with surrenders, withdrawals and net policy loan activity. Other uses of liquidity may include commissions, general and administrative expenses, purchases of investments, the payment of dividends to the parent holding company, hedging and reinsurance activity and payments in connection with financing activities.

The following table sets forth the fair value of certain of our domestic insurance operations' portfolio of liquid assets, as of the dates indicated.

	September 30, 2021						December 31, 2020
	Prudential Insurance(1)	PLIC	PRIAC(2)	PALAC(2)	Pruco Life	Total	
	(in billions)						
Cash and short-term investments	\$ 7.9	\$ 1.1	\$ 1.1	\$ 1.5	\$ 1.1	\$ 12.7	\$ 9.4
Fixed maturity investments(3):							
High or highest quality	135.3	34.5	21.8	10.0	13.7	215.3	222.4
Other than high or highest quality	9.7	3.8	0.8	1.0	0.8	16.1	15.4
Subtotal	145.0	38.3	22.6	11.0	14.5	231.4	237.8
Public equity securities, at fair value	0.6	2.3	0.3	0.2	0.1	3.5	3.2
Total	\$ 153.5	\$ 41.7	\$ 24.0	\$ 12.7	\$ 15.7	\$ 247.6	\$ 250.4

(1) Represents legal entity view and as such includes both domestic and international activity.

(2) As of September 30, 2021, the Company has entered into definitive sale agreements to sell its equity interests in both PRIAC and PALAC. See Note 1 to the Unaudited Consolidated Financial Statements for more information about these pending dispositions.

(3) Excludes fixed maturities designated as held-to-maturity. Credit quality is based on NAIC or equivalent rating.

The following table sets forth the fair value of our international insurance operations' portfolio of liquid assets, as of the dates indicated.

	September 30, 2021				December 31, 2020
	Prudential of Japan	Gibraltar Life(1)	All Other(2)	Total	
	(in billions)				
Cash and short-term investments	\$ 1.0	\$ 2.7	\$ 1.5	\$ 5.2	\$ 6.0
Fixed maturity investments(3):					
High or highest quality(4)	42.1	88.6	9.6	140.3	147.7
Other than high or highest quality	0.9	2.1	2.0	5.0	4.8
Subtotal	43.0	90.7	11.6	145.3	152.5
Public equity securities	2.4	2.1	0.1	4.6	3.6
Total	\$ 46.4	\$ 95.5	\$ 13.2	\$ 155.1	\$ 162.1

(1) Includes PGFL.

(2) Represents our international insurance operations, excluding Japan.

(3) Excludes fixed maturities designated as held-to-maturity. Credit quality is based on NAIC or equivalent rating.

(4) As of September 30, 2021, \$105.5 billion, or 75%, were invested in government or government agency bonds.

Liquidity associated with other activities

Hedging activities associated with Individual Annuities

For the portion of our Individual Annuities' ALM strategy executed through hedging, as well as the capital hedge program, we enter into a range of exchange-traded, cleared and other OTC equity and interest rate derivatives in order to hedge certain capital market risks related to more severe market conditions. For a full discussion of our Individual Annuities' risk management strategy, see "—Results of Operations by Segment—U.S. Businesses—Individual Annuities." This portion of our Individual Annuities' ALM strategy and capital hedge program requires access to liquidity to meet payment obligations relating to these derivatives, such as payments for periodic settlements, purchases, maturities and terminations. These liquidity needs can vary materially due to, among other items, changes in interest rates, equity markets, mortality and policyholder behavior.

The hedging portion of our Individual Annuities' ALM strategy and capital hedge program may also result in derivative related collateral postings to (when we are in a net post position) or from (when we are in a net receive position) counterparties. The net collateral position depends on changes in interest rates and equity markets related to the amount of the exposures hedged. Depending on market conditions, the collateral posting requirements can result in material liquidity needs when we are in a net post position. As of September 30, 2021, the derivatives comprising the hedging portion of our Individual Annuities' ALM strategy and capital hedge program were in a net post position of \$4.8 billion compared to a net receive position of \$3.4 billion as of December 31, 2020. The change in collateral position was primarily driven by the impact of increasing interest rates and equity markets.

