

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2022

OR

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

For the Transition Period from to

Commission File Number 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
5.950% Junior Subordinated Notes	PRH	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, 2022, 368 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, 2021 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, 2022 and December 31, 2021 (in millions, except share amounts)

	September 30, 2022	December 31, 2021
ASSETS		
Fixed maturities, available-for-sale, at fair value (allowance for credit losses: 2022-\$151; 2021-\$114) (amortized cost: 2022-\$325,957; 2021-\$333,459)(1)	\$ 295,841	\$ 372,410
Fixed maturities, held-to-maturity, at amortized cost, net of allowance for credit losses (allowance for credit losses: 2022-\$2; 2021-\$5) (fair value: 2022-\$1,371; 2021-\$1,803)(1)	1,199	1,514
Fixed maturities, trading, at fair value (amortized cost: 2022-\$7,268; 2021-\$8,741)(1)	5,690	8,823
Assets supporting experience-rated contractholder liabilities, at fair value	2,580	3,358
Equity securities, at fair value (cost: 2022-\$5,378; 2021-\$5,815)(1)	6,882	8,574
Commercial mortgage and other loans (net of \$218 and \$119 allowance for credit losses; includes \$978 and \$1,263 of loans measured at fair value under the fair value option at September 30, 2022 and December 31, 2021, respectively)(1)	56,896	58,666
Policy loans	9,920	10,386
Other invested assets (net of \$1 and \$2 allowance for credit losses; includes \$6,132 and \$8,046 of assets measured at fair value at September 30, 2022 and December 31, 2021, respectively)(1)	21,050	21,833
Short-term investments (net of allowance for credit losses: 2022-\$5; 2021-\$0)	5,181	6,635
Total investments	405,239	492,199
Cash and cash equivalents(1)	20,104	12,888
Accrued investment income(1)	2,888	2,855
Deferred policy acquisition costs	19,334	18,192
Value of business acquired	532	771
Income tax assets	3,831	0
Assets held-for-sale(2)	0	153,793
Other assets (net of allowance for credit losses: 2022-\$21; 2021-\$19)(1)	31,303	10,739
Separate account assets	194,525	246,145
TOTAL ASSETS	\$ 677,756	\$ 937,582
LIABILITIES AND EQUITY		
LIABILITIES		
Future policy benefits	\$ 278,262	\$ 290,784
Policyholders' account balances	131,679	122,633
Policyholders' dividends	665	8,731
Securities sold under agreements to repurchase	8,223	10,185
Cash collateral for loaned securities	5,865	4,251
Income tax liabilities	0	9,513
Short-term debt	767	722
Long-term debt	19,898	18,622
Liabilities held-for-sale(2)	0	151,359
Other liabilities (including allowance for credit losses: 2022-\$17; 2021-\$21)(1)	20,474	11,755
Notes issued by consolidated variable interest entities(1)	218	274
Separate account liabilities	194,525	246,145
Total liabilities	660,576	874,974
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, 2022 and December 31, 2021)	6	6
Additional paid-in capital	25,707	25,732
Common Stock held in treasury, at cost (297,197,066 and 290,018,851 shares at September 30, 2022 and December 31, 2021, respectively)	(22,736)	(21,838)
Accumulated other comprehensive income (loss)	(20,874)	21,324
Retained earnings	34,399	36,652
Total Prudential Financial, Inc. equity	16,502	61,876
Noncontrolling interests	678	732
Total equity	17,180	62,608
TOTAL LIABILITIES AND EQUITY	\$ 677,756	\$ 937,582

(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".

See Notes to Unaudited Interim Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Operations
Three and Nine Months Ended September 30, 2022 and 2021 (in millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
REVENUES				
Premiums	\$ 16,247	\$ 13,193	\$ 31,311	\$ 27,515
Policy charges and fee income	1,233	1,570	4,243	4,460
Net investment income	3,631	4,717	11,927	13,651
Asset management and service fees	966	1,229	3,086	3,603
Other income (loss)	(1,083)	500	(1,874)	2,135
Realized investment gains (losses), net	(514)	432	(1,977)	3,146
Total revenues	<u>20,480</u>	<u>21,641</u>	<u>46,716</u>	<u>54,510</u>
BENEFITS AND EXPENSES				
Policyholders' benefits	16,581	14,401	35,061	30,126
Interest credited to policyholders' account balances	703	917	1,537	2,759
Dividends to policyholders	90	602	118	2,039
Amortization of deferred policy acquisition costs	485	529	1,913	1,662
General and administrative expenses	3,058	3,386	9,150	9,931
Total benefits and expenses	<u>20,917</u>	<u>19,835</u>	<u>47,779</u>	<u>46,517</u>
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	<u>(437)</u>	<u>1,806</u>	<u>(1,063)</u>	<u>7,993</u>
Total income tax expense (benefit)	<u>(148)</u>	<u>259</u>	<u>(206)</u>	<u>1,504</u>
INCOME (LOSS) BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	<u>(289)</u>	<u>1,547</u>	<u>(857)</u>	<u>6,489</u>
Equity in earnings of operating joint ventures, net of taxes	<u>(1)</u>	<u>18</u>	<u>(49)</u>	<u>63</u>
NET INCOME (LOSS)	<u>(290)</u>	<u>1,565</u>	<u>(906)</u>	<u>6,552</u>
Less: Income (loss) attributable to noncontrolling interests	<u>(6)</u>	<u>35</u>	<u>(26)</u>	<u>36</u>
NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.	<u>\$ (284)</u>	<u>\$ 1,530</u>	<u>\$ (880)</u>	<u>\$ 6,516</u>
EARNINGS PER SHARE				
Basic earnings per share-Common Stock:				
Net income (loss) attributable to Prudential Financial, Inc.	<u>\$ (0.78)</u>	<u>\$ 3.92</u>	<u>\$ (2.41)</u>	<u>\$ 16.44</u>
Diluted earnings per share-Common Stock:				
Net income (loss) attributable to Prudential Financial, Inc.	<u>\$ (0.78)</u>	<u>\$ 3.90</u>	<u>\$ (2.41)</u>	<u>\$ 16.32</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, 2022 and 2021 (in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
NET INCOME (LOSS)	\$ (290)	\$ 1,565	\$ (906)	\$ 6,552
Other comprehensive income (loss), before tax:				
Foreign currency translation adjustments for the period	(592)	(160)	(1,928)	(889)
Net unrealized investment gains (losses)	(13,182)	(1,740)	(52,692)	(10,515)
Defined benefit pension and postretirement unrecognized periodic benefit (cost)	52	69	505	239
Total	(13,722)	(1,831)	(54,115)	(11,165)
Less: Income tax expense (benefit) related to other comprehensive income (loss)	(3,025)	(397)	(11,915)	(2,254)
Other comprehensive income (loss), net of taxes	(10,697)	(1,434)	(42,200)	(8,911)
Comprehensive income (loss)	(10,987)	131	(43,106)	(2,359)
Less: Comprehensive income (loss) attributable to noncontrolling interests	(7)	42	(28)	27
Comprehensive income (loss) attributable to Prudential Financial, Inc.	<u>\$ (10,980)</u>	<u>\$ 89</u>	<u>\$ (43,078)</u>	<u>\$ (2,386)</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, 2022 (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, 2021	\$ 6	\$ 25,732	\$ 36,652	\$ (21,838)	\$ 21,324	\$ 61,876	\$ 732	\$ 62,608
Common Stock acquired				(375)		(375)		(375)
Contributions from noncontrolling interests							3	3
Distributions to noncontrolling interests							(21)	(21)
Stock-based compensation programs		(73)		162		89		89
Dividends declared on Common Stock			(462)			(462)		(462)
Comprehensive income:								
Net income (loss)			(31)			(31)	(13)	(44)
Other comprehensive income (loss), net of tax					(17,119)	(17,119)	(1)	(17,120)
Total comprehensive income (loss)						(17,150)	(14)	(17,164)
Balance, March 31, 2022	<u>6</u>	<u>25,659</u>	<u>36,159</u>	<u>(22,051)</u>	<u>4,205</u>	<u>43,978</u>	<u>700</u>	<u>44,678</u>
Common Stock acquired				(375)		(375)		(375)
Contributions from noncontrolling interests							26	26
Distributions to noncontrolling interests							(36)	(36)
Stock-based compensation programs		2		35		37		37
Dividends declared on Common Stock			(457)			(457)		(457)
Comprehensive income:								
Net income (loss)			(565)			(565)	(7)	(572)
Other comprehensive income (loss), net of tax					(14,383)	(14,383)	0	(14,383)
Total comprehensive income (loss)						(14,948)	(7)	(14,955)
Balance, June 30, 2022	<u>6</u>	<u>25,661</u>	<u>35,137</u>	<u>(22,391)</u>	<u>(10,178)</u>	<u>28,235</u>	<u>683</u>	<u>28,918</u>
Common Stock acquired				(375)		(375)		(375)
Contributions from noncontrolling interests							14	14
Distributions to noncontrolling interests							(12)	(12)
Stock-based compensation programs		46		30		76		76
Dividends declared on Common Stock			(454)			(454)		(454)
Comprehensive income:								
Net income (loss)			(284)			(284)	(6)	(290)
Other comprehensive income (loss), net of tax					(10,696)	(10,696)	(1)	(10,697)
Total comprehensive income (loss)						(10,980)	(7)	(10,987)
Balance, September 30, 2022	<u>\$ 6</u>	<u>\$ 25,707</u>	<u>\$ 34,399</u>	<u>\$ (22,736)</u>	<u>\$ (20,874)</u>	<u>\$ 16,502</u>	<u>\$ 678</u>	<u>\$ 17,180</u>

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Equity—Continued
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>

See Notes to Unaudited Interim Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

**Unaudited Interim Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2022 and 2021 (in millions)**

	Nine Months Ended September 30,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (906)	\$ 6,552
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Realized investment (gains) losses, net	1,977	(3,146)
Policy charges and fee income	(1,915)	(1,730)
Interest credited to policyholders' account balances	1,537	2,759
Depreciation and amortization	62	87
(Gains) losses on assets supporting experience-rated contractholder liabilities, net	1,100	167
Change in:		
Deferred policy acquisition costs	277	(287)
Future policy benefits and other insurance liabilities	6,403	5,779
Income taxes	(1,437)	506
Derivatives, net	(913)	(2,893)
Other, net(1)	(405)	(1,315)
Cash flows from (used in) operating activities	5,780	6,479
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	38,851	48,950
Fixed maturities, held-to-maturity	24	155
Fixed maturities, trading	1,421	2,357
Assets supporting experience-rated contractholder liabilities	11,011	13,878
Equity securities	3,070	3,463
Commercial mortgage and other loans	4,294	5,506
Policy loans	1,278	1,591
Other invested assets	1,427	2,151
Short-term investments	30,119	24,692
Payments for the purchase/origination of:		
Fixed maturities, available-for-sale	(45,004)	(46,831)
Fixed maturities, trading	(385)	(5,525)
Assets supporting experience-rated contractholder liabilities	(11,346)	(15,187)
Equity securities	(2,992)	(2,959)
Commercial mortgage and other loans	(3,832)	(5,624)
Policy loans	(904)	(924)
Other invested assets	(2,127)	(2,434)
Short-term investments	(27,823)	(21,641)
Dispositions, net of cash disposed(2)	422	132
Derivatives, net	(1,701)	(622)
Other, net	(65)	(531)
Cash flows from (used in) investing activities	(4,262)	597
CASH FLOWS FROM FINANCING ACTIVITIES		
Policyholders' account deposits	22,108	23,582
Policyholders' account withdrawals	(18,212)	(22,131)
Net change in securities sold under agreements to repurchase and cash collateral for loaned securities	(142)	(110)
Cash dividends paid on Common Stock	(1,371)	(1,374)
Net change in financing arrangements (maturities 90 days or less)	(245)	108
Common Stock acquired	(1,113)	(2,097)
Common Stock reissued for exercise of stock options	128	150
Proceeds from the issuance of debt (maturities longer than 90 days)	2,538	73
Repayments of debt (maturities longer than 90 days)	(1,181)	(1,167)
Other, net(3)	1,565	(561)
Cash flows from (used in) financing activities	4,075	(3,527)
Effect of foreign exchange rate changes on cash balances	(446)	(252)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, RESTRICTED CASH AND RESTRICTED CASH EQUIVALENTS INCLUDING BALANCES CLASSIFIED AS HELD-FOR-SALE	5,147	3,297
NET CHANGE IN CASH BALANCES CLASSIFIED AS HELD-FOR-SALE(2)	(2,071)	1,499
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, RESTRICTED CASH AND RESTRICTED CASH EQUIVALENTS	7,218	1,798
CASH, CASH EQUIVALENTS, RESTRICTED CASH AND RESTRICTED CASH EQUIVALENTS, BEGINNING OF YEAR	12,934	13,855
CASH, CASH EQUIVALENTS, RESTRICTED CASH AND RESTRICTED CASH EQUIVALENTS, END OF PERIOD	\$ 20,152	\$ 15,653

PRUDENTIAL FINANCIAL, INC.

**Unaudited Interim Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2022 and 2021 (in millions)**

	Nine Months Ended September 30,	
	2022	2021
HELD-FOR-SALE CLASSIFICATION(2)		
Change in assets classified as held-for-sale	\$ (153,793)	\$ 143,910
Change in liabilities classified as held-for-sale	(151,359)	140,736
Change in net assets classified as held-for-sale	\$ (2,434)	\$ 3,174
NON-CASH TRANSACTIONS DURING THE PERIOD		
Treasury Stock shares issued for stock-based compensation programs	\$ 232	\$ 135
Novation of annuity contracts(4)	\$ 2,611	\$ 0
Significant Pension Risk Transfer transactions:		
Assets received, excluding cash and cash equivalents	\$ 8,246	\$ 5,377
Liabilities assumed	8,764	6,397
Net cash received	\$ 518	\$ 1,020
RECONCILIATION TO THE UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION		
Cash and cash equivalents	\$ 20,104	\$ 15,605
Restricted cash and restricted cash equivalents (included in "Other assets")	48	48
Total cash, cash equivalents, restricted cash and restricted cash equivalents	\$ 20,152	\$ 15,653

- (1) The amount for the nine months ended September 30, 2022 includes the recognized gains on the sales of Prudential Annuities Life Assurance Corporation ("PALAC") and the Full Service Retirement business, which were completed on April 1, 2022. See Note 1 for additional information on these dispositions.
- (2) See Note 1 for more information on the dispositions.
- (3) The amount for the nine months ended September 30, 2022 includes approximately \$1.6 billion cash receipt from a secured borrowing related to the PALAC disposition. The secured borrowing was later derecognized as part of a non-cash transaction during the period. See Note 1 for more information.
- (4) "Cash flows from (used in) operating activities" and "Cash flows from (used in) investing activities" exclude certain non-cash activities related to the novation of certain, previously reinsured, annuity products, from Fortitude Group Holdings, LLC to the Company. See Note 1 for more information.

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 solutions, mutual funds and investment management.

In October 2021, the Company announced the creation of Retirement Strategies, a new U.S. business that would serve the retirement needs of both its institutional and individual customers by bringing the institutional investment and pension solutions offered through the Retirement business together with the financial solutions and capabilities of the Individual Annuities business. Commencing with the second quarter of 2022, this new structure has been fully operationalized; therefore, the results of the former Retirement segment (now known as the “Institutional Retirement Strategies” operating segment) and the former Individual Annuities segment (now known as the “Individual Retirement Strategies” operating segment) have been aggregated into the Retirement Strategies segment. Prior periods have been updated to conform to this new presentation.

The Company’s principal operations consist of PGIM (the Company’s global investment management business), the U.S. Businesses (consisting of the Retirement Strategies, Group Insurance, 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, 2021.

Use of Estimates

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

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.

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

Out of Period Adjustments

In the second quarter of 2022, the Company recorded out of period adjustments within the Individual Life business, resulting in an aggregate net benefit of \$125 million to “Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures” for the second quarter of 2022. The adjustments included (i) a \$230 million benefit from a reduction to cost of reinsurance liabilities related to universal and variable life products; (ii) an \$80 million net benefit from a reduction in reserves, partially offset by an increase in cost of reinsurance liabilities, for certain universal and variable universal life products; and (iii) a \$185 million charge from an increase in reserves for certain universal life insurance products.