Foreign exchange hedging activities

We employ various hedging strategies to manage potential exposure to foreign currency exchange rate movements, particularly those associated with the yen. Our overall yen hedging strategy calibrates the hedge level to preserve the relative contribution of our yen-based business to the Company's overall return on equity on a leverage neutral basis. The hedging strategy includes two primary components:

Income Hedges—We hedge a portion of our prospective yen-based earnings streams by entering into external forward currency derivative contracts that effectively fix the currency exchange rates for that portion of earnings, thereby reducing volatility from foreign currency exchange rate movements. As of September 30, 2021, we have hedged 100%, 97% and 61%, of expected yen-based earnings for 2021, 2022 and 2023, respectively.

Equity Hedges—We hold both internal and external hedges primarily to hedge our USD-equivalent equity. These hedges also mitigate volatility in the solvency margins of yen-based subsidiaries resulting from changes in the market value of their USD-denominated investments hedging our USD-equivalent equity attributable to changes in the yen-USD exchange rate.

For additional information on our hedging strategy, see "—Results of Operations—Impact of Foreign Currency Exchange Rates."

Cash settlements from these hedging activities result in cash flows between subsidiaries of Prudential Financial and either international-based subsidiaries or external parties. The cash flows are dependent on changes in foreign currency exchange rates and the notional amount of the exposures hedged. For example, a significant yen depreciation over an extended period of time could result in net cash inflows, while a significant yen appreciation could result in net cash outflows. The following tables set forth information about net cash settlements and the net asset or liability resulting from these hedging activities related to the yen and other currencies for the periods indicated.

	Nine Months Ended September 30,	
	2021	2020
Cash Settlements: Received (Paid)	(in millions)	
Income Hedges (External)(1)	\$ 21	\$ 65
Equity Hedges:		
Internal(2)	328	163
External(3)	(40)	113
Total Equity Hedges	288	276
Total Cash Settlements	\$ 309	\$ 341
Assets (Liabilities):	September 30, 2021	December 31, 2020
	(in millions)	
Income Hedges (External)(4)	\$ 52	\$ 3
Equity Hedges:		
Internal(2)	816	291
External	(94)	(56)
Total Equity Hedges(5)	722	235
Total Assets (Liabilities)	\$ 774	\$ 238

(1) Includes non-yen related cash settlements of \$11 million, primarily denominated in Brazilian real, Australian dollar and Chilean peso and \$53 million, primarily denominated in Brazilian real, Australian dollar and Chilean peso for the nine months ended September 30, 2021 and 2020, respectively.

(2) Represents internal transactions between international-based and U.S.-based entities. Amounts noted are from the U.S.-based entities' perspectives.

(3) Includes non-yen related cash settlements of \$23 million, denominated in Korean won for the nine months ended September 30, 2020.

(4) Includes non-yen related assets of \$35 million, primarily denominated in Brazilian real, Chilean peso and Australian dollar and assets of \$2 million, primarily denominated in Brazilian real, Chilean peso and Australian dollar, as of September 30, 2021 and December 31, 2020, respectively.

(5) As of September 30, 2021, approximately \$57 million, \$194 million, \$327 million and \$144 million of the net market values are scheduled to settle in 2021, 2022, 2023 and thereafter, respectively. The net market value of the assets (liabilities) will vary with changing market conditions to the extent there are no corresponding offsetting positions.

PGIM operations

The principal sources of liquidity for our fee-based PGIM businesses include asset management fees, commercial mortgage origination and servicing fees, and internal and external funding facilities. The principal uses of liquidity include general and administrative expenses, facilitating our commercial mortgage loan business, and distributions of dividends and returns of capital to Prudential Financial. The primary liquidity risks for our fee-based PGIM businesses relate to their profitability, which is impacted by market conditions, our investment management performance and client redemptions. We believe the cash flows from our fee-based PGIM businesses are adequate to satisfy the current liquidity requirements of these operations, as well as requirements that could arise under reasonably foreseeable stress scenarios, which are monitored through the use of internal measures.