The impact of these out of period adjustments, individually and in the aggregate, was not material to any previously reported quarterly or annual financial statements and is not expected to be material to the 2022 annual financial statements. See Note 13 for additional information on the impact of these adjustments to the Company’s operating segments.

Reclassifications

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

COVID-19

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

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

On April 1, 2022, the Company completed the sale of Prudential Annuities Life Assurance Corporation (“PALAC”), a wholly owned subsidiary, representing a portion of its in-force traditional variable annuity block of business, to Fortitude Group Holdings, LLC (“Fortitude”). The PALAC block primarily consisted of non-New York traditional variable annuities with guaranteed living benefits that were issued prior to 2011, which constituted approximately \$30 billion of Prudential’s total in-force individual annuity account values at the closing of the transaction. The Company, through co-insurance and modified co-insurance agreements, has retained the results of certain variable annuities, indexed annuities, and fixed annuities with a guaranteed lifetime withdrawal income feature issued by PALAC.

The Company recognized a pre-tax gain on sale of \$852 million in the second quarter of 2022 within “Other income”, which is included in adjusted operating income within the Retirement Strategies segment.

During the second quarter of 2022, the economics of approximately \$1.7 billion of commercial mortgage and other loans and fixed maturities, available-for-sale, held by PALAC were transferred to Fortitude via participation agreements. This transfer did not meet the requirements of sale accounting and was therefore accounted for as a secured borrowing as of June 30, 2022. During the third quarter of 2022, the secured borrowing was derecognized when the assets were legally transferred from Fortitude back to the Company as part of the novation of certain, previously reinsured, annuity products.

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

Full Service Retirement Business

On April 1, 2022, the Company completed the sale of its Full Service Retirement business to Great-West Life & Annuity Insurance Company (“Great-West”), 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 recognized a net pre-tax gain of \$690 million in the second quarter of 2022, composed of (i) an \$890 million gain recorded in “Other income”; (ii) \$150 million of realized losses recorded in “Realized investment gains (losses), net”, related to assets transferred as part of the reinsurance of certain retained policies to Great-West; and (iii) \$50 million of indirect expenses and charges recorded in “General and administrative expenses” on the Unaudited Interim Consolidated Statements of Operations. The net gain is excluded from adjusted operating income and reported within Divested Businesses as part of Corporate and Other operations. In addition, the Company recognized a deferred gain of approximately \$400 million for the ceding of certain insurance policies through reinsurance to Great-West, including a true-up in the third quarter of 2022. This deferred reinsurance gain will be recognized in income over the term of the ceded policies. The transaction agreement includes a post-closing adjustment provision. Any such adjustment will be finalized by the fourth quarter of 2022 and could impact the amount of the pre-tax gain referred to above; however, the Company does not expect that any such adjustment will have a material impact on its results.

Excluding the gain on sale recognized in the second quarter of 2022, the Full Service Retirement business generated pre-tax income/(loss) of approximately \$0 million and \$(200) million for the three and nine months ended September 30, 2022, respectively, and approximately \$18 million and \$117 million for the three and nine months ended September 30, 2021, respectively. These amounts exclude the impact of overhead costs retained in the Company’s Corporate and Other operations and not transferred to Great-West.

The assets and liabilities of both the Full Service Retirement business and PALAC were classified as held-for-sale prior to completion of these dispositions. The table below reflects their carrying amounts as of December 31, 2021:

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

	December 31, 2021		
	Retirement Full Service	Individual Annuities PALAC	Total
	(in millions)		
Assets held-for-sale:			
Fixed maturities, available-for-sale, at fair value(1)	\$ 4,798	\$ 8,771	\$ 13,569
Fixed maturities, trading, at fair value	374	27	401
Assets supporting experience-rated contractholder liabilities, at fair value	18,818	0	18,818
Equity securities	0	322	322
Commercial mortgage and other loans(1)	5,068	1,497	6,565
Policy loans	0	12	12
Other invested assets	10	94	104
Short-term investments	3	875	878
Cash and cash equivalents	56	2,015	2,071
Accrued investment income	160	61	221
Deferred policy acquisition costs	100	1,097	1,197
Value of business acquired	185	30	215
Other assets(2)	674	10,644	11,318
Separate account assets	65,835	32,267	98,102
Total assets held-for-sale	<u>\$ 96,081</u>	<u>\$ 57,712</u>	<u>\$ 153,793</u>
Liabilities held-for-sale:			
Future policy benefits	\$ 157	\$ 4,505	\$ 4,662
Policyholders' account balances	28,164	11,750	39,914
Other liabilities	374	8,307	8,681
Separate account liabilities	65,835	32,267	98,102
Total liabilities held-for-sale	<u>\$ 94,530</u>	<u>\$ 56,829</u>	<u>\$ 151,359</u>

(1) Includes "Fixed maturities, available-for-sale, at fair value" with an allowance for credit losses of \$1 million and "Commercial mortgage and other loans" net of allowance for credit losses of \$15 million as of December 31, 2021, respectively.

(2) Includes \$455 million of goodwill associated with the Retirement Full Service business as of December 31, 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. The terms of the transaction included additional contingent consideration tied to the level of yields for the 10-year Taiwanese Government bond for two years after the signing of the transaction. This consideration was measured at fair value each period and resulted in the receipt of the maximum contractual amount of \$100 million during the third quarter of 2022. Also in connection with the transaction, the Company recognized a liability with a fair value of approximately \$33 million as of September 30, 2022, representing its financial guarantee of certain insurance obligations of POT.

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.

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

Recent Accounting Pronouncements

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

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

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

The Company has an established governance framework to manage the implementation of the standard. The Company's implementation efforts continue to progress including, but not limited to, implementing refinements to key accounting policy decisions, modifications to actuarial valuation models, updates to data sourcing capabilities, automation of key financial reporting and analytical processes and updates to internal control over financial reporting.

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 its Consolidated Financial Statements and will significantly increase disclosures. As of the January 1, 2021 transition date, the Company estimates that the implementation of the standard will result in a decrease to "Retained earnings" of approximately \$2 billion to \$3 billion primarily from reclassifying the cumulative effect of changes in non-performance risk from "Retained earnings" to "Accumulated other comprehensive income" ("AOCI") and other changes in reserves, and will result in a decrease to AOCI of approximately \$40 billion to \$45 billion primarily from remeasuring in-force contract liabilities using upper-medium grade fixed income instrument yields as of the transition date. As of June 30, 2022, the estimated impacts amounted to a decrease to "Retained earnings" of approximately \$2 billion to \$3 billion and an increase to AOCI of approximately \$3 billion to \$8 billion, respectively. The changes in the estimates from January 1, 2021 to June 30, 2022 are primarily due to the increases in interest rates during 2021 and 2022. In addition to the impacts to the balance sheet, the Company also expects an impact to the pattern of earnings emergence following the transition date. Outlined below are four key areas of change, although there are other less significant policy 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 AOCI or (2) a full retrospective transition method.	The Company will adopt this guidance effective January 1, 2023 using the modified retrospective transition method. As a result of the modified retrospective transition method, the Company expects the vast majority of the impact of updating cash flow assumptions as of the transition date to be reflected in the pattern of earnings in subsequent periods. The Company also expects some decrease to “Retained earnings” upon adoption from cash flow assumption updates isolated to the impact on certain issue year cohorts.
<i>Discount rate assumption used to measure the liability for future policy benefits for non-participating traditional and limited-pay insurance products</i>	Requires discount rate assumptions to be based on an upper-medium grade fixed income instrument yield, which will be updated each quarter with the impact recorded through OCI. An entity shall maximize the use of relevant observable information and minimize the use of unobservable information in determining the discount rate assumptions.	As noted above, an entity may choose either a modified retrospective transition method or full retrospective transition method for the liability for future policy benefits. Under either method, for balance sheet remeasurement purposes, the liability for future policy benefits will be remeasured using current discount rates as of either the beginning of the prior year (if early adoption is elected) or the beginning of the earliest period presented with the impact recorded as a cumulative effect adjustment to AOCI.	As noted above, the Company will adopt the guidance for the liability for future policy benefits effective January 1, 2023 using the modified retrospective transition method. Based on interest rates as of June 30, 2022, the Company expects an increase to AOCI as a result of remeasuring in-force contract liabilities using upper-medium grade fixed income instrument yields. The adjustment will largely reflect the difference between discount rates locked-in at contract inception versus discount rates as of the adoption date.

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>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 will adopt this guidance effective January 1, 2023 using the modified retrospective transition method. Under the modified retrospective transition method, the Company does not expect a significant impact to the balance sheet, other than the impact of the removal of any related amounts in AOCI.
<i>Market Risk Benefits ("MRB")</i>	Requires an entity to measure all market risk benefits (e.g., living benefit and death benefit guarantees associated with variable annuities) at fair value, and record MRB assets and liabilities separately on the 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 NPR, which is recognized in OCI.	An entity shall adopt the guidance for market risk benefits using the retrospective transition method, which includes a cumulative effect adjustment on the balance sheet as of either the beginning of prior year (if early adoption is elected) or the beginning of the earliest period presented. An entity shall maximize the use of relevant observable information and minimize the use of unobservable information in determining the balance of the market risk benefits upon adoption.	The Company will adopt this guidance effective January 1, 2023 using the retrospective transition method. Upon adoption, the Company expects a decrease to "Retained earnings" and offsetting increase to AOCI from reclassifying the cumulative effect of changes in NPR from retained earnings to AOCI. There will also be 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).

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

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

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

3. INVESTMENTS

Fixed Maturity Securities

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

	September 30, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
	(in millions)				
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 30,701	\$ 1,206	\$ 4,227	\$ 0	\$ 27,680
Obligations of U.S. states and their political subdivisions	10,495	216	968	0	9,743
Foreign government bonds	68,665	5,310	4,181	1	69,793
U.S. public corporate securities	98,482	1,349	15,734	25	84,072
U.S. private corporate securities(1)	37,818	687	3,803	57	34,645
Foreign public corporate securities	22,419	394	2,358	23	20,432
Foreign private corporate securities	31,148	138	6,686	40	24,560
Asset-backed securities(2)	11,952	168	380	5	11,735
Commercial mortgage-backed securities	11,976	28	917	0	11,087
Residential mortgage-backed securities(3)	2,301	28	235	0	2,094
Total fixed maturities, available-for-sale(1)	\$ 325,957	\$ 9,524	\$ 39,489	\$ 151	\$ 295,841

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

September 30, 2022						
	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	\$ 661	\$ 140	\$ 0	\$ 801	\$ 0	\$ 661
Foreign public corporate securities	396	22	0	418	2	394
Foreign private corporate securities	7	0	0	7	0	7
Residential mortgage-backed securities(3)	137	8	0	145	0	137
Total fixed maturities, held-to-maturity(4)	<u>\$ 1,201</u>	<u>\$ 170</u>	<u>\$ 0</u>	<u>\$ 1,371</u>	<u>\$ 2</u>	<u>\$ 1,199</u>

(1) Excludes notes with amortized cost of \$6,366 million (fair value, \$6,366 million), which have been offset with the associated debt under a netting agreement.
(2) Includes credit-tranched securities collateralized by loan obligations, education loans, auto loans, home equity loans and other asset types.

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

(4) Excludes notes with amortized cost of \$4,500 million (fair value, \$4,500 million), which have been offset with the associated debt under a netting agreement.

December 31, 2021						
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	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	\$ 26,231	\$ 5,958	\$ 31	\$ 32,158	\$ 0	\$ 32,158
Obligations of U.S. states and their political subdivisions	10,445	1,781	8	12,218	0	12,218
Foreign government bonds	83,363	11,842	529	94,669	7	94,669
U.S. public corporate securities	98,836	13,721	390	112,155	12	112,155
U.S. private corporate securities(2)	35,019	2,583	162	37,382	58	37,382
Foreign public corporate securities	24,877	2,571	118	27,309	21	27,309
Foreign private corporate securities	28,047	1,448	442	29,037	16	29,037
Asset-backed securities(3)	11,402	137	14	11,525	0	11,525
Commercial mortgage-backed securities	12,490	631	22	13,099	0	13,099
Residential mortgage-backed securities(4)	2,749	123	14	2,858	0	2,858
Total fixed maturities, available-for-sale(1)(2)	<u>\$ 333,459</u>	<u>\$ 40,795</u>	<u>\$ 1,730</u>	<u>\$ 372,410</u>	<u>\$ 114</u>	<u>\$ 372,410</u>

December 31, 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	\$ 833	\$ 221	\$ 0	\$ 1,054	\$ 0	\$ 833
Foreign public corporate securities	486	49	0	535	5	481
Foreign private corporate securities	9	0	0	9	0	9
Residential mortgage-backed securities(4)	191	14	0	205	0	191
Total fixed maturities, held-to-maturity(5)	<u>\$ 1,519</u>	<u>\$ 284</u>	<u>\$ 0</u>	<u>\$ 1,803</u>	<u>\$ 5</u>	<u>\$ 1,514</u>

(1) Excludes "Assets held-for-sale" with amortized cost of \$13,145 million, fair value of \$13,569 million, unrealized gains of \$572 million, unrealized losses of \$147 million and allowance for credit losses of \$1 million. See Note 1 for additional information.

(2) Excludes notes with amortized cost of \$5,941 million (fair value, \$5,995 million), which have been offset with the associated debt under a netting agreement.

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

- (3) Includes credit-tranched securities collateralized loan obligations, education loans, auto 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 \$4,750 million (fair value, \$5,394 million), which have been offset with the associated debt under a netting agreement.

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

	September 30, 2022					
	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
(in millions)						
Fixed maturities, available-for-sale:						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 21,689	\$ 4,215	\$ 31	\$ 12	\$ 21,720	\$ 4,227
Obligations of U.S. states and their political subdivisions	6,764	903	180	65	6,944	968
Foreign government bonds	17,926	2,591	6,397	1,560	24,323	4,151
U.S. public corporate securities	67,571	13,336	5,724	2,352	73,295	15,688
U.S. private corporate securities	27,194	3,240	2,342	563	29,536	3,803
Foreign public corporate securities	13,482	1,828	1,778	504	15,260	2,332
Foreign private corporate securities	19,948	4,987	3,789	1,699	23,737	6,686
Asset-backed securities	6,785	261	3,000	110	9,785	371
Commercial mortgage-backed securities	10,295	792	618	125	10,913	917
Residential mortgage-backed securities	1,361	138	375	94	1,736	232
Total fixed maturities, available-for-sale	<u>\$ 193,015</u>	<u>\$ 32,291</u>	<u>\$ 24,234</u>	<u>\$ 7,084</u>	<u>\$ 217,249</u>	<u>\$ 39,375</u>

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

	December 31, 2021					
	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
(in millions)						
Fixed maturities, available-for-sale:						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 1,521	\$ 15	\$ 269	\$ 16	\$ 1,790	\$ 31
Obligations of U.S. states and their political subdivisions	289	5	71	3	360	8
Foreign government bonds	4,534	244	6,945	282	11,479	526
U.S. public corporate securities	12,403	219	2,947	152	15,350	371
U.S. private corporate securities	4,362	84	848	78	5,210	162
Foreign public corporate securities	3,652	76	802	42	4,454	118
Foreign private corporate securities	6,350	270	1,604	169	7,954	439
Asset-backed securities	6,568	13	170	1	6,738	14
Commercial mortgage-backed securities	921	11	263	11	1,184	22
Residential mortgage-backed securities	751	13	18	1	769	14
Total fixed maturities, available-for-sale(1)	<u>\$ 41,351</u>	<u>\$ 950</u>	<u>\$ 13,937</u>	<u>\$ 755</u>	<u>\$ 55,288</u>	<u>\$ 1,705</u>

(1) Excludes “Assets held-for-sale” with fair value of \$4,644 million and gross unrealized losses of \$147 million. See Note 1 for additional information.