The principal sources of liquidity for our seed and co-investments held in our PGIM businesses are cash flows from investments, borrowing lines from internal sources, including Prudential Financial and Prudential Funding, LLC ("Prudential Funding"), a wholly-owned subsidiary of PICA, and external sources, including PGIM's limited-recourse credit facility. The principal uses of liquidity for our seed and co-investments include making investments to support business growth and paying interest expense from the internal and external borrowings used to fund those investments. The primary liquidity risks include the inability to sell assets in a timely manner, declines in the value of assets and credit defaults. There have been no material changes to the liquidity position of our PGIM operations since December 31, 2020.

Alternative Sources of Liquidity

In addition to asset-based financing as discussed below, Prudential Financial and certain subsidiaries have access to other sources of liquidity, including syndicated, unsecured committed credit facilities, membership in the Federal Home Loan Banks,

commercial paper programs, and contingent financing facilities in the form of a put option agreement and facility agreement. For more information on these sources of liquidity, see Note 9 to the Unaudited Interim Consolidated Financial Statements contained herein and Note 17 to the Company's Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2020. In July 2021, we amended and restated our \$4 billion five-year credit facility that has Prudential Financial and Prudential Funding as borrowers, extending the term of the facility to July 2026. For more information, see Note 15 to the Unaudited Interim Consolidated Financial Statements contained herein.

Asset-based Financing

We conduct asset-based or secured financing within our insurance and other subsidiaries, including transactions such as securities lending, repurchase agreements and mortgage dollar rolls, to earn spread income, to borrow funds, or to facilitate trading activity. These programs are primarily driven by portfolio holdings of securities that are lendable based on counterparty demand for these securities in the marketplace. The collateral received in connection with these programs is primarily used to purchase securities in the short-term spread portfolios of our insurance entities. Investments held in the short-term spread portfolios include cash and cash equivalents, short-term investments (primarily corporate bonds), mortgage loans and fixed maturities (primarily collateralized loan obligations and other structured securities), with a weighted average life at time of purchase by the short-term portfolios of four years or less. Floating rate assets comprise the majority of our short-term spread portfolio. These short-term portfolios are subject to specific investment policy statements, which among other things, do not allow for significant asset/liability interest rate duration mismatch.

The following table sets forth our liabilities under asset-based or secured financing programs as of the dates indicated.

	September 30, 2021			December 31, 2020		
	PFI Excluding Closed Block Division	Closed Block Division	Consolidated	PFI Excluding Closed Block Division	Closed Block Division	Consolidated
	(\$ in millions)					
Securities sold under agreements to repurchase	\$ 7,122	\$ 2,777	\$ 9,899	\$ 8,092	\$ 2,802	\$ 10,894
Cash collateral for loaned securities(1)	4,296	86	4,382	3,379	120	3,499
Securities sold but not yet purchased	2	0	2	2	0	2
Total(2)(3)	\$ 11,420	\$ 2,863	\$ 14,283	\$ 11,473	\$ 2,922	\$ 14,395
Portion of above securities that may be returned to the Company overnight requiring immediate return of the cash collateral	\$ 10,603	\$ 2,863	\$ 13,466	\$ 10,463	\$ 2,922	\$ 13,385
Weighted average maturity, in days(4)	29	N/A		28	N/A	

(1) Excludes "Liabilities held-for-sale" of \$3 million as of September 30, 2021.

(2) The daily weighted average outstanding balance for the three and nine months ended September 30, 2021 was \$11,529 million and \$11,479 million, respectively, for PFI excluding the Closed Block division, and \$3,107 million and \$3,035 million, respectively, for the Closed Block division.

(3) Includes utilization of external funding facilities for PGIM's commercial mortgage origination business.

(4) Excludes securities that may be returned to the Company overnight. "N/A" reflects that all outstanding balances may be returned to the Company overnight.

As of September 30, 2021, our domestic insurance entities had assets eligible for the asset-based or secured financing programs of \$128.7 billion, of which \$14.0 billion were on loan. Taking into account market conditions and outstanding loan balances as of September 30, 2021, we believe approximately \$14.9 billion of the remaining eligible assets are readily lendable, including approximately \$10.2 billion relating to PFI excluding the Closed Block division, of which \$2.6 billion relates to certain separate accounts and may only be used for financing activities related to those accounts, and the remaining \$4.7 billion relating to the Closed Block division.

Financing Activities

As of September 30, 2021, total short-term and long-term debt of the Company on a consolidated basis was \$19.6 billion, a decrease of \$1.0 billion from December 31, 2020. The following table sets forth total consolidated borrowings of the Company as of the dates indicated. We may, from time to time, seek to redeem or repurchase our outstanding debt securities through open market purchases, individually negotiated transactions or otherwise. Any such actions will depend on prevailing market conditions, our liquidity position, and other factors.

	September 30, 2021			December 31, 2020		
	Prudential Financial	Subsidiaries	Consolidated	Prudential Financial	Subsidiaries	Consolidated
Borrowings:	(in millions)					
General obligation short-term debt:						
Commercial paper	\$ 25	\$ 347	\$ 372	\$ 25	\$ 355	\$ 380
Current portion of long-term debt	400	0	400	399	0	399
Subtotal	425	347	772	424	355	779
General obligation long-term debt:						
Senior debt	10,107	173	10,280	11,007	173	11,179
Junior subordinated debt	7,561	56	7,617	7,554	60	7,615
Surplus notes(1)	0	344	344	0	343	343
Subtotal	17,668	573	18,241	18,561	576	19,137
Total general obligations	18,093	920	19,013	18,985	931	19,916
Limited and non-recourse borrowings(2):						
Short-term debt	0	7	7	0	18	18
Current portion of long-term debt	0	130	130	0	128	128
Long-term debt	0	446	446	0	581	581
Total limited and non-recourse borrowings	0	583	583	0	727	727
Total borrowings	\$ 18,093	\$ 1,503	\$ 19,596	\$ 18,985	\$ 1,658	\$ 20,643

(1) Amounts are net of assets under set-off arrangements of \$10,616 million and \$10,964 million as of September 30, 2021 and December 31, 2020, respectively.

(2) Limited and non-recourse borrowing primarily represents mortgage debt of our subsidiaries that has recourse only to real estate investment property of \$276 million and \$409 million as of September 30, 2021 and December 31, 2020, respectively, and a \$300 million draw on a credit facility that has recourse only to collateral pledged by the Company as of both September 30, 2021 and December 31, 2020.

As of September 30, 2021, and December 31, 2020, we were in compliance with all debt covenants related to the borrowings in the table above. For additional information on our short- and long-term debt obligations, see Note 9 to the Unaudited Interim Consolidated Financial Statements contained herein and Note 17 to the Company's Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2020.

Prudential Financial's consolidated borrowings decreased \$1,047 million from December 31, 2020, primarily driven by \$910 million in debt redemptions in Prudential Financial borrowings and a \$155 million decrease in subsidiary borrowings. On August 30, 2021, the Company redeemed, at a make-whole redemption price, \$700 million principal amount of its 3.500% medium-term notes due in 2024 and \$210 million of the previously outstanding \$600 million principal amount of its 3.878% medium-term notes due in 2028.

Term and Universal Life Reserve Financing

We use captive reinsurance subsidiaries to finance the portion of the statutory reserves required to be held by our domestic life insurance companies under Regulation XXX and Guideline AXXX that we consider to be non-economic. The financing arrangements involve the reinsurance of term and universal life business to our captive reinsurers and the issuance of surplus notes by those 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.