As of September 30, 2022 and December 31, 2021, the gross unrealized losses on fixed maturity available-for-sale securities without an allowance were composed of \$36,756 million and \$1,242 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 \$2,619 million and \$463 million, respectively, related to other than high or highest quality securities based on NAIC or equivalent rating. As of September 30, 2022, the \$7,084 million of gross unrealized losses of twelve months or more were concentrated in the finance, consumer non-cyclical and utility sectors within corporate securities and foreign government securities. As of December 31, 2021, the \$755 million of gross unrealized losses of twelve months or more were concentrated in consumer non-cyclical, utility and finance sectors within corporate securities.

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

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

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, 2022			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost, Net of Allowance	Fair Value
	(in millions)			
Fixed maturities:				
Due in one year or less	\$ 9,029	\$ 9,189	\$ 0	\$ 0
Due after one year through five years	50,728	49,239	394	418
Due after five years through ten years	63,783	59,533	22	23
Due after ten years(1)	176,188	152,964	646	785
Asset-backed securities	11,952	11,735	0	0
Commercial mortgage-backed securities	11,976	11,087	0	0
Residential mortgage-backed securities	2,301	2,094	137	145
Total	\$ 325,957	\$ 295,841	\$ 1,199	\$ 1,371

(1) Excludes available-for-sale notes with amortized cost of \$6,366 million (fair value, \$6,366 million) and held-to-maturity notes with amortized cost of \$4,500 million (fair value, \$4,500 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in millions)			
Fixed maturities, available-for-sale:				
Proceeds from sales(1)	\$ 4,978	\$ 7,273	\$ 24,056	\$ 27,041
Proceeds from maturities/prepayments	5,186	7,040	14,792	21,936
Gross investment gains from sales and maturities	325	301	940	2,264
Gross investment losses from sales and maturities	(376)	(69)	(1,963)	(558)
Write-downs recognized in earnings(2)	(21)	0	(113)	0
(Addition to) release of allowance for credit losses	(42)	(12)	(37)	41
Fixed maturities, held-to-maturity:				
Proceeds from maturities/prepayments(3)	\$ 7	\$ 11	\$ 24	\$ 155
(Addition to) release of allowance for credit losses	1	1	3	3

(1) Excludes activity from non-cash related proceeds due to the timing of trade settlements of \$3 million and \$(27) million for the nine months ended September 30, 2022 and 2021, respectively.

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

(3) Excludes activity from non-cash related proceeds due to the timing of trade settlements of less than \$1 million and \$0 million for the nine months ended September 30, 2022 and 2021, respectively.

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 fixed maturity securities, as of the dates indicated:

	Three Months Ended September 30, 2022													
	U.S. Treasury Securities and Obligations of U.S. States	Foreign Government Bonds	U.S. and Foreign Corporate Securities	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Residential Mortgage-Backed Securities			Total					
	(in millions)													
Fixed maturities, available-for-sale:														
Balance, beginning of period	\$	0	\$	6	\$	102	\$	1	\$	0	\$	0	\$	109
Additions to allowance for credit losses not previously recorded		0		0		30		4		0		0		34
Reductions for securities sold during the period		0		(3)		(2)		0		0		0		(5)
Reductions for securities with intent to sell		0		0		0		0		0		0		0
Additions (reductions) on securities with previous allowance		0		(2)		15		0		0		0		13
Balance, end of period	\$	0	\$	1	\$	145	\$	5	\$	0	\$	0	\$	151

	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 / (from) “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.

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

Nine Months Ended September 30, 2022

	U.S. Treasury Securities and Obligations of U.S. States	Foreign Government Bonds	U.S. and Foreign Corporate Securities	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Residential Mortgage-Backed Securities	Total
(in millions)							
Fixed maturities, available-for-sale:							
Balance, beginning of period	\$ 0	\$ 7	\$ 107	\$ 0	\$ 0	\$ 0	\$ 114
Additions to allowance for credit losses not previously recorded	0	11	103	5	0	0	119
Reductions for securities sold during the period	0	(5)	(55)	0	0	0	(60)
Reductions for securities with intent to sell	0	(13)	(67)	0	0	0	(80)
Additions (reductions) on securities with previous allowance	0	1	57	0	0	0	58
Balance, end of period	<u>\$ 0</u>	<u>\$ 1</u>	<u>\$ 145</u>	<u>\$ 5</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 151</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 / (from) "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.

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

Three Months Ended September 30, 2022

	U.S. Treasury Securities and Obligations of U.S. States	Foreign Government Bonds	U.S. and Foreign Corporate Securities	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Residential Mortgage-Backed Securities	Total
(in millions)							
Fixed maturities, held-to-maturity:							
Balance, beginning of period	\$ 0	\$ 0	\$ 3	\$ 0	\$ 0	\$ 0	\$ 3
Current period provision for expected losses	0	0	(1)	0	0	0	(1)
Change in foreign exchange	0	0	0	0	0	0	0
Balance, end of period	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2</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>

Nine Months Ended September 30, 2022

	U.S. Treasury Securities and Obligations of U.S. States	Foreign Government Bonds	U.S. and Foreign Corporate Securities	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Residential Mortgage-Backed Securities	Total
(in millions)							
Fixed maturities, held-to-maturity:							
Balance, beginning of period	\$ 0	\$ 0	\$ 5	\$ 0	\$ 0	\$ 0	\$ 5
Current period provision for expected losses	0	0	(2)	0	0	0	(2)
Change in foreign exchange	0	0	(1)	0	0	0	(1)
Balance, end of period	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2</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 allowance for expected credit 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>

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, 2021.

For the three months ended September 30, 2022, the net increase in the allowance for credit losses on available-for-sale securities was primarily related to net additions in the consumer non-cyclical, capital goods and utility sectors within corporate securities, partially offset by a net release within the transportation sector. 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 nine months ended September 30, 2022, the net increase in the allowance for credit losses on available-for-sale securities was primarily related to net additions in the capital goods, consumer non-cyclical and utility sectors within corporate securities, partially offset by net releases in the communications and transportation sectors. 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.

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

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, 2022		December 31, 2021			
	Amortized Cost or Cost	Fair Value	Amortized Cost or Cost	Fair Value	Assets Held-for-Sale(1)	
					Amortized Cost or Cost	Fair Value
	(in millions)					
Short-term investments and cash equivalents	\$ 0	\$ 0	\$ 30	\$ 30	\$ 786	\$ 786
Fixed maturities:						
Corporate securities	83	82	101	103	12,112	12,463
Commercial mortgage-backed securities	0	0	0	0	1,799	1,830
Residential mortgage-backed securities(2)	0	0	0	0	658	683
Asset-backed securities(3)	0	0	0	0	2,079	2,093
Foreign government bonds	646	622	761	761	240	237
U.S. government authorities and agencies and obligations of U.S. states	165	183	182	193	344	400
Total fixed maturities(4)	894	887	1,044	1,057	17,232	17,706
Equity securities	1,460	1,693	1,787	2,271	328	326
Total assets supporting experience-rated contractholder liabilities(5)	\$ 2,354	\$ 2,580	\$ 2,861	\$ 3,358	\$ 18,346	\$ 18,818

(1) See Note 1 for additional information.

(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, was \$1,607 million, including “Assets held-for-sale” as of December 31, 2021, all of which were rated AA or higher.

(4) As a percentage of amortized cost, 99% of the portfolio was considered high or highest quality based on NAIC or equivalent ratings, as of September 30, 2022. As a percentage of amortized cost, 97% of the portfolio including “Asset held-for-sale” was considered high or highest quality based on NAIC or equivalent ratings, as of December 31, 2021.

(5) As a percentage of amortized cost, all of the portfolio consisted of public securities, as of September 30, 2022. As a percentage of amortized cost, 95% of the portfolio including “Assets held-for-sale” consisted of public securities, as of December 31, 2021.

The net change in unrealized gains (losses) from assets supporting experience-rated contractholder liabilities still held at period end, recorded within “Other income (loss),” was \$(52) million and \$(263) million during the three months ended September 30, 2022 and 2021, respectively, and \$(743) million and \$(557) million during the nine months ended September 30, 2022 and 2021, respectively.

Fixed Maturities, Trading

The net change in unrealized gains (losses) from fixed maturities, trading still held at period end, recorded within “Other income (loss),” was \$(496) million and \$88 million during the three months ended September 30, 2022 and 2021, respectively, and \$(1,653) million and \$(279) million during the nine months ended September 30, 2022 and 2021, respectively.

Equity Securities

The net change in unrealized gains (losses) from equity securities still held at period end, recorded within “Other income (loss),” was \$(396) million and \$19 million during the three months ended September 30, 2022 and 2021, respectively, and \$(1,253) million and \$457 million during the nine months ended September 30, 2022 and 2021, respectively.

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

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:

	September 30, 2022		December 31, 2021	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Investments in Japanese government and government agency securities:				
Fixed maturities, available-for-sale	\$ 59,330	\$ 61,224	\$ 73,681	\$ 83,382
Fixed maturities, held-to-maturity	644	780	812	1,026
Fixed maturities, trading	18	18	23	23
Assets supporting experience-rated contractholder liabilities	563	547	983	977
Total	<u>\$ 60,555</u>	<u>\$ 62,569</u>	<u>\$ 75,499</u>	<u>\$ 85,408</u>

	September 30, 2022		December 31, 2021	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Investments in Brazil government and government agency securities:				
Fixed maturities, available-for-sale	\$ 2,417	\$ 2,237	\$ 1,982	\$ 1,866
Short-term investments	58	58	1	1
Cash equivalents	89	89	133	133
Total	<u>\$ 2,564</u>	<u>\$ 2,384</u>	<u>\$ 2,116</u>	<u>\$ 2,000</u>

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

Commercial Mortgage and Other Loans

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

	September 30, 2022		December 31, 2021	
	Amount (in millions)	% of Total	Amount (in millions)	% of Total
Commercial mortgage and agricultural property loans by property type:				
Office	\$ 9,317	16.5 %	\$ 10,225	17.6 %
Retail	6,141	10.9	6,779	11.7
Apartments/Multi-Family	16,431	29.0	16,742	28.8
Industrial	12,790	22.6	13,009	22.4
Hospitality	2,035	3.6	1,876	3.2
Other	3,727	6.6	3,936	6.8
Total commercial mortgage loans	50,441	89.2	52,567	90.5
Agricultural property loans	6,077	10.8	5,520	9.5
Total commercial mortgage and agricultural property loans	56,518	100.0 %	58,087	100.0 %
Allowance for credit losses	(186)		(115)	
Total net commercial mortgage and agricultural property loans	56,332		57,972	
Other loans:				
Uncollateralized loans	453		561	
Residential property loans	42		67	
Other collateralized loans	101		70	
Total other loans	596		698	
Allowance for credit losses	(32)		(4)	
Total net other loans	564		694	
Total net commercial mortgage and other loans(1)(2)	\$ 56,896		\$ 58,666	

(1) Excludes “Assets held-for-sale” of \$6,565 million net of allowance for credit losses of \$15 million as of December 31, 2021. See Note 1 for additional information.

(2) Includes loans which are carried at fair value under the fair value option and are collateralized primarily by apartment complexes. As of September 30, 2022 and December 31, 2021, the net carrying value of these loans were \$978 million and \$1,263 million, respectively.

As of September 30, 2022, the commercial mortgage and agricultural property loans were secured by properties geographically dispersed throughout the United States with the largest concentrations in California (31%), Texas (8%) and New York (6%), and included loans secured by properties in Europe (6%), Asia (1%) and Australia (1%).

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, 2022						
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Allowance, beginning of period	\$ 156	\$ 8	\$ 0	\$ 0	\$ 32	\$ 196
Addition to (release of) allowance for expected losses	22	2	0	0	0	24
Reclassified (to) from “Assets held-for-sale”(1)	(6)	0	0	0	0	(6)
Other	4	0	0	0	0	4
Allowance, end of period	<u>\$ 176</u>	<u>\$ 10</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 32</u>	<u>\$ 218</u>

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) from “Assets 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.

Nine Months Ended September 30, 2022						
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Allowance, beginning of period	\$ 111	\$ 4	\$ 0	\$ 0	\$ 4	\$ 119
Addition to (release of) allowance for expected losses	62	6	0	0	28	96
Other	3	0	0	0	0	3
Allowance, end of period	<u>\$ 176</u>	<u>\$ 10</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 32</u>	<u>\$ 218</u>

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

	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) from “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.

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, 2021.

For both the three months and nine months ended September 30, 2022, the net addition to the allowance for credit losses on commercial mortgage and other loans was due to increases in loan-specific reserves as well as increases to reserves to reflect declining market conditions. For both the three months and 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.

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

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

September 30, 2022									
Amortized Cost by Origination Year									
	2022	2021	2020	2019	2018	Prior	Revolving Loans	Total	
(in millions)									
Commercial Mortgage Loans									
Loan-to-Value Ratio:									
0%-59.99%	\$ 1,526	\$ 1,410	\$ 752	\$ 2,158	\$ 3,675	\$ 15,024	\$ 0	\$ 24,545	
60%-69.99%	1,448	3,271	1,619	3,881	2,912	4,727	0	17,858	
70%-79.99%	842	1,707	1,105	983	611	2,131	0	7,379	
80% or greater	0	24	7	7	0	621	0	659	
Total	<u>\$ 3,816</u>	<u>\$ 6,412</u>	<u>\$ 3,483</u>	<u>\$ 7,029</u>	<u>\$ 7,198</u>	<u>\$ 22,503</u>	<u>\$ 0</u>	<u>\$ 50,441</u>	
Debt Service Coverage Ratio:									
Greater or Equal to 1.2x	\$ 3,595	\$ 6,195	\$ 3,208	\$ 5,893	\$ 6,645	\$ 18,674	\$ 0	\$ 44,210	
1.0 - 1.2x	221	217	89	632	347	1,778	0	3,284	
Less than 1.0x	0	0	186	504	206	2,051	0	2,947	
Total	<u>\$ 3,816</u>	<u>\$ 6,412</u>	<u>\$ 3,483</u>	<u>\$ 7,029</u>	<u>\$ 7,198</u>	<u>\$ 22,503</u>	<u>\$ 0</u>	<u>\$ 50,441</u>	
Agricultural Property Loans									
Loan-to-Value Ratio:									
0%-59.99%	\$ 707	\$ 2,003	\$ 859	\$ 481	\$ 354	\$ 1,421	\$ 74	\$ 5,899	
60%-69.99%	52	85	8	33	0	0	0	178	
70%-79.99%	0	0	0	0	0	0	0	0	
80% or greater	0	0	0	0	0	0	0	0	
Total	<u>\$ 759</u>	<u>\$ 2,088</u>	<u>\$ 867</u>	<u>\$ 514</u>	<u>\$ 354</u>	<u>\$ 1,421</u>	<u>\$ 74</u>	<u>\$ 6,077</u>	
Debt Service Coverage Ratio:									
Greater or Equal to 1.2x	\$ 748	\$ 2,044	\$ 792	\$ 503	\$ 343	\$ 1,347	\$ 74	\$ 5,851	
1.0 - 1.2x	3	44	75	10	6	27	0	165	
Less than 1.0x	8	0	0	1	5	47	0	61	
Total	<u>\$ 759</u>	<u>\$ 2,088</u>	<u>\$ 867</u>	<u>\$ 514</u>	<u>\$ 354</u>	<u>\$ 1,421</u>	<u>\$ 74</u>	<u>\$ 6,077</u>	

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

December 31, 2021									
Amortized Cost by Origination Year									
	2021	2020	2019	2018	2017	Prior	Revolving Loans	Total(1)	
(in millions)									
Commercial Mortgage Loans									
Loan-to-Value Ratio:									
0%-59.99%	\$ 1,287	\$ 467	\$ 2,459	\$ 3,211	\$ 3,072	\$ 14,011	\$ 0	\$ 24,507	
60%-69.99%	3,101	1,941	4,124	3,631	1,356	4,161	0	18,314	
70%-79.99%	2,497	1,207	1,327	1,059	631	2,108	0	8,829	
80% or greater	184	39	7	62	50	575	0	917	
Total	<u>\$ 7,069</u>	<u>\$ 3,654</u>	<u>\$ 7,917</u>	<u>\$ 7,963</u>	<u>\$ 5,109</u>	<u>\$ 20,855</u>	<u>\$ 0</u>	<u>\$ 52,567</u>	
Debt Service Coverage Ratio:									
Greater or Equal to 1.2x	\$ 6,803	\$ 3,356	\$ 6,828	\$ 7,384	\$ 4,445	\$ 16,864	\$ 0	\$ 45,680	
1.0 - 1.2x	266	154	662	478	234	2,069	0	3,863	
Less than 1.0x	0	144	427	101	430	1,922	0	3,024	
Total	<u>\$ 7,069</u>	<u>\$ 3,654</u>	<u>\$ 7,917</u>	<u>\$ 7,963</u>	<u>\$ 5,109</u>	<u>\$ 20,855</u>	<u>\$ 0</u>	<u>\$ 52,567</u>	
Agricultural Property Loans									
Loan-to-Value Ratio:									
0%-59.99%	\$ 1,958	\$ 887	\$ 494	\$ 334	\$ 370	\$ 1,226	\$ 80	\$ 5,349	
60%-69.99%	92	5	29	37	0	0	0	163	
70%-79.99%	0	0	0	0	0	0	0	0	
80% or greater	0	3	5	0	0	0	0	8	
Total	<u>\$ 2,050</u>	<u>\$ 895</u>	<u>\$ 528</u>	<u>\$ 371</u>	<u>\$ 370</u>	<u>\$ 1,226</u>	<u>\$ 80</u>	<u>\$ 5,520</u>	
Debt Service Coverage Ratio:									
Greater or Equal to 1.2x	\$ 2,007	\$ 870	\$ 517	\$ 364	\$ 312	\$ 1,121	\$ 80	\$ 5,271	
1.0 - 1.2x	43	25	10	1	58	41	0	178	
Less than 1.0x	0	0	1	6	0	64	0	71	
Total	<u>\$ 2,050</u>	<u>\$ 895</u>	<u>\$ 528</u>	<u>\$ 371</u>	<u>\$ 370</u>	<u>\$ 1,226</u>	<u>\$ 80</u>	<u>\$ 5,520</u>	

(1) Excludes “Assets held-for-sale” of \$6,580 million. See Note 1 for additional information.