We have entered into agreements with external counterparties providing for the issuance of surplus notes by our captive reinsurers in return for the receipt of credit-linked notes ("Credit-Linked Note Structures"). As of September 30, 2021, we had Credit-Linked Note Structures with an aggregate issuance capacity of \$14,700 million, of which \$12,746 million was outstanding, as compared to an aggregate issuance capacity of \$14,825 million, of which \$12,919 million was outstanding, as of December 31, 2020. Under the agreements, the 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 captive holds the credit-linked notes as assets supporting Regulation XXX or Guideline AXXX non-economic reserves, as applicable. For more information on our Credit-Linked Note Structures, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Financing Activities" in our Annual Report on Form 10-K for the year ended December 31, 2020.

The following table summarizes our Credit-Linked Note Structures, which are reported on a net basis, as of September 30, 2021.

Credit-Linked Note Structures:	Surplus Notes		Outstanding as of September 30, 2021	Facility Size
	Original Issue Dates	Maturity Dates		
	(\$ in millions)			
XXX	2011-2021	2021-2036	\$ 1,600 (1)	\$ 1,750
AXXX	2013	2033	3,500	3,500
XXX	2014-2018	2021-2034	2,230 (2)	2,250
XXX	2014-2017	2024-2037	2,330	2,400
AXXX	2017	2037	1,466	2,000
XXX	2018	2038	920	1,600
AXXX	2020	2032	700	1,200
Total Credit-Linked Note Structures			\$ 12,746	\$ 14,700

(1) Prudential Financial has agreed to reimburse amounts paid under the credit-linked notes issued in this structure up to \$500 million.

(2) The \$2,230 million of surplus notes represents an intercompany transaction that eliminates upon consolidation. Prudential Financial has agreed to reimburse amounts paid under credit-linked notes issued in this structure up to \$1,000 million.

As of September 30, 2021, we also had outstanding an aggregate of \$2,775 million of debt issued for the purpose of financing Regulation XXX and Guideline AXXX non-economic reserves, of which \$1,175 million relates to Regulation XXX reserves and \$1,600 million relates to Guideline AXXX reserves. In addition, as of September 30, 2021, for purposes of financing Guideline AXXX reserves, one of our captives had \$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.

Ratings

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Ratings” in our Annual Report on Form 10-K for the year ended December 31, 2020, for a discussion of our financial strength and credit ratings and their impact on our business.

On July 21, 2021, Prudential announced an agreement to sell Retirement’s Full Service business to Great-West Life & Annuity Insurance Company, which would include the sale of all equity interests in PRIAC. As a result of this announcement, Fitch and AM Best changed the ratings outlook of PRIAC to Credit Watch Positive from Stable, and S&P changed the ratings outlook of PRIAC to Credit Watch Negative from Stable.

On September 15, 2021, Prudential announced an agreement to sell a portion of the Company’s in-force variable annuities business through the sale of all equity interests in PALAC to Fortitude Group Holdings, LLC. As a result of this announcement, S&P and AM Best changed the ratings outlook of PALAC to Credit Watch Negative from Stable and Fitch downgraded PALAC’s financial strength rating to A with an outlook of Rating Watch Negative from AA- with an outlook of Stable.

With the exception of PRIAC and PALAC, there have been no significant changes or actions in ratings or ratings outlooks for the Company that have occurred since the filing of our Form 10-K for the year ended December 31, 2020.

Off-Balance Sheet Arrangements

Guarantees, Other Contingencies and Other Contingent Commitments

In the course of our business, we provide certain guarantees and indemnities to third-parties pursuant to which we may be contingently required to make payments in the future. We also have other commitments, some of which are contingent upon events or circumstances not under our control, including those at the discretion of our counterparties. See “—Commitments and Guarantees” within Note 14 to the Unaudited Interim Consolidated Financial Statements for additional information. For further discussion of certain of these commitments, also see “—Liquidity—Liquidity associated with other activities—PGIM operations.”

Other Off-Balance Sheet Arrangements

In May 2020, we entered into a ten-year facility agreement with a Delaware trust that gives Prudential Financial the right, at any time over a ten-year period, to issue up to \$1.5 billion of senior notes to the trust in return for principal and interest strips of U.S. Treasury securities that are held by the trust.