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, 2021.

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

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

September 30, 2022								
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due(1)	Total Past Due	Total Loans	Non-Accrual Status(2)	
(in millions)								
Commercial mortgage loans	\$ 50,441	\$ 0	\$ 0	\$ 0	\$ 0	\$ 50,441	\$ 2	
Agricultural property loans	6,067	0	4	6	10	6,077	17	
Residential property loans	42	0	0	0	0	42	0	
Other collateralized loans	101	0	0	0	0	101	0	
Uncollateralized loans	406	0	47	0	47	453	0	
Total	<u>\$ 57,057</u>	<u>\$ 0</u>	<u>\$ 51</u>	<u>\$ 6</u>	<u>\$ 57</u>	<u>\$ 57,114</u>	<u>\$ 19</u>	

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

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

December 31, 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	\$ 52,565	\$ 0	\$ 0	\$ 2	\$ 2	\$ 52,567	\$ 2	
Agricultural property loans	5,520	0	0	0	0	5,520	19	
Residential property loans	66	0	0	1	1	67	1	
Other collateralized loans	70	0	0	0	0	70	0	
Uncollateralized loans	561	0	0	0	0	561	0	
Total(3)	<u>\$ 58,782</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3</u>	<u>\$ 3</u>	<u>\$ 58,785</u>	<u>\$ 22</u>	

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

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

(3) Excludes "Assets held-for-sale" of \$6,580 million. See Note 1 for additional information.

Loans on non-accrual status recognized interest of less than \$1 million and \$2 million for both the three and nine months ended September 30, 2022 and 2021, respectively. Loans on non-accrual status that did not have a related allowance for credit losses were \$17 million and \$20 million as of September 30, 2022 and December 31, 2021, respectively.

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

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

Other Invested Assets

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

	September 30, 2022	December 31, 2021
	(in millions)	
LPs/LLCs:		
Equity method:		
Private equity	\$ 7,008	\$ 6,509
Hedge funds	3,087	2,797
Real estate-related	2,746	2,370
Subtotal equity method	12,841	11,676
Fair value:		
Private equity	1,518	1,852
Hedge funds	1,891	2,119
Real estate-related	308	319
Subtotal fair value	3,717	4,290
Total LPs/LLCs	16,558	15,966
Real estate held through direct ownership(1)	1,516	1,789
Derivative instruments	1,909	3,280
Other(2)	1,067	798
Total other invested assets(3)	\$ 21,050	\$ 21,833

(1) As of September 30, 2022 and December 31, 2021, real estate held through direct ownership had mortgage debt of \$205 million and \$274 million, respectively.

(2) Primarily includes equity investments accounted for under the measurement alternative, strategic investments made by investment management operations, leveraged leases and member and activity stock held in the Federal Home Loan Bank of New York. For additional information regarding the Company’s holdings in the Federal Home Loan Bank 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, 2021.

(3) Excludes “Assets held-for-sale” of \$104 million as of December 31, 2021. See Note 1 for additional information.

Accrued Investment Income

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

	September 30, 2022	December 31, 2021
	(in millions)	
Fixed maturities	\$ 2,394	\$ 2,398
Equity securities	7	5
Commercial mortgage and other loans	191	175
Policy loans	250	253
Other invested assets	20	22
Short-term investments and cash equivalents	26	2
Total accrued investment income(1)	\$ 2,888	\$ 2,855

(1) Excludes “Assets held-for-sale” of \$221 million as of December 31, 2021. See Note 1 for additional information.

Write-downs on accrued investment income were less than \$1 million for both the three and nine months ended September 30, 2022 and 2021, respectively.

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

Net Investment Income

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in millions)			
Fixed maturities, available-for-sale(1)	\$ 2,836	\$ 2,995	\$ 8,666	\$ 9,000
Fixed maturities, held-to-maturity(1)	52	56	160	169
Fixed maturities, trading	56	53	171	114
Assets supporting experience-rated contractholder liabilities	11	148	155	474
Equity securities	27	23	103	104
Commercial mortgage and other loans	533	621	1,646	1,882
Policy loans	125	132	376	403
Other invested assets	18	806	899	1,939
Short-term investments and cash equivalents	143	18	218	48
Gross investment income	3,801	4,852	12,394	14,133
Less: investment expenses	(170)	(135)	(467)	(482)
Net investment income	\$ 3,631	\$ 4,717	\$ 11,927	\$ 13,651

(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.

Realized Investment Gains (Losses), Net

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in millions)			
Fixed maturities(1)	\$ (113)	\$ 221	\$ (1,170)	\$ 1,750
Commercial mortgage and other loans	(9)	67	(75)	158
Investment real estate	(7)	49	83	113
LPs/LLCs	(13)	(43)	(19)	(26)
Derivatives	(369)	131	(795)	1,145
Other	(3)	7	(1)	6
Realized investment gains (losses), net	\$ (514)	\$ 432	\$ (1,977)	\$ 3,146

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

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

Net Unrealized Gains (Losses) on Investments within AOCI

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

	September 30, 2022	December 31, 2021
	(in millions)	
Fixed maturity securities, available-for-sale with an allowance(1)	\$ (58)	\$ 23
Fixed maturity securities, available-for-sale without an allowance(1)	(29,907)	39,467
Derivatives designated as cash flow hedges(2)	4,099	1,019
Derivatives designated as fair value hedges(2)	(47)	(35)
Other investments(3)	(9)	(7)
Net unrealized gains (losses) on investments	<u>\$ (25,922)</u>	<u>\$ 40,467</u>

(1) Includes net unrealized gains (losses) of \$425 million on “Assets held-for-sale” as of December 31, 2021.

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

(3) As of September 30, 2022 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:

	September 30, 2022				December 31, 2021			
	Remaining Contractual Maturities of the Agreements				Remaining Contractual Maturities of the Agreements			
	Overnight & Continuous	Up to 30 Days	30 to 90 Days	Total	Overnight & Continuous	Up to 30 Days	30 to 90 Days	Total
	(in millions)							
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 7,042	\$ 250	\$ 250	\$ 7,542	\$ 9,044	\$ 0	\$ 438	\$ 9,482
Commercial mortgage-backed securities	576	0	0	576	486	0	0	486
Residential mortgage-backed securities	105	0	0	105	217	0	0	217
Total securities sold under agreements to repurchase	<u>\$ 7,723</u>	<u>\$ 250</u>	<u>\$ 250</u>	<u>\$ 8,223</u>	<u>\$ 9,747</u>	<u>\$ 0</u>	<u>\$ 438</u>	<u>\$ 10,185</u>

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:

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

	September 30, 2022			December 31, 2021		
	Remaining Contractual Maturities of the Agreements			Remaining Contractual Maturities of the Agreements		
	Overnight & Continuous	Up to 30 Days	Total	Overnight & Continuous	Up to 30 Days	Total
	(in millions)					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 1	\$ 0	\$ 1	\$ 1	\$ 0	\$ 1
Obligations of U.S. states and their political subdivisions	54	0	54	84	0	84
Foreign government bonds	365	0	365	205	0	205
U.S. public corporate securities	4,000	0	4,000	2,834	0	2,834
Foreign public corporate securities	805	0	805	643	0	643
Equity securities	640	0	640	484	0	484
Total cash collateral for loaned securities(1)	\$ 5,865	\$ 0	\$ 5,865	\$ 4,251	\$ 0	\$ 4,251

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

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, 2021.

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.

	Consolidated VIEs for which the Company is the Investment Manager(1)		Other Consolidated VIEs(1)	
	September 30, 2022	December 31, 2021	September 30, 2022	December 31, 2021
	(in millions)			
Fixed maturities, available-for-sale	\$ 166	\$ 200	\$ 204	\$ 262
Fixed maturities, held-to-maturity	7	9	628	790
Fixed maturities, trading	171	178	0	0
Equity securities	107	79	0	0
Commercial mortgage and other loans	763	915	0	0
Other invested assets	3,082	2,846	120	138
Cash and cash equivalents	178	128	0	0
Accrued investment income	1	1	3	3
Other assets	406	499	639	785
Total assets of consolidated VIEs	\$ 4,881	\$ 4,855	\$ 1,594	\$ 1,978
Other liabilities	\$ 502	\$ 505	\$ 0	\$ 2
Notes issued by consolidated VIEs(2)	218	274	0	0
Total liabilities of consolidated VIEs	\$ 720	\$ 779	\$ 0	\$ 2

(1) Total assets of consolidated VIEs reflect \$3,099 million and \$2,885 million as of September 30, 2022 and December 31, 2021, respectively, related to VIEs whose beneficial interests are wholly-owned by consolidated subsidiaries.

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

(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, 2022, the maturity of this obligation was within 2 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 \$864 million and \$997 million as of September 30, 2022 and December 31, 2021, 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 was \$16,558 million as of September 30, 2022, and \$15,966 million as of December 31, 2021, excluding "Assets held-for-sale."

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:

- 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, 2021.

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 of the netting effects of master netting agreements and cash collateral. This netting impact results in total derivative assets of \$1,914 million and \$3,266 million as of September 30, 2022 and December 31, 2021, respectively, and total derivative liabilities of \$3,203 million and \$2,278 million as of September 30, 2022 and December 31, 2021, 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, 2022			December 31, 2021		
	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	\$ 3,691	\$ 70	\$ (227)	\$ 3,591	\$ 805	\$ (69)
Interest Rate Forwards	497	0	(97)	248	15	(2)
Foreign Currency						
Foreign Currency Forwards	4,919	308	(366)	4,789	62	(107)
Currency/Interest Rate						
Foreign Currency Swaps	24,853	5,173	(498)	21,272	1,151	(193)
Total Derivatives Designated as Hedge Accounting Instruments	<u>\$ 33,960</u>	<u>\$ 5,551</u>	<u>\$ (1,188)</u>	<u>\$ 29,900</u>	<u>\$ 2,033</u>	<u>\$ (371)</u>
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate						
Interest Rate Swaps	\$ 202,590	\$ 9,506	\$ (20,542)	\$ 196,124	\$ 10,515	\$ (14,430)
Interest Rate Futures	18,468	35	(80)	17,429	76	(9)
Interest Rate Options	10,753	275	(317)	15,353	710	(265)
Interest Rate Forwards	4,723	20	(116)	4,709	41	(11)
Foreign Currency						
Foreign Currency Forwards	32,761	2,442	(2,842)	28,235	1,046	(1,209)
Foreign Currency Options	0	0	0	0	0	0
Currency/Interest Rate						
Foreign Currency Swaps	10,602	1,677	(262)	12,683	751	(216)
Credit						
Credit Default Swaps	12,881	11	(192)	3,489	128	(1)
Equity						
Equity Futures	3,960	2	(46)	6,178	1	(10)
Equity Options	53,758	874	(1,857)	60,057	2,065	(2,640)
Total Return Swaps	9,983	980	(11)	13,850	49	(430)
Other						
Other(1)	1,250	0	0	1,255	0	0
Synthetic GICs	<u>85,149</u>	<u>1</u>	<u>(1)</u>	<u>81,984</u>	<u>1</u>	<u>0</u>
Total Derivatives Not Qualifying as Hedge Accounting Instruments	<u>\$ 446,878</u>	<u>\$ 15,823</u>	<u>\$ (26,266)</u>	<u>\$ 441,346</u>	<u>\$ 15,383</u>	<u>\$ (19,221)</u>
Total Derivatives(2)(3)(4)	<u>\$ 480,838</u>	<u>\$ 21,374</u>	<u>\$ (27,454)</u>	<u>\$ 471,246</u>	<u>\$ 17,416</u>	<u>\$ (19,592)</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 \$8,230 million and \$10,245 million as of September 30, 2022 and December 31, 2021, respectively, primarily included in "Future policy benefits" and "Policyholder account balances."
- (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 \$1,643 million as of December 31, 2021 and "Liabilities held-for-sale" with fair value of \$1,503 million as of December 31, 2021 with an outstanding gross notional amount of \$41,179 million as of December 31, 2021. See Note 1 for additional information.

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

As of September 30, 2022, 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, 2022		December 31, 2021	
	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	\$ 458	\$ 49	\$ 641	\$ 63
Commercial mortgage and other loans	\$ 0	\$ 0	\$ 17	\$ 1
Policyholders' account balances	\$ (1,206)	\$ 219	\$ (1,552)	\$ (170)
Future policy benefits	\$ (2,236)	\$ 510	\$ (3,001)	\$ (279)

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

	September 30, 2022				
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the 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	\$ 21,247	\$ (19,460)	\$ 1,787	\$ (1,135)	\$ 652
Securities purchased under agreement to resell	167	0	167	(167)	0
Total assets	<u>\$ 21,414</u>	<u>\$ (19,460)</u>	<u>\$ 1,954</u>	<u>\$ (1,302)</u>	<u>\$ 652</u>
Offsetting of Financial Liabilities:					
Derivatives	\$ 27,453	\$ (24,251)	\$ 3,202	\$ (2,628)	\$ 574
Securities sold under agreement to repurchase	8,223	0	8,223	(7,647)	576
Total liabilities	<u>\$ 35,676</u>	<u>\$ (24,251)</u>	<u>\$ 11,425</u>	<u>\$ (10,275)</u>	<u>\$ 1,150</u>

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

December 31, 2021					
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Statements of Financial Position	Net Amounts Presented in the Statements of Financial Position	Financial Instruments/ Collateral(1)	Net Amount
(in millions)					
Offsetting of Financial Assets(2):					
Derivatives	\$ 17,272	\$ (14,150)	\$ 3,122	\$ (802)	\$ 2,320
Securities purchased under agreement to resell	704	0	704	(704)	0
Total assets	<u>\$ 17,976</u>	<u>\$ (14,150)</u>	<u>\$ 3,826</u>	<u>\$ (1,506)</u>	<u>\$ 2,320</u>
Offsetting of Financial Liabilities(2):					
Derivatives	\$ 19,587	\$ (17,314)	\$ 2,273	\$ (797)	\$ 1,476
Securities sold under agreement to repurchase	10,185	0	10,185	(9,699)	486
Total liabilities	<u>\$ 29,772</u>	<u>\$ (17,314)</u>	<u>\$ 12,458</u>	<u>\$ (10,496)</u>	<u>\$ 1,962</u>

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

(2) Excludes “Assets held-for-sale” with fair value of \$1,643 million as of December 31, 2021 and “Liabilities held-for-sale” with fair value of \$1,503 million as of December 31, 2021. See Note 1 for additional information.

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, 2021.

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.

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

The following tables provide 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.

Three Months Ended September 30, 2022								
	Realized Investment Gains (Losses)	Net Investment Income	Other Income (Loss)	Interest Expense	Interest Credited to Policyholders' Account Balances	Policyholders' Benefits	Change in AOCI(1)	
(in millions)								
Derivatives Designated as Hedge Accounting Instruments:								
Fair value hedges								
Gains (losses) on derivatives designated as hedge instruments:								
Interest Rate	\$ 11	\$ (1)	\$ 0	\$ 0	\$ (106)	\$ (114)	\$ 0	
Currency	1	0	0	0	0	(144)	0	
Total gains (losses) on derivatives designated as hedge instruments	12	(1)	0	0	(106)	(258)	0	
Gains (losses) on the hedged item:								
Interest Rate	(11)	3	0	0	104	109	0	
Currency	(1)	2	0	0	0	151	0	
Total gains (losses) on hedged item	(12)	5	0	0	104	260	0	
Amortization for gains (losses) excluded from assessment of the effectiveness								
Currency	0	0	0	0	0	(1)	(74)	
Total Amortization for gain (loss) excluded from assessment of the effectiveness	0	0	0	0	0	(1)	(74)	
Total gains (losses) on fair value hedges net of hedged item	0	4	0	0	(2)	1	(74)	
Cash flow hedges								
Interest Rate	1	1	0	0	0	0	(76)	
Currency	6	0	0	0	0	0	181	
Currency/Interest Rate	27	77	279	0	0	0	1,548	
Total gains (losses) on cash flow hedges	34	78	279	0	0	0	1,653	
Net investment hedges								
Currency	0	0	0	0	0	0	23	
Currency/Interest Rate	0	0	0	0	0	0	0	
Total gains (losses) on net investment hedges	0	0	0	0	0	0	23	
Derivatives Not Qualifying as Hedge Accounting Instruments:								
Interest Rate	(2,071)	0	0	0	0	0	0	
Currency	2	0	2	0	0	0	0	
Currency/Interest Rate	501	0	4	0	0	0	0	
Credit	(11)	0	0	0	0	0	0	
Equity	(54)	0	0	0	0	0	0	
Other	0	0	0	0	0	0	0	
Embedded Derivatives	1,238	0	0	0	0	0	0	
Total gains (losses) on derivatives not qualifying as hedge accounting instruments	(395)	0	6	0	0	0	0	
Total	\$ (361)	\$ 82	\$ 285	\$ 0	\$ (2)	\$ 1	\$ 1,602	

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

Nine Months Ended September 30, 2022								
	Realized Investment Gains (Losses)	Net Investment Income	Other Income (Loss)	Interest Expense	Interest Credited to Policyholders' Account Balances	Policyholders' Benefits	Change in AOCI(1)	
(in millions)								
Derivatives Designated as Hedge Accounting Instruments:								
Fair value hedges								
Gains (losses) on derivatives designated as hedge instruments:								
Interest Rate	\$ 39	\$ (4)	\$ 0	\$ 0	\$ (373)	\$ (432)	\$ 0	
Currency	(29)	(1)	0	0	0	(351)	0	
Total gains (losses) on derivatives designated as hedge instruments	10	(5)	0	0	(373)	(783)	0	
Gains (losses) on the hedged item:								
Interest Rate	(39)	10	0	0	389	441	0	
Currency	31	8	0	0	0	348	0	
Total gains (losses) on hedged item	(8)	18	0	0	389	789	0	
Amortization for gains (losses) excluded from assessment of the effectiveness								
Currency	0	0	0	0	0	(3)	(11)	
Total Amortization for gain (loss) excluded from assessment of the effectiveness	0	0	0	0	0	(3)	(11)	
Total gains (losses) on fair value hedges net of hedged item	2	13	0	0	16	3	(11)	
Cash flow hedges								
Interest Rate	(5)	2	0	0	0	0	(210)	
Currency	10	0	0	0	0	0	325	
Currency/Interest Rate	76	214	750	0	0	0	2,965	
Total gains (losses) on cash flow hedges	81	216	750	0	0	0	3,080	
Net investment hedges								
Currency	0	0	0	0	0	0	33	
Currency/Interest Rate	0	0	0	0	0	0	0	
Total gains (losses) on net investment hedges	0	0	0	0	0	0	33	
Derivatives Not Qualifying as Hedge Accounting Instruments:								
Interest Rate	(9,317)	0	0	0	0	0	0	
Currency	(369)	0	1	0	0	0	0	
Currency/Interest Rate	1,287	0	8	0	0	0	0	
Credit	(174)	0	0	0	0	0	0	
Equity	1,601	0	0	0	0	0	0	
Other	2	0	0	0	0	0	0	
Embedded Derivatives	6,104	0	0	0	0	0	0	
Total gains (losses) on derivatives not qualifying as hedge accounting instruments	(866)	0	9	0	0	0	0	
Total	\$ (783)	\$ 229	\$ 759	\$ 0	\$ 16	\$ 3	\$ 3,102	

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	Change in AOCI(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	Change in AOCI(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	

(1) Excluding changes related to net investment hedges using non-derivative instruments of \$2 million and \$134 million for the three months ended and nine months ended September 30, 2022, and \$(7) million and \$7 million for the three months ended and nine months ended September 30, 2021, respectively.

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, 2021	\$ 1,019
Amount recorded in AOCI:	
Interest Rate	(213)
Currency	335
Currency/Interest Rate	4,005
Total amount recorded in AOCI	4,127
Amount reclassified from AOCI to income:	
Interest Rate	3
Currency	(10)
Currency/Interest Rate	(1,040)
Total amount reclassified from AOCI to income	(1,047)
Balance, September 30, 2022	\$ 4,099

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, 2022 values, it is estimated that a pre-tax gain of approximately \$311 million is expected to be reclassified from AOCI to earnings during the subsequent twelve months ending September 30, 2023.

The exposures the Company is hedging with these qualifying cash flow hedges include the variability of 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 29 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 \$26 million and \$166 million for the three and nine months ended September 30, 2022, respectively, and \$(6) million and \$(5) million for the three and nine months ended September 30, 2021, respectively.

Credit Derivatives

The following tables provide a summary of the notional and fair value of written credit protection, presented as assets (liabilities). 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 25 years for Index Reference.

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

September 30, 2022														
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	Fair Value
(in millions)														
Single name reference(2)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Index reference(2)	49	0	0	0	10,742	(174)	0	0	0	0	834	(18)	11,625	(192)
Total	\$ 49	\$ 0	\$ 0	\$ 0	\$ 10,742	\$ (174)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 834	\$ (18)	\$ 11,625	\$ (192)

December 31, 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	Fair Value
(in millions)														
Single name reference(2)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Index reference(2)	49	0	0	0	2,397	41	0	0	0	0	928	87	3,374	128
Total	\$ 49	\$ 0	\$ 0	\$ 0	\$ 2,397	\$ 41	\$ 0	\$ 0	\$ 0	\$ 0	\$ 928	\$ 87	\$ 3,374	\$ 128

- (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 to 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 \$54 million as of December 31, 2021 and "Liabilities held-for-sale" with fair value of \$0 million as of December 31, 2021, with an outstanding notional amount of \$1,971 million as of December 31, 2021. See Note 1 for additional information.

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, 2022 and December 31, 2021, the Company had \$1,256 million and \$115 million of outstanding notional amounts and reported at fair value as an asset of \$11 million and a liability of \$1 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 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, 2022, 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, 2021.

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

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

	As of September 30, 2022				
	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	\$ 27,680	\$ 0	\$	27,680
Obligations of U.S. states and their political subdivisions	0	9,736	7		9,743
Foreign government bonds	0	69,785	8		69,793
U.S. corporate public securities	0	84,010	62		84,072
U.S. corporate private securities(3)	0	32,407	2,238		34,645
Foreign corporate public securities	0	20,367	65		20,432
Foreign corporate private securities	0	23,426	1,134		24,560
Asset-backed securities(4)	0	11,117	618		11,735
Commercial mortgage-backed securities	0	10,059	1,028		11,087
Residential mortgage-backed securities	0	2,084	10		2,094
Subtotal	0	290,671	5,170		295,841
Assets supporting experience-rated contractholder liabilities:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	183	0		183
Obligations of U.S. states and their political subdivisions	0	0	0		0
Foreign government bonds	0	622	0		622
Corporate securities	0	82	0		82
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	697	996	0		1,693
All other(5)	0	0	0		0
Subtotal	697	1,883	0		2,580
Fixed maturities, trading	0	5,368	322		5,690
Equity securities	4,016	2,213	653		6,882
Commercial mortgage and other loans	0	978	0		978
Other invested assets(6)	37	21,336	502	(19,460)	2,415
Short-term investments	30	4,390	4		4,424
Cash equivalents	671	9,411	0		10,082
Other assets	0	0	139		139
Separate account assets(7)(8)	9,217	156,962	1,091		167,270
Total assets	\$ 14,668	\$ 493,212	\$ 7,881	\$ (19,460)	\$ 496,301
Future policy benefits(9)	\$ 0	\$ 0	\$ 5,163	\$	5,163
Policyholders' account balances	0	0	3,745		3,745
Other liabilities	130	26,952	1	(24,251)	2,832
Notes issued by consolidated VIEs	0	0	0		0
Total liabilities	\$ 130	\$ 26,952	\$ 8,909	\$ (24,251)	\$ 11,740

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

	As of December 31, 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	\$ 32,158	\$ 0	\$	\$ 32,158
Obligations of U.S. states and their political subdivisions	0	12,210	8		12,218
Foreign government bonds	0	94,659	10		94,669
U.S. corporate public securities	0	112,073	82		112,155
U.S. corporate private securities(3)	0	35,344	2,038		37,382
Foreign corporate public securities	0	27,184	125		27,309
Foreign corporate private securities	0	25,966	3,071		29,037
Asset-backed securities(4)	0	11,200	325		11,525
Commercial mortgage-backed securities	0	11,763	1,336		13,099
Residential mortgage-backed securities	0	2,533	325		2,858
Subtotal	0	365,090	7,320		372,410
Assets supporting experience-rated contractholder liabilities:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	193	0		193
Obligations of U.S. states and their political subdivisions	0	0	0		0
Foreign government bonds	0	761	0		761
Corporate securities	0	103	0		103
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	862	1,409	0		2,271
All other(5)	2	18	0		20
Subtotal	864	2,484	0		3,348
Fixed maturities, trading	0	8,402	421		8,823
Equity securities	7,386	192	799		8,377
Commercial mortgage and other loans	0	1,263	0		1,263
Other invested assets(6)	409	17,004	493	(14,150)	3,756
Short-term investments	1,199	4,114	330		5,643
Cash equivalents	753	4,436	70		5,259
Other assets	0	0	164		164
Separate account assets(7)(8)	12,305	206,383	1,283		219,971
Total assets	\$ 22,916	\$ 609,368	\$ 10,880	\$ (14,150)	\$ 629,014
Future policy benefits(9)	\$ 0	\$ 0	\$ 9,068	\$	\$ 9,068
Policyholders' account balances	0	0	1,436		1,436
Other liabilities	33	19,141	0	(17,314)	1,860
Notes issued by consolidated VIEs	0	0	0		0
Total liabilities	\$ 33	\$ 19,141	\$ 10,504	\$ (17,314)	\$ 12,364

(1) Excludes amounts for financial instruments reclassified to "Assets held-for-sale" of \$129,579 million, "Liabilities held-for-sale" of \$6,214 million as of December 31, 2021. 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.

(2) "Netting" amounts represent cash collateral of \$(4,791) million and \$(3,164) million as of September 30, 2022 and December 31, 2021, respectively.

(3) Excludes notes with fair value of \$6,366 million (carrying amount of \$6,366 million) and \$5,995 million (carrying amount of \$5,941 million) as of September 30, 2022 and December 31, 2021, 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.

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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, 2022 and December 31, 2021, the fair values of such investments were \$3,717 million and \$4,290 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, 2022 and December 31, 2021, the fair value of such investments was \$27,255 million and \$26,174 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, 2022, the net embedded derivative liability position of \$5,164 million includes \$762 million of embedded derivatives in an asset position and \$5,926 million of embedded derivatives in a liability position. As of December 31, 2021, the net embedded derivative liability position of \$9,069 million includes \$611 million of embedded derivatives in an asset position and \$9,680 million 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, 2022							
	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)	\$ 2,810	Discounted cash flow	Discount rate	0.44%	20%	9.10%	Decrease
		Market comparables	EBITDA multiples(4)	1.8X	18.5X	7.8X	Increase
		Liquidation	Liquidation value	13.05%	13.19%	13.11%	Increase
Equity securities	\$ 311	Discounted cash flow(5)	Discount rate	0.16%	20%		Decrease
		Market comparables	EBITDA multiples(4)	1.0X	17.4X	5.4X	Increase
		Net Asset Value	Share price	\$6	\$1,708	\$592	Increase
Separate account assets-commercial mortgage loans(6)	\$ 96	Discounted cash flow	Spread	1.15%	2.20%	1.42%	Decrease
Liabilities:							
Future policy benefits(7)	\$ 5,163	Discounted cash flow	Lapse rate(9)	1%	20%		Decrease
			Spread over SOFR(10)	0.50%	2.35%		Decrease
			Utilization rate(11)	38%	95%		Increase
			Withdrawal rate		See table footnote (12) below.		
			Mortality rate(13)	0%	15%		Decrease
			Equity volatility curve	18%	29%		Increase
Policyholders’ account balances(8)	\$ 3,745	Discounted cash flow	Lapse rate(9)	1%	80%		Decrease
			Spread over SOFR(10)	0.28%	2.06%		Decrease
			Mortality rate(13)	0%	23%		Decrease
			Equity volatility curve	6%	38%		Increase

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

As of December 31, 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)	\$ 4,800	Discounted cash flow	Discount rate	0.31%	20%	5.00%	Decrease
		Market comparables	EBITDA multiples(4)	4.1X	19.2X	8.9X	Increase
		Liquidation	Liquidation value	11.31%	62.58%	55.57%	Increase
Equity securities	\$ 277	Discounted cash flow(5)	Discount rate	0.5%	20%		Decrease
		Market comparables	EBITDA multiples(4)	1X	7.5X	4.0X	Increase
		Net Asset Value	Share price	\$1	\$1,498	\$594	Increase
Separate account assets-commercial mortgage loans(6)	\$ 150	Discounted cash flow	Spread	1.05%	1.98%	1.18%	Decrease
Liabilities:							
Future policy benefits(7)	\$ 9,068	Discounted cash flow	Lapse rate(9)	1%	20%		Decrease
			Spread over LIBOR(10)	0.03%	1.14%		Decrease
			Utilization rate(11)	39%	96%		Increase
			Withdrawal rate		See table footnote (12) below.		
			Mortality rate(13)	0%	15%		Decrease
			Equity volatility curve	16%	25%		Increase
Policyholders' account balances(8)	\$ 1,436	Discounted cash flow	Lapse rate(9)	1%	42%		Decrease
			Spread over LIBOR(10)	0.03%	1.14%		Decrease
			Mortality rate(13)	0%	23%		Decrease
			Equity volatility curve	6%	31%		Increase

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

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

(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

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

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 Secured Overnight Financing Rate (“SOFR”) swap curve and the London Inter-Bank Offered Rate (“LIBOR”) swap curve represents the premium added to the proxy for the risk-free rate (SOFR or LIBOR, as applicable) to reflect the Company’s estimates of rates that a market participant would use to value the living benefits in both the accumulation and payout phases and index-linked interest crediting guarantees as of September 30, 2022 and December 31, 2021, respectively. This spread includes an estimate of NPR, which is the risk that the obligation will not be fulfilled by the Company. NPR is primarily estimated by utilizing the credit spreads associated with issuing funding agreements, adjusted for any illiquidity risk premium. In order to reflect the financial strength ratings of the Company, credit spreads associated with funding agreements, as opposed to credit spread associated with debt, are utilized in developing this estimate because funding agreements, living benefit guarantees, and index-linked interest crediting guarantees are insurance liabilities and are therefore senior to debt.
- (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, 2022 and December 31, 2021, the minimum withdrawal rate assumption is 77% and 76% respectively. As of September 30, 2022 and December 31, 2021, the maximum withdrawal rate assumption may be greater than 100%. The fair value of the liability will generally increase the closer the withdrawal rate is to 100% and decrease as the withdrawal rate moves further away from 100%.
- (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.