In November 2013, we entered into a put option agreement with a Delaware trust that gives Prudential Financial the right, at any time over a ten-year period, to issue up to \$1.5 billion of senior notes to the trust in return for principal and interest strips of U.S. Treasury securities that are held by the trust.

In 2014, Prudential Financial entered into financing transactions, pursuant to which it issued \$500 million of limited-recourse notes and, in return, obtained \$500 million of asset-backed notes from a Delaware master trust and ultimately contributed the asset-backed notes to its subsidiary, PRIAC. As of September 30, 2021, no principal payments have been received or are currently due on the asset-backed notes and, as a result, there was no payment obligation under the limited-recourse notes. Accordingly, none of the notes are reflected in the Company’s Unaudited Interim Consolidated Financial Statements as of that date. As a result of the Company’s agreement to sell its Full Service Retirement business to Great-West, which includes the sale of all of the outstanding equity interests of PRIAC, we expect the \$500 million of limited-recourse notes will be canceled as of the closing of the sale.

Other than as described above, we do not have retained or contingent interests in assets transferred to unconsolidated entities, or variable interests in unconsolidated entities or other similar transactions, arrangements or relationships that serve as credit, liquidity or market risk support, that we believe are reasonably likely to have a material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or our access to or requirements for capital resources. In addition, other than the agreements referred to above, we do not have relationships with any unconsolidated entities that are contractually limited to narrow activities that facilitate our transfer of or access to associated assets.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of fluctuations in the value of financial instruments as a result of absolute or relative changes in interest rates, foreign currency exchange rates, equity prices or commodity prices. To varying degrees, our products and services, and the investment activities supporting them, generate exposure to market risk. The market risk incurred, and our strategies for managing this risk, vary by product. As of September 30, 2021, there have been no material changes in our economic exposure to market risk from December 31, 2020, a description of which may be found in our Annual Report on Form 10-K, for the year ended December 31, 2020, Item 7A, “Quantitative and Qualitative Disclosures about Market Risk,” filed with the Securities and Exchange Commission. See Item 1A, “Risk Factors” included in the Annual Report on Form 10-K for the year ended December 31, 2020, for a discussion of how difficult conditions in the financial markets and the economy generally may materially adversely affect our business and results of our operations.

ITEM 4. CONTROLS AND PROCEDURES

In order to ensure that the information we must disclose in our filings with the SEC is recorded, processed, summarized, and reported on a timely basis, the Company’s management, including our Chief Executive Officer and Chief Financial Officer, have reviewed and evaluated the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of September 30, 2021. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2021, our disclosure controls and procedures were effective. No change in our internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), occurred during the quarter ended September 30, 2021, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 14 to the Unaudited Interim Consolidated Financial Statements under “—Litigation and Regulatory Matters” for a description of certain pending litigation and regulatory matters affecting us, and certain risks to our businesses presented by such matters, which is incorporated herein by reference.

ITEM 1A. RISK FACTORS

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

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) The following table provides information about purchases by the Company during the three months ended September 30, 2021, of its Common Stock:

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program(2)	Approximate Dollar Value of Shares that May Yet Be Purchased under the Program(2)
July 1, 2021 through July 31, 2021	1,253,049	\$ 100.20	1,247,528	
August 1, 2021 through August 31, 2021	4,358,800	\$ 105.89	4,352,392	
September 1, 2021 through September 30, 2021	2,785,514	\$ 104.06	2,778,136	
Total	8,397,363	\$ 104.44	8,378,056	\$ 375,000,000

(1) Includes shares of Common Stock withheld from participants for income tax withholding purposes whose shares of restricted stock units vested during the period. Such restricted stock units were originally issued to participants pursuant to the Prudential Financial, Inc. Omnibus Incentive Plan.