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Three Months Ended September 30, 2022

	Fair Value, beginning of period	Total realized and unrealized gains (losses)	Purchases	Sales	Issuances	Settlements	Other(1)	Transfers into Level 3	Transfers out of Level 3	Fair Value, end of period	Unrealized gains (losses) for assets still held(2)
(in millions)											
Fixed maturities, available-for-sale:											
U.S. government	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	0
U.S. states	7	0	0	0	0	0	0	0	0	7	0
Foreign government	9	0	0	(1)	0	0	0	0	0	8	0
Corporate securities(3)	3,539	(122)	288	(57)	0	(256)	92	90	(75)	3,499	(136)
Structured securities(4)	1,482	(40)	424	0	0	(128)	(3)	0	(79)	1,656	(40)
Assets supporting experience-rated contractholder liabilities:											
Foreign government	0	0	0	0	0	0	0	0	0	0	0
Corporate securities(3)	0	0	0	0	0	0	0	0	0	0	0
Structured securities(4)	0	0	0	0	0	0	0	0	0	0	0
Equity securities	0	0	0	0	0	0	0	0	0	0	0
All other activity	0	0	0	0	0	0	0	0	0	0	0
Other assets:											
Fixed maturities, trading	347	2	8	(3)	0	(29)	(3)	0	0	322	3
Equity securities	766	(23)	10	(94)	0	0	(4)	0	(2)	653	(28)
Other invested assets	499	(13)	20	(1)	0	(2)	(1)	0	0	502	(7)
Short-term investments	204	(5)	5	0	0	(205)	6	0	(1)	4	(5)
Cash equivalents	0	0	0	0	0	0	0	0	0	0	0
Other assets	243	30	(8)	0	0	(8)	(118)	0	0	139	31
Separate account assets(5)	1,040	(45)	137	(95)	0	(36)	1	93	(4)	1,091	(28)
Liabilities:											
Future policy benefits	(5,946)	1,036	0	0	(252)	0	(1)	0	0	(5,163)	1,000
Policyholders' account balances(6)	(3,544)	222	0	0	(424)	0	1	0	0	(3,745)	845
Other liabilities	(1)	0	0	0	0	0	0	0	0	(1)	0
Notes issued by consolidated VIEs	0	0	0	0	0	0	0	0	0	0	0

Three Months Ended September 30, 2022

	Total realized and unrealized gains (losses)					Unrealized gains (losses) for assets still held(2)				
	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (loss)	Net investment income	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (losses)(7)	
	(in millions)									
Fixed maturities, available-for-sale	\$ (10)	\$ 0	\$ 0	\$ (159)	7	\$ (15)	\$ 0	\$ 0	\$ (162)	
Assets supporting experience-rated contractholder liabilities	0	0	0	0	0	0	0	0	0	
Other assets:										
Fixed maturities, trading	0	4	0	0	(2)	0	3	0	0	
Equity securities	0	(23)	0	0	0	0	(28)	0	0	
Other invested assets	(14)	1	0	0	0	(8)	1	0	0	
Short-term investments	(5)	0	0	0	0	(5)	0	0	0	
Cash equivalents	0	0	0	0	0	0	0	0	0	
Other assets	30	0	0	0	0	31	0	0	0	
Separate account assets(5)	0	0	(45)	0	0	0	0	(28)	0	
Liabilities:										
Future policy benefits	1,036	0	0	0	0	1,000	0	0	0	
Policyholders' account balances	222	0	0	0	0	845	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	

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Nine Months Ended September 30, 2022

	Fair Value, beginning of period	Total realized and unrealized gains (losses)	Purchases	Sales	Issuances	Settlements	Other(1)	Transfers into Level 3	Transfers out of Level 3	Fair Value, end of period	Unrealized gains (losses) for assets still held(2)
(in millions)											
Fixed maturities, available-for-sale:											
U.S. government	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	0
U.S. states	8	(1)	0	0	0	0	0	0	0	7	(1)
Foreign government	10	(1)	0	(1)	0	0	0	0	0	8	(1)
Corporate securities(3)	5,316	(588)	1,088	(140)	9	(721)	65	106	(1,636)	3,499	(602)
Structured securities(4)	1,986	(318)	625	(22)	0	(349)	(12)	6	(260)	1,656	(319)
Assets supporting experience-rated contractholder liabilities:											
Foreign government	0	0	0	0	0	0	0	0	0	0	0
Corporate securities(3)	0	0	0	0	0	0	0	0	0	0	0
Structured securities(4)	0	0	0	0	0	0	0	0	0	0	0
Equity securities	0	0	0	0	0	0	0	0	0	0	0
All other activity	0	0	0	0	0	0	0	0	0	0	0
Other assets:											
Fixed maturities, trading	421	(26)	41	(33)	0	(69)	3	0	(15)	322	(25)
Equity securities	799	5	41	(239)	0	(4)	(20)	73	(2)	653	(18)
Other invested assets	493	(3)	57	(39)	0	(4)	(2)	0	0	502	(3)
Short-term investments	330	(5)	9	0	0	(335)	6	0	(1)	4	(5)
Cash equivalents	70	(1)	7	0	0	(73)	(3)	0	0	0	(2)
Other assets	164	18	10	0	0	(11)	(42)	0	0	139	(43)
Separate account assets(5)	1,283	(237)	181	(111)	0	(43)	0	93	(75)	1,091	(234)
Liabilities:											
Future policy benefits	(9,068)	4,918	0	0	(771)	0	(242)	0	0	(5,163)	4,803
Policyholders' account balances(6)	(1,436)	502	0	0	(808)	0	(2,003)	0	0	(3,745)	1,601
Other liabilities	0	0	0	0	0	0	0	(1)	0	(1)	0
Notes issued by consolidated VIEs	0	0	0	0	0	0	0	0	0	0	0

Nine Months Ended September 30, 2022

	Total realized and unrealized gains (losses)					Unrealized gains (losses) for assets still held(2)			
	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (loss)	Net investment income	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (losses)(7)
	(in millions)								
Fixed maturities, available-for-sale	\$ (78)	\$ 0	\$ 0	\$ (837)	\$ 7	\$ (97)	\$ 0	\$ 0	\$ (826)
Assets supporting experience-rated contractholder liabilities	0	0	0	0	0	0	0	0	0
Other assets:									
Fixed maturities, trading	0	(26)	0	0	0	0	(25)	0	0
Equity securities	0	5	0	0	0	0	(18)	0	0
Other invested assets	(19)	16	0	0	0	(19)	16	0	0
Short-term investments	(5)	0	0	0	0	(5)	0	0	0
Cash equivalents	(1)	0	0	0	0	(2)	0	0	0
Other assets	(49)	0	0	67	0	(43)	0	0	0
Separate account assets(5)	0	0	(237)	0	0	0	0	(234)	0
Liabilities:									
Future policy benefits	4,918	0	0	0	0	4,806	(3)	0	0
Policyholders' account balances	502	0	0	0	0	1,601	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, 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	Fair Value, end of period	Unrealized gains (losses) for assets still held(2)
(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(3)	5,528	(67)	496	(12)	18	(374)	(1)	97	(319)	5,366	(82)
Structured securities(4)	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(3)	549	(3)	1	0	0	(81)	(157)	0	(309)	0	(2)
Structured securities(4)	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(5)	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(6)	(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(2)			
	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (loss)	Net investment income	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (losses)(7)
	(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(5)	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	Fair Value, end of period	Unrealized gains (losses) for assets still held(2)
(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(3)	5,335	(229)	1,183	(33)	38	(868)	0	386	(446)	5,366	(284)
Structured securities(4)	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(3)	482	5	17	0	0	(109)	(157)	71	(309)	0	(2)
Structured securities(4)	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(5)	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(6)	(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(2)			
	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (loss)	Net investment income	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (losses)(7)
	(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(5)	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)

- (1) “Other,” includes additional activity not allocated to the specific categories within the rollforward of Level 3 Assets and Liabilities, such as the increase in Policyholders’ account balances for the period ended September 30, 2022, which is driven by embedded derivatives associated with the Company’s reinsurance of index-linked annuity products held by the sold PALAC entity. See Note 1 for additional information.
- (2) Unrealized gains or losses related to assets still held at the end of the period do not include amortization or accretion of premiums and discounts.
- (3) Includes U.S. corporate public, U.S. corporate private, foreign corporate public and foreign corporate private securities.
- (4) Includes asset-backed, commercial mortgage-backed and residential mortgage-backed securities.
- (5) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in the Company’s Unaudited Interim Consolidated Statements of Financial Position.
- (6) Issuances and settlements for Policyholders’ account balances are presented net in the rollforward.
- (7) Effective January 1, 2020, the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period were added prospectively due to adoption of ASU 2018-13.

Derivative Fair Value Information

The following tables present the balances of certain derivative assets and liabilities measured at fair value on a recurring basis, as of the date indicated, by primary underlying risks. 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, 2022				
	Level 1	Level 2	Level 3	Netting(1)	Total
	(in millions)				
Derivative Assets:					
Interest Rate	\$ 35	\$ 9,871	\$ 1	\$	\$ 9,907
Currency	0	2,750	0		2,750
Credit	0	11	0		11
Currency/Interest Rate	0	6,850	0		6,850
Equity	2	1,854	0		1,856
Other	0	0	0		0
Netting(1)				(19,460)	(19,460)
Total derivative assets	\$ 37	\$ 21,336	\$ 1	\$ (19,460)	\$ 1,914
Derivative Liabilities:					
Interest Rate	\$ 80	\$ 21,299	\$ 1	\$	\$ 21,380
Currency	0	3,208	0		3,208
Credit	0	192	0		192
Currency/Interest Rate	0	760	0		760
Equity	49	1,865	0		1,914
Other	0	0	0		0
Netting(1)				(24,251)	(24,251)
Total derivative liabilities	\$ 129	\$ 27,324	\$ 1	\$ (24,251)	\$ 3,203

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

	As of December 31, 2021				
	Level 1	Level 2	Level 3	Netting(1)	Total
	(in millions)				
Derivative Assets(2):					
Interest Rate	\$ 76	\$ 12,086	\$ 1	\$	\$ 12,163
Currency	0	1,108	0		1,108
Credit	0	128	0		128
Currency/Interest Rate	0	1,902	0		1,902
Equity	242	1,872	1		2,115
Other	0	0	0		0
Netting(1)				(14,150)	(14,150)
Total derivative assets	<u>\$ 318</u>	<u>\$ 17,096</u>	<u>\$ 2</u>	<u>\$ (14,150)</u>	<u>\$ 3,266</u>
Derivative Liabilities(2):					
Interest Rate	\$ 9	\$ 14,777	\$ 0	\$	\$ 14,786
Currency	0	1,316	0		1,316
Credit	0	1	0		1
Currency/Interest Rate	0	409	0		409
Equity	11	3,069	0		3,080
Other	0	0	0		0
Netting(1)				(17,314)	(17,314)
Total derivative liabilities	<u>\$ 20</u>	<u>\$ 19,572</u>	<u>\$ 0</u>	<u>\$ (17,314)</u>	<u>\$ 2,278</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 \$1,643 million as of December 31, 2021 and “Liabilities held-for-sale” with fair value of \$1,503 million as of December 31, 2021. See Note 1 for additional information.

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, 2022											
	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	0	0	0	0	0	0	0	0	0	0

Nine Months Ended September 30, 2022											
	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	\$ 1	\$ 1	\$ 0	\$ (2)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	1
Net Derivative - Interest Rate	1	0	0	0	0	0	0	(1)	0	0	0

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)(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

- (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,	
	2022	2021	2022	2021
(in millions)				
Gains (Losses):				
Mortgage servicing rights(1)	\$ (1)	\$ 0	\$ 1	\$ (6)
Investment real estate	\$ (6)	\$ 0	\$ (12)	\$ (9)
Investment in JV/LP	\$ 0	\$ 0	\$ (75)	\$ 0

	September 30, 2022	December 31, 2021
	(in millions)	
Carrying value after measurement as of period end:		
Mortgage servicing rights(1)	\$ 77	\$ 75
Investment real estate	\$ 112	\$ 59
Investment in JV/LP	\$ 60	\$ 0
Goodwill(2)	\$ 0	\$ 1,080

- (1) 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.
(2) Based on the goodwill impairment test performed as of December 31, 2021, the Company recognized a goodwill impairment charge for Assurance IQ. See Note 10 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 for more information on the valuation of Assurance IQ and the resulting impairment charge.

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,	
	2022	2021	2022	2021
	(in millions)			
Commercial mortgage and other loans:				
Interest income	\$ 5	\$ 4	\$ 11	\$ 9

	September 30, 2022	December 31, 2021
	(in millions)	
Commercial mortgage and other loans(1):		
Fair value as of period end	\$ 978	\$ 1,263
Aggregate contractual principal as of period end	\$ 971	\$ 1,253
Other assets:		
Fair value as of period end	\$ 3	\$ 59

(1) As of September 30, 2022, 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.

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

Fair Value of Financial Instruments

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

	September 30, 2022				
	Fair Value				Carrying Amount(2)
	Level 1	Level 2	Level 3	Total	Total
	(in millions)				
Assets:					
Fixed maturities, held-to-maturity(3)	\$ 0	\$ 1,364	\$ 7	\$ 1,371	\$ 1,199
Assets supporting experience-rated contractholder liabilities	0	0	0	0	0
Commercial mortgage and other loans	0	45	51,360	51,405	55,918
Policy loans	5	0	9,915	9,920	9,920
Other invested assets	0	0	0	0	0
Short-term investments	683	74	0	757	757
Cash and cash equivalents	9,851	171	0	10,022	10,022
Accrued investment income	0	2,888	0	2,888	2,888
Other assets	49	2,442	600	3,091	3,091
Total assets	\$ 10,588	\$ 6,984	\$ 61,882	\$ 79,454	\$ 83,795
Liabilities:					
Policyholders' account balances—investment contracts	\$ 0	\$ 31,413	\$ 33,480	\$ 64,893	\$ 69,037
Securities sold under agreements to repurchase	0	8,223	0	8,223	8,223
Cash collateral for loaned securities	0	5,865	0	5,865	5,865
Short-term debt	0	604	165	769	767
Long-term debt(4)	551	16,880	780	18,211	19,898
Notes issued by consolidated VIEs	0	0	218	218	218
Other liabilities	0	7,896	38	7,934	7,934
Separate account liabilities—investment contracts	0	27,627	26,728	54,355	54,355
Total liabilities	\$ 551	\$ 98,508	\$ 61,409	\$ 160,468	\$ 166,297

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

	December 31, 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	\$ 1,794	\$ 9	\$ 1,803	\$ 1,514
Assets supporting experience-rated contractholder liabilities	3	7	0	10	10
Commercial mortgage and other loans	0	64	59,937	60,001	57,403
Policy loans	0	0	10,386	10,386	10,386
Other invested assets	0	81	0	81	81
Short-term investments	972	20	0	992	992
Cash and cash equivalents	7,108	521	0	7,629	7,629
Accrued investment income	0	2,855	0	2,855	2,855
Other assets	47	2,677	39	2,763	2,762
Total assets	\$ 8,130	\$ 8,019	\$ 70,371	\$ 86,520	\$ 83,632
Liabilities:					
Policyholders' account balances—investment contracts	\$ 0	\$ 33,550	\$ 38,831	\$ 72,381	\$ 71,290
Securities sold under agreements to repurchase	0	10,185	0	10,185	10,185
Cash collateral for loaned securities	0	4,251	0	4,251	4,251
Short-term debt	0	518	204	722	722
Long-term debt(4)	613	20,414	899	21,926	18,622
Notes issued by consolidated VIEs	0	0	274	274	274
Other liabilities	0	7,053	53	7,106	7,106
Separate account liabilities—investment contracts	0	28,567	24,847	53,414	53,414
Total liabilities	\$ 613	\$ 104,538	\$ 65,108	\$ 170,259	\$ 165,864

- (1) Excludes amounts for financial instruments reclassified to "Assets held-for-sale" of \$6,936 million and "Liabilities held-for-sale" of \$101,992 million as of December 31, 2021. See Note 1 for additional information.
- (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 \$4,500 million (carrying amount of \$4,500 million) and \$5,394 million (carrying amount of \$4,750 million) as of September 30, 2022 and December 31, 2021, respectively, which have been offset with the associated payables under a netting agreement.
- (4) Includes notes with fair value of \$10,866 million (carrying amount of \$10,866 million) and \$11,389 million (carrying amount of \$10,691 million) as of September 30, 2022 and December 31, 2021, 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, 2021.

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

As of September 30, 2022, the Company recognized a policyholder dividend obligation of \$3,502 million to Closed Block policyholders for the excess of actual cumulative earnings over expected cumulative earnings; however, due to accumulated net unrealized investment losses in excess of this amount, the policyholder dividend obligation balance as of September 30, 2022 was reduced to zero. At December 31, 2021, the Company recognized a policyholder dividend obligation of \$4,387 million to Closed Block policyholders for the excess of actual cumulative earnings over expected cumulative earnings. Additionally, accumulated net unrealized investment gains (losses) were reflected as a policyholder dividend obligation of \$3,640 million at December 31, 2021, with a corresponding amount reported in AOCI.

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, 2022	December 31, 2021
	(in millions)	
Closed Block liabilities		
Future policy benefits	\$ 44,615	\$ 45,596
Policyholders' dividends payable	612	616
Policyholders' dividend obligation	0	8,027
Policyholders' account balances	4,634	4,737
Other Closed Block liabilities	2,634	3,107
Total Closed Block liabilities	<u>52,495</u>	<u>62,083</u>
Closed Block assets		
Fixed maturities, available-for-sale, at fair value	29,442	38,160
Fixed maturities, trading, at fair value	887	1,137
Equity securities, at fair value	1,599	2,288
Commercial mortgage and other loans	8,070	8,241
Policy loans	3,665	3,815
Other invested assets	4,118	4,358
Short-term investments	137	557
Total investments	<u>47,918</u>	<u>58,556</u>
Cash and cash equivalents	1,076	451
Accrued investment income	423	392
Other Closed Block assets	101	137
Total Closed Block assets	<u>49,518</u>	<u>59,536</u>
Excess of reported Closed Block liabilities over Closed Block assets	2,977	2,547
Portion of above representing accumulated other comprehensive income (loss):		
Net unrealized investment gains (losses)	(4,113)	3,535
Allocated to policyholder dividend obligation	3,502	(3,640)
Future earnings to be recognized from Closed Block assets and Closed Block liabilities	<u>\$ 2,366</u>	<u>\$ 2,442</u>

Information regarding the policyholder dividend obligation is as follows:

	Nine Months Ended September 30, 2022
	(in millions)
Balance, December 31, 2021	\$ 8,027
Impact from earnings allocable to policyholder dividend obligation	(885)
Change in net unrealized investment gains (losses) allocated to policyholder dividend obligation	(7,142)
Balance, September 30, 2022	<u>\$ 0</u>

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,	
	2022	2021	2022	2021
	(in millions)			
Revenues				
Premiums	\$ 397	\$ 419	\$ 1,247	\$ 1,313
Net investment income	435	654	1,514	1,876
Realized investment gains (losses), net	29	168	69	505
Other income (loss)	(150)	113	(621)	644
Total Closed Block revenues	711	1,354	2,209	4,338
Benefits and Expenses				
Policyholders' benefits	552	599	1,817	1,885
Interest credited to policyholders' account balances	31	31	91	93
Dividends to policyholders	72	583	55	1,978
General and administrative expenses	76	78	224	236
Total Closed Block benefits and expenses	731	1,291	2,187	4,192
Closed Block revenues, net of Closed Block benefits and expenses, before income taxes	(20)	63	22	146
Income tax expense (benefit)	(40)	38	(49)	92
Closed Block revenues, net of Closed Block benefits and expenses and income taxes	\$ 20	\$ 25	\$ 71	\$ 54

8. INCOME TAXES

The Company uses a full year projected effective tax rate approach to calculate year-to-date taxes. In determining the full year projected tax rate, the Company considers the realizability of deferred tax assets, including those associated with unrealized investment losses, and has determined based upon the weight of available evidence that no valuation allowance is necessary related to unrealized investment losses. In addition, certain items impacting total income tax expense are recorded in the periods in which they occur. The projected effective tax rate is the ratio of projected "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 benefit of \$(206) million, or 19.4% of income (loss) before income taxes and equity in earnings of operating joint ventures, in the first nine months of 2022, compared to an income tax expense of \$1,504 million, or 18.8%, in the first nine months of 2021. 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.

Foreign Tax Credit Regulations. The Treasury Department and the IRS published Final Regulations in the Federal Register on January 4, 2022, which affect the creditability of certain foreign taxes for U.S. federal income tax purposes. The Final Regulations create uncertainty as to whether a U.S. foreign tax credit may be claimed for taxes paid to Brazil. The ability to claim a foreign tax credit for taxes paid to Brazil impacts the benefit of the election made pursuant to Internal Revenue Code Section 952 to subject earnings from the Company's insurance operations in Brazil to tax in the U.S. in the tax year earned, net of related foreign tax credits. Based on the Company's analysis and current interpretation of the Final Regulations, a \$23 million tax benefit is reflected as part of the Company's results for the first nine months of 2022. The Final Regulations are complex and have broad application that may also impact the creditability of taxes paid to other foreign jurisdictions, and their full impact to the Company is still being evaluated.

GILTI High Tax Exclusion. 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 the Company operates, including Japan, there are differences between

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

local tax rules used to determine the tax base and the U.S. tax principles used to determine GILTI. Also, the Company's 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. The Company anticipates making the high-tax exception election for the 2021 and 2022 tax years and reflected the 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 and 2022.

Regulatory Developments

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

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, 2022	December 31, 2021
	(\$ in millions)	
Commercial paper:		
Prudential Financial	\$ 25	\$ 25
Prudential Funding, LLC	403	395
Subtotal commercial paper	428	420
Current portion of long-term debt:		
Senior Notes	173	0
Mortgage debt	155	197
Surplus notes subject to set-off arrangements(1)	500	500
Subtotal current portion of long-term debt	828	697
Other(2)	11	105
Subtotal	1,267	1,222
Less: assets under set-off arrangements(1)	500	500
Total short-term debt(3)	\$ 767	\$ 722
<u>Supplemental short-term debt information:</u>		
Portion of commercial paper borrowings due overnight	\$ 156	\$ 150
Daily average commercial paper outstanding for the quarter ended	\$ 1,046	\$ 1,414
Weighted average maturity of outstanding commercial paper, in days	11	16
Weighted average interest rate on outstanding commercial paper	2.96 %	0.08 %

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

(2) Includes \$11 million and \$7 million drawn on a revolving line of credit held by a subsidiary, and a \$0 million and \$98 million bridge loan at September 30, 2022 and December 31, 2021, respectively.

(3) Includes Prudential Financial debt of \$25 million at both September 30, 2022 and December 31, 2021.

Prudential Financial and certain subsidiaries have access to external sources of liquidity, including membership in the Federal Home Loan Bank of New York ("FHLBNY"), commercial paper programs and contingent financing facilities in the form of a put option agreement and facility agreement. In August 2022, PICA issued \$1.0 billion in funding agreements under the FHLBNY facility at a rate of 3.700% due in August 2029. As of September 30, 2022, \$2.0 billion of funding agreements remain outstanding under this facility. These funding agreements are reflected as "Policyholders' account balances" on the Unaudited Interim Consolidated Statements of Financial Position and as such are not included in the table above. The Company

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

also maintains syndicated, unsecured committed credit facilities as an alternative source of liquidity. At September 30, 2022, no amounts were drawn on these syndicated, unsecured committed credit facilities. For additional information on these sources of liquidity, 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, 2021.

Long-term Debt

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

	September 30, 2022	December 31, 2021
	(in millions)	
Fixed-rate obligations:		
Surplus notes	\$ 345	\$ 344
Surplus notes subject to set-off arrangements(1)	8,036	7,861
Senior notes	10,115	10,282
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)	27	54
Junior subordinated notes(3)	9,087	7,618
Subtotal	30,264	28,813
Less: assets under set-off arrangements(1)	10,366	10,191
Total long-term debt(4)	\$ 19,898	\$ 18,622

(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 \$27 million and \$29 million of debt denominated in foreign currency at September 30, 2022 and December 31, 2021, respectively.

(3) Includes Prudential Financial debt of \$9,044 million and \$7,564 million at September 30, 2022 and December 31, 2021, respectively. Also includes subsidiary debt of \$43 million and \$54 million denominated in foreign currency at September 30, 2022 and December 31, 2021, respectively.

(4) Includes Prudential Financial debt of \$19,159 million and \$17,673 million at September 30, 2022 and December 31, 2021, respectively.

At September 30, 2022 and December 31, 2021, the Company was in compliance with all debt covenants related to the borrowings in the table above.

Junior Subordinated Notes

In February 2022, the Company issued \$1.0 billion in aggregate principal amount of 5.125% fixed-to-fixed reset rate junior subordinated notes due in March 2052. In August 2022, the Company issued \$1.2 billion in aggregate principal amount of 6.00% fixed-to-fixed reset rate junior subordinated notes due in September 2052 and \$300 million in aggregate principal amount of 5.95% junior subordinated notes due in September 2062. In September 2022, the Company redeemed, in full, \$1.0 billion in aggregate principal amount of 5.875% fixed to floating rate junior subordinated notes due in 2042.

Mortgage Debt

In January 2022, a new yen-denominated non-recourse mortgage loan program was established by the Company's Gibraltar Life Insurance Company Ltd. subsidiary. The loan program has an authorized capacity of ¥20 billion that can be increased to ¥46.7 billion and a term of 10 years that can be extended. As of September 30, 2022, \$27 million (¥4 billion) in mortgage debt was outstanding under the loan program.

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

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 (the “traditional formula”), while benefits for other employees are based on an account balance that takes into consideration age, length of service and earnings during their career (the “cash balance formula”).

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 certain 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	
	2022	2021	2022	2021
	(in millions)			
Components of net periodic (benefit) cost:				
Service cost	\$ 65	\$ 82	\$ 3	\$ 7
Interest cost	111	91	14	12
Expected return on plan assets	(218)	(206)	(25)	(26)
Amortization of prior service cost	(1)	(1)	(2)	2
Amortization of actuarial (gain) loss, net	37	61	2	4
Settlements	2	1	0	0
Curtailments	0	0	0	0
Special termination benefits	0	0	0	0
Net periodic (benefit) cost	<u>\$ (4)</u>	<u>\$ 28</u>	<u>\$ (8)</u>	<u>\$ (1)</u>

	Nine Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits	
	2022	2021	2022	2021
	(in millions)			
Components of net periodic (benefit) cost:				
Service cost	\$ 211	\$ 247	\$ 10	\$ 20
Interest cost	320	273	41	36
Expected return on plan assets	(649)	(618)	(77)	(76)
Amortization of prior service cost	(1)	(3)	(6)	5
Amortization of actuarial (gain) loss, net	124	184	5	12
Settlements	3	3	0	0
Curtailments(1)	0	0	(8)	0
Special termination benefits(2)(3)	4	1	4	0
Net periodic (benefit) cost	<u>\$ 12</u>	<u>\$ 87</u>	<u>\$ (31)</u>	<u>\$ (3)</u>

(1) For 2022, curtailments are recognized as a result of the sale of the Full Service Retirement business for other postretirement benefit plans.

(2) For 2022, 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 while others were provided enhanced benefits due to the sale of the Full Service Retirement business.

(3) For 2021, 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 (in millions)	Outstanding
Balance, December 31, 2021	666.3	290.0	376.3
Common Stock issued	0.0	0.0	0.0
Common Stock acquired	0.0	10.8	(10.8)
Stock-based compensation programs(1)	0.0	(3.6)	3.6
Balance, September 30, 2022	<u>666.3</u>	<u>297.2</u>	<u>369.1</u>

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

In November 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, 2022 through December 31, 2022. As of September 30, 2022, 10.8 million shares of the Company's Common Stock were repurchased under this authorization at a total cost of \$1,125 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,	
	2022	2021	2022	2021
Dividends declared per share of Common Stock	\$ 1.20	\$ 1.15	\$ 3.60	\$ 3.45

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, 2022 and 2021, 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, 2021	\$ (1,150)	\$ 24,987	\$ (2,513)	\$ 21,324
Change in OCI before reclassifications	(1,947)	(52,818)	383	(54,382)
Amounts reclassified from AOCI	21	126	122	269
Income tax benefit (expense)	(71)	12,102	(116)	11,915
Balance, September 30, 2022	<u>\$ (3,147)</u>	<u>\$ (15,603)</u>	<u>\$ (2,124)</u>	<u>\$ (20,874)</u>

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

	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>

(1) Includes cash flow hedges of \$4,099 million and \$1,019 million as of September 30, 2022 and December 31, 2021, respectively, and \$867 million and \$(168) million as of September 30, 2021 and December 31, 2020, respectively, and fair value hedges of \$(47) million and \$(35) million as of September 30, 2022 and December 31, 2021, respectively, and \$(29) million and \$10 million as of September 30, 2021 and December 31, 2020, respectively.

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
	2022	2021	2022	2021	
(in millions)					
Amounts reclassified from AOCI(1)(2):					
Foreign currency translation adjustment:					
Foreign currency translation adjustments	\$ (12)	\$ 1	\$ (21)	\$ 1	Realized investment gains (losses), net
Foreign currency translation adjustments	0	0	0	63	Other income (loss)
Total foreign currency translation adjustment	(12)	1	(21)	64	
Net unrealized investment gains (losses):					
Cash flow hedges—Interest rate	2	(7)	(3)	7	(3)
Cash flow hedges—Currency	6	(1)	10	(4)	(3)
Cash flow hedges—Currency/Interest rate	383	230	1,040	435	(3)
Fair value hedges—Currency	(1)	(1)	(3)	(4)	(3)
Net unrealized investment gains (losses) on available-for-sale securities	(113)	221	(1,170)	1,750	Realized investment gains (losses), net
Total net unrealized investment gains (losses)	277	442	(126)	2,184	(4)
Amortization of defined benefit items:					
Prior service cost	3	(1)	7	(2)	(5)
Actuarial gain (loss)	(39)	(65)	(129)	(196)	(5)
Total amortization of defined benefit items	(36)	(66)	(122)	(198)	
Total reclassifications for the period	\$ 229	\$ 377	\$ (269)	\$ 2,050	

(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.

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

Net Unrealized Investment Gains (Losses)

Net unrealized investment gains (losses) on available-for-sale fixed maturity securities and certain other invested assets and other assets are included in the Company's 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 available-for-sale fixed maturity securities on which an allowance for credit losses has been recorded, and all other net unrealized investment gains (losses), are as follows:

	Net Unrealized Investment Gains (Losses) on Available-for- Sale Fixed Maturity Securities on Which an Allowance for Credit Losses has been Recorded	Net Unrealized Gains (Losses) on All Other Investments(1)	DAC, 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, 2021	\$ 23	\$ 40,444	\$ (543)	\$ (3,271)	\$ (3,657)	\$ (8,009)	\$ 24,987
Net investment gains (losses) on investments arising during the period	(95)	(66,420)				15,092	(51,423)
Reclassification adjustment for (gains) losses included in net income	14	112				(29)	97
Reclassification due to allowance for credit losses recorded during the period	0	0				0	0
Impact of net unrealized investment (gains) losses			277	6,268	7,152	(2,961)	10,736
Balance, September 30, 2022	<u>\$ (58)</u>	<u>\$ (25,864)</u>	<u>\$ (266)</u>	<u>\$ 2,997</u>	<u>\$ 3,495</u>	<u>\$ 4,093</u>	<u>\$ (15,603)</u>

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

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

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,					
	2022			2021		
	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)	\$ (290)			\$ 1,565		
Less: Income (loss) attributable to noncontrolling interests	(6)			35		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards	6			24		
Net income (loss) attributable to Prudential Financial available to holders of Common Stock	<u>\$ (290)</u>	<u>371.0</u>	<u>\$ (0.78)</u>	<u>\$ 1,506</u>	<u>383.8</u>	<u>\$ 3.92</u>
Effect of dilutive securities and compensation programs						
Add: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Basic	\$ 6			\$ 24		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Diluted	6			23		
Stock options		0.0			0.8	
Deferred and long-term compensation programs		0.0			2.2	
Diluted earnings per share(1)						
Net income (loss) attributable to Prudential Financial available to holders of Common Stock	<u>\$ (290)</u>	<u>371.0</u>	<u>\$ (0.78)</u>	<u>\$ 1,507</u>	<u>386.8</u>	<u>\$ 3.90</u>

(1) For the three months ended September 30, 2022, 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 three months ended September 30, 2022, all potential stock options and compensation programs were considered antidilutive.