(2) In February 2021, Prudential Financial’s Board of Directors authorized the Company to repurchase, at management’s discretion, up to \$1.5 billion of its outstanding Common Stock during the period from January 1, 2021 through December 31, 2021. In May 2021, the Board authorized a \$500 million increase to this authorization, bringing the aggregate share repurchase authorization for calendar year 2021 to \$2.0 billion. In July 2021, the Board further increased this authorization by an additional \$500 million, bringing the aggregate share repurchase authorization for calendar year 2021 to \$2.5 billion.

ITEM 6. EXHIBITS

EXHIBIT INDEX

3.1	Amended and Restated Certificate of Incorporation of Prudential Financial, Inc. Incorporated by reference to Exhibit 3.1 to the Registrant's January 22, 2015 Current Report on Form 8-K.
3.2	Amended and Restated By-Laws of Prudential Financial, Inc., effective September 8, 2020. Incorporated by reference to Exhibit 3.1 to the Registrant's September 10, 2020 Current Report on Form 8-K.
10.1	Prudential Financial, Inc. 2021 Omnibus Incentive Plan. Incorporated by reference to Exhibit 10.1 to the Registrant's August 5, 2021 Quarterly Report on Form 10-Q.*
10.2	Third Amended and Restated Credit Agreement dated as July 28, 2021, among Prudential Financial, Inc., Prudential Funding, LLC, as Borrowers, The Prudential Insurance Company of America, JPMorgan Chase Bank, N.A., as Administrative Agent and Several L/C Agent, and the lenders party thereto. Incorporated by reference to Exhibit 10.1 to the Registrant's July 29, 2021 Current Report on Form 8-K.
31.1	Section 302 Certification of the Chief Executive Officer.
31.2	Section 302 Certification of the Chief Financial Officer.
32.1	Section 906 Certification of the Chief Executive Officer.
32.2	Section 906 Certification of the Chief Financial Officer.
101.INS - XBRL	Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH - XBRL	Taxonomy Extension Schema Document.
101.CAL - XBRL	Taxonomy Extension Calculation Linkbase Document.
101.LAB - XBRL	Taxonomy Extension Label Linkbase Document.
101.PRE - XBRL	Taxonomy Extension Presentation Linkbase Document.
101.DEF - XBRL	Taxonomy Extension Definition Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

*This exhibit is a management contract or compensatory plan or arrangement.

GLOSSARY

Throughout this Quarterly Report on Form 10-Q, the Company may use certain abbreviations, acronyms and terms which are defined below.

Prudential Entities

Assurance IQ Company	Assurance IQ, LLC Prudential Financial, Inc. and its subsidiaries	POT PRIAC	Prudential Life Insurance Company of Taiwan Inc. Prudential Retirement Insurance and Annuity Company
PALAC	Prudential Annuities Life Assurance Corporation	Pruco Life	Pruco Life Insurance Company
PFI	Prudential Financial, Inc. and its subsidiaries	Prudential	Prudential Financial, Inc. and its subsidiaries
PGFL	Prudential Gibraltar Financial Life Insurance Co., Ltd.	Prudential Financial	Prudential Financial, Inc.
PIIH	Prudential International Insurance Holdings, Ltd.	Prudential Funding	Prudential Funding, LLC
PLIC	Prudential Legacy Insurance Company of New Jersey	Prudential Insurance/PICA	The Prudential Insurance Company of America
PLNJ	Pruco Life Insurance Company of New Jersey	Prudential of Japan	The Prudential Life Insurance Company, Ltd.
POA	Prudential of Argentina	Registrant	Prudential Financial, Inc.
POK	The Prudential Life Insurance Company of Korea, Ltd.		

Defined Terms

Board	Prudential Financial's Board of Directors	Other Postretirement Benefits	Certain health care and life insurance benefits provided by the Company for its retired employees, their beneficiaries and covered dependents
Closed Block	Certain in-force participating insurance policies and annuity products, along with corresponding assets used for the payment of benefits and policyholders' dividends on these products	Pension Benefits	Funded and non-funded non-contributory defined benefit pension plans which cover substantially all of the Company's employees
Exchange Act	The Securities Exchange Act of 1934	PGIM	The global investment management businesses of Prudential Financial, Inc.
Fitch	Fitch Ratings Inc.	Regulation XXX	Valuation of Life Insurance Policies Model Regulation
Great-West	Great-West Life & Annuity Insurance Company	S&P	Standard & Poor's Rating Services
Guideline AXXX	The Application of the Valuation of Life Insurance Policies Model Regulation	U.S. GAAP	Generally accepted accounting principles in the United States of America
Moody's	Moody's Investors Service, Inc.	Variable Profits	Assurance IQ's achievement of certain targets for gross revenues net of associated selling expenses
Morningstar	Morningstar, Inc.		

Acronyms

ACL	Allowance for Credit Losses	MRB	Market Risk Benefits
ALM	Asset Liability Management	NAIC	National Association of Insurance Commissioners
AOCI	Accumulated Other Comprehensive Income (Loss)	NAV	Net Asset Value
ASC	Accounting Standards Codification	NJDOBI	New Jersey Department of Banking and Insurance
ASU	Accounting Standards Update	NOLs	Net Operating Losses
AUD	Australian Dollar	NPR	Non-Performance Risk
bps	Basis Points	OCI	Other Comprehensive Income (Loss)
CARES Act	Coronavirus Aid, Relief, and Economic Security Act	ODL	Overall Domestic Losses
CECL	Current Expected Credit Loss	OTC	Over-The-Counter
CLO	Collateralized Loan Obligations	OTTI	Other-Than-Temporary Impairments
COVID-19	2019 Novel Coronavirus	PDI	Prudential Defined Income
DAC	Deferred Policy Acquisition Costs	RAF	Risk Appetite Framework
DSI	Deferred Sales Inducements	RBC	Risk-Based Capital
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization	SEC	Securities and Exchange Commission
FASB	Financial Accounting Standards Board	SVO	Securities Valuation Office
FHLBNY	Federal Home Loan Bank of New York	TBA	To Be Announced
FSA	Financial Services Agency (an agency of the Japanese government)	TCJA	Tax Cuts and Jobs Act
GICs	Guaranteed Investment Contracts	TDR	Troubled Debt Restructuring
GILTI	Global Intangible Low-Taxed Income	URR	Unearned Revenue Reserve
GMDB	Guaranteed Minimum Death Benefits	U.S.	The United States of America
HDI	Highest Daily Lifetime Income	USD	U.S. Dollar
LIBOR	London Inter-Bank Offered Rate	VIEs	Variable Interest Entities
LPs/LLCs	Limited Partnerships and Limited Liability Companies	VOBA	Value of Business Acquired
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations		

SIGNATURES

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

Prudential Financial, Inc.

By: /S/ KENNETH Y. TANJI

Kenneth Y. Tanji
Executive Vice President and Chief Financial Officer
(Authorized signatory and principal financial officer)

Date: November 4, 2021

CERTIFICATIONS OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Charles F. Lowrey, certify that:

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

Date: November 4, 2021

/s/ Charles F. Lowrey

Charles F. Lowrey
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS OF THE CHIEF FINANCIAL OFFICER PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kenneth Y. Tanji, certify that:

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

Date: November 4, 2021

/s/ Kenneth Y. Tanji
 Kenneth Y. Tanji
 Executive Vice President and Chief Financial Officer
 (Principal Financial Officer)

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS
ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. § 1350, I, Charles F. Lowrey, Chief Executive Officer of Prudential Financial, Inc. (the “Company”), hereby certify that the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2021 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 4, 2021

/s/ Charles F. Lowrey

Name: Charles F. Lowrey
Title: Chief Executive Officer
(Principal Executive Officer)

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

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS
ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. § 1350, I, Kenneth Y. Tanji, Chief Financial Officer of Prudential Financial, Inc. (the “Company”), hereby certify that the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2021 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 4, 2021

/s/ Kenneth Y. Tanji

Name: Kenneth Y. Tanji
Title: Executive Vice President and Chief Financial
Officer (Principal Financial Officer)

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