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

	Nine Months Ended September 30,					
	2022			2021		
	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)	\$ (906)			\$ 6,552		
Less: Income (loss) attributable to noncontrolling interests	(26)			36		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards	19			99		
Net income (loss) attributable to Prudential Financial available to holders of Common Stock	<u>\$ (899)</u>	<u>373.8</u>	<u>\$ (2.41)</u>	<u>\$ 6,417</u>	<u>390.4</u>	<u>\$ 16.44</u>
Effect of dilutive securities and compensation programs						
Add: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Basic	\$ 19			\$ 99		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Diluted	19			98		
Stock options		0.0			0.7	
Deferred and long-term compensation programs		0.0			2.1	
Diluted earnings per share(1)						
Net income (loss) attributable to Prudential Financial available to holders of Common Stock	<u>\$ (899)</u>	<u>373.8</u>	<u>\$ (2.41)</u>	<u>\$ 6,418</u>	<u>393.2</u>	<u>\$ 16.32</u>

(1) For the nine months ended September 30, 2022, 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, 2022, 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, 2022 and 2021, as applicable, were based on 4.9 million and 5.7 million of such awards, respectively, and for the nine months ended September 30, 2022 and 2021, as applicable, were based on 5.0 million and 5.9 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,			
	2022		2021	
	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	0.7	\$ 107.30	0.9	\$ 106.99
Antidilutive stock options due to net loss available to holders of Common Stock	0.3		0.0	
Antidilutive shares based on application of the treasury stock method	0.0		0.0	
Antidilutive shares due to net loss available to holders of Common Stock	1.8		0.0	
Total antidilutive stock options and shares	2.8		0.9	

	Nine Months Ended September 30,			
	2022		2021	
	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	0.5	\$ 107.95	1.3	\$ 101.78
Antidilutive stock options due to net loss available to holders of Common Stock	0.5		0.0	
Antidilutive shares based on application of the treasury stock method	0.1		0.0	
Antidilutive shares due to net loss available to holders of Common Stock	2.1		0.0	
Total antidilutive stock options and shares	3.2		1.3	

13. SEGMENT INFORMATION

Segments

In October 2021, we announced the creation of Retirement Strategies, a new U.S. business that would serve the retirement needs of both our institutional and individual customers by bringing the institutional investment and pension solutions offered through our Retirement business together with the financial solutions and capabilities of our Individual Annuities business. Commencing with the second quarter of 2022, this new structure has been fully operationalized; therefore, the results of our former Retirement segment (now known as the “Institutional Retirement Strategies” operating segment) and our former Individual Annuities segment (now known as the “Individual Retirement Strategies” operating segment) have been aggregated into the Retirement Strategies segment. Prior periods have been updated to conform to this new presentation.

The Company’s principal operations consist of PGIM (the Company’s global investment management business), the U.S. Businesses (consisting of the Retirement Strategies, Group Insurance, 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:

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

- 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.

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, 2021.

As discussed in Note 1, during the second quarter of 2022 the Company recorded out of period adjustments within the Individual Life business resulting in an aggregate net benefit of \$125 million to "Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures" for the second quarter of 2022. These adjustments resulted in an aggregate \$310 million benefit to the Company's pre-tax adjusted operating income for the second quarter of 2022, reflected within the Individual Life segment.

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

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,	
	2022	2021	2022	2021
	(in millions)			
Adjusted operating income before income taxes by segment:				
PGIM	\$ 219	\$ 327	\$ 613	\$ 1,293
U.S. Businesses:				
Institutional Retirement Strategies	233	571	1,199	1,635
Individual Retirement Strategies	445	499	2,222	1,415
Retirement Strategies(1)	678	1,070	3,421	3,050
Group Insurance	27	(135)	(31)	(250)
Individual Life	41	210	(1,233)	312
Assurance IQ	(44)	(55)	(142)	(132)
Total U.S. Businesses	702	1,090	2,015	2,980
International Businesses	430	887	1,786	2,561
Corporate and Other	(325)	(460)	(950)	(1,118)
Total segment adjusted operating income before income taxes	1,026	1,844	3,464	5,716
Reconciling items:				
Realized investment gains (losses), net, and related adjustments	(1,455)	116	(4,610)	1,765
Charges related to realized investment gains (losses), net	(9)	(18)	(564)	(254)
Market experience updates	133	(199)	658	330
Divested and Run-off Businesses:				
Closed Block division	(24)	27	12	92
Other Divested and Run-off Businesses	(76)	48	27	432
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(22)	(3)	(23)	(53)
Other adjustments(2)	(10)	(9)	(27)	(35)
Income (loss) before income taxes and equity in earnings of operating joint ventures per Unaudited Interim Consolidated Financial Statements	\$ (437)	\$ 1,806	\$ (1,063)	\$ 7,993

(1) The Retirement Strategies segment’s results reflect DAC as if the 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.

(2) Includes 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 contingent consideration.

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 Unaudited Interim Consolidated Financial Statements.

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

	September 30, 2022	December 31, 2021
	(in millions)	
Assets by segment:		
PGIM	\$ 49,944	\$ 53,566
U.S. Businesses:		
Institutional Retirement Strategies	107,738	114,016
Individual Retirement Strategies	126,068	201,273
Retirement Strategies(1)	233,806	315,289
Group Insurance	37,521	43,286
Individual Life	98,369	118,237
Assurance IQ	1,577	1,788
Total U.S. Businesses	371,273	478,600
International Businesses	178,848	222,736
Corporate and Other(1)	27,796	122,701
Closed Block division	49,895	59,979
Total assets per Unaudited Interim Consolidated Financial Statements	\$ 677,756	\$ 937,582

(1) Certain assets were classified as “held-for-sale” as of December 31, 2021. See Note 1 for additional information.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in millions)			
Revenues on an adjusted operating income basis:				
PGIM	\$ 907	\$ 1,072	\$ 2,662	\$ 3,395
U.S. Businesses:				
Institutional Retirement Strategies	11,566	8,386	17,003	12,658
Individual Retirement Strategies	1,067	1,260	4,258	3,687
Retirement Strategies	12,633	9,646	21,261	16,345
Group Insurance	1,527	1,553	4,567	4,627
Individual Life	1,623	1,839	5,388	5,090
Assurance IQ	99	110	285	331
Total U.S. Businesses	15,882	13,148	31,501	26,393
International Businesses	4,858	5,618	15,320	16,642
Corporate and Other	(36)	(175)	(441)	(393)
Total revenues on an adjusted operating income basis	21,611	19,663	49,042	46,037
Reconciling items:				
Realized investment gains (losses), net, and related adjustments	(1,478)	178	(4,780)	2,070
Charges related to realized investment gains (losses), net	(39)	(59)	(174)	(178)
Market experience updates	118	(56)	466	158
Divested and Run-off Businesses:				
Closed Block division	711	1,321	2,205	4,299
Other Divested and Run-off Businesses	(427)	617	(60)	2,196
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(16)	(23)	17	(72)
Total revenues per Unaudited Interim Consolidated Financial Statements	\$ 20,480	\$ 21,641	\$ 46,716	\$ 54,510

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

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,	
	2022	2021	2022	2021
	(in millions)			
PGIM segment intersegment revenues	\$ 199	\$ 248	\$ 631	\$ 697

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.

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,	
	2022	2021	2022	2021
	(in millions)			
Asset-based management fees	\$ 820	\$ 1,047	\$ 2,642	\$ 3,058
Performance-based incentive fees	15	19	25	70
Other fees	131	163	419	475
Total asset management and service fees	<u>\$ 966</u>	<u>\$ 1,229</u>	<u>\$ 3,086</u>	<u>\$ 3,603</u>

14. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments and Guarantees

Commercial Mortgage Loan Commitments

	September 30, 2022	December 31, 2021
	(in millions)	
Total outstanding mortgage loan commitments(1)	\$ 2,713	\$ 2,300
Portion of commitment where prearrangement to sell to investor exists	\$ 1,293	\$ 1,102

(1) Includes commitments of \$21 million related to held-for-sale operations as of December 31, 2021. See Note 1 for additional information.

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 prearranges 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 both September 30, 2022 and December 31, 2021. The change in allowance is \$0 million for both the three months ended September 30, 2022 and 2021, respectively, and \$0 million for both the nine months ended September 30, 2022 and 2021, respectively.

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

Commitments to Purchase Investments (excluding Commercial Mortgage Loans)

	September 30, 2022	December 31, 2021
	(in millions)	
Expected to be funded from the general account and other operations outside the separate accounts(1)	\$ 9,477	\$ 10,347
Expected to be funded from separate accounts	\$ 187	\$ 236

(1) Includes commitments of \$118 million related to held-for-sale operations as of December 31, 2021. See Note 1 for additional information.

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, 2022 or 2021.

Indemnification of Securities Lending and Securities Repurchase Transactions

	September 30, 2022	December 31, 2021
	(in millions)	
Indemnification provided to certain clients for securities lending and securities repurchase transactions(1)	\$ 6,531	\$ 6,499
Fair value of related collateral associated with above indemnifications(2)	\$ 6,691	\$ 6,635
Accrued liability associated with guarantee	\$ 0	\$ 0

(1) Includes \$19 million and \$30 million related to securities repurchase transactions as of September 30, 2022 and December 31, 2021, respectively.

(2) Includes \$18 million and \$29 million related to securities repurchase transactions as of September 30, 2022 and December 31, 2021, 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, 2022	December 31, 2021
	(in millions)	
Guaranteed value of third-parties' assets	\$ 85,149	\$ 81,984
Fair value of collateral supporting these assets	\$ 80,009	\$ 83,609
Asset (liability) associated with guarantee, carried at fair value	\$ 1	\$ 1

Certain contracts underwritten by the Retirement Strategies 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.

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

Indemnification of Serviced Mortgage Loans

	September 30, 2022	December 31, 2021
	(in millions)	
Maximum exposure under indemnification agreements for mortgage loans serviced by the Company	\$ 2,876	\$ 2,930
First-loss exposure portion of above	\$ 836	\$ 854
Accrued liability associated with guarantees(1)	\$ 32	\$ 41

(1) The accrued liability associated with guarantees includes an allowance for credit losses of \$16 million and \$20 million as of September 30, 2022 and December 31, 2021, respectively. The change in allowance is a reduction of \$1 million and an increase of \$1 million for the three months ended September 30, 2022, and 2021, respectively, and a reduction of \$4 million and \$0 million for the nine months ended September 30, 2022 and 2021, respectively.

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 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 \$22,968 million and \$22,963 million of mortgages subject to these loss-sharing arrangements as of September 30, 2022 and December 31, 2021, respectively, all of which are collateralized by first priority liens on the underlying multi-family residential properties. As of September 30, 2022, these mortgages had a weighted-average debt service coverage ratio of 1.99 times and a weighted-average loan-to-value ratio of 62%. As of December 31, 2021, these mortgages had a weighted-average debt service coverage ratio of 1.93 times and a weighted-average loan-to-value ratio of 63%. The Company had no losses related to indemnifications that were settled for the nine months ended September 30, 2022 and \$2 million of losses for the nine months ended September 30, 2021.

Other Guarantees

	September 30, 2022	December 31, 2021
	(in millions)	
Other guarantees where amount can be determined	\$ 56	\$ 47
Accrued liability for other guarantees and indemnifications	\$ 33	\$ 34

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.

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

In October 2019, the Company completed its acquisition of Assurance IQ. For additional information regarding the transaction, including the contingent consideration liability, see Note 1 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

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

The contingent consideration liability is reported at fair value, which is determined based on the present value of expected payments under the arrangement, using an internally-developed option pricing model based on a number of assumptions, including certain unobservable assumptions discounted at an estimated market interest rate. 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, 2022 and December 31, 2021.

Contingent Liabilities

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

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

It is possible that the results of operations or the cash 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, 2022, the aggregate range of reasonably possible losses in excess of accruals established for those litigation and regulatory matters for which such an estimate currently can be made is less than \$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.

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, 2021, and should be read in conjunction with the complete descriptions provided in the Form 10-K.

Assurance IQ, LLC

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

In March 2022, the court issued an order granting Assurance IQ, LLC’s motion to dismiss the claims for declaratory and injunctive relief and denying the motion to dismiss as to the remaining claims. In May 2022, plaintiffs filed a second amended complaint narrowing the scope of the putative plaintiff class, and the Company filed its answer.

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

Other Matters

Cho v. PICA, et al.

In August 2022, the court: (i) dismissed, with prejudice, the breach of the fiduciary duty of loyalty and prohibited transaction claims based on the inclusion of Prudential-affiliated funds in the Plan's investment options; (ii) dismissed, without prejudice, the breach of fiduciary duty claims based on certain alleged underperforming Plan funds; and (iii) denied the motion to dismiss plaintiffs' claims for breach of the fiduciary duties of prudence and to monitor other fiduciaries, based on alleged delays in removing other alleged underperforming funds.

In September 2022, plaintiff filed a third amended complaint asserting claims for breach of duty of prudence and to monitor fiduciaries, and in October 2022, defendants filed their answer to the third amended complaint.

LIBOR Litigation

Prudential Investment Portfolios 2, f/k/a Dryden Core Investment Fund, o/b/o Prudential Core Short-Term Bond Fund and Prudential Core Taxable Money Market Fund v. Bank of America Corporation, et al.

In March 2022, defendants petitioned the United States Supreme Court for a writ of certiorari to review the Second Circuit Court of Appeals judgment that personal jurisdiction extends to foreign defendants. In June 2022, the United States Supreme Court denied defendants' petition.

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**TABLE OF CONTENTS**

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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, 2022, compared with December 31, 2021, and its consolidated results of operations for the three and nine months ended September 30, 2022 and 2021. You should read the following analysis of our consolidated financial condition and results of operations in conjunction with the MD&A, the “Risk Factors” section, and the audited Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021, as well as the statements under “Forward-Looking Statements,” and the Unaudited Interim Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.

Overview

Prudential Financial, a financial services leader with approximately \$1.350 trillion of assets under management as of September 30, 2022, 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 solutions, 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.

In October 2021, we announced the creation of Retirement Strategies, a new U.S. business that would serve the retirement needs of both our institutional and individual customers by bringing the institutional investment and pension solutions offered through our Retirement business together with the financial solutions and capabilities of our Individual Annuities business. Commencing with the second quarter of 2022, this new structure has been fully operationalized; therefore, the results of our former Retirement segment (now known as the “Institutional Retirement Strategies” operating segment) and our former Individual Annuities segment (now known as the “Individual Retirement Strategies” operating segment) have been aggregated into the Retirement Strategies segment. Prior periods have been updated to conform to this new presentation.

Our principal operations consist of PGIM (our global investment management business), our U.S. Businesses (consisting of our Retirement Strategies, Group Insurance, 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.

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. 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 have resulted and will continue to result in multi-year investments in technology, systems and employee reskilling, as well as severance and related charges. For the three and nine months ended September 30, 2022, we incurred approximately \$39 million and \$102 million of costs, respectively, in connection with these programs. We expect these programs will generate significant expense efficiencies over several years that will mitigate the impact from increases in other expenses due to inflation and business growth initiatives. For the three months and nine months ended September 30, 2022, the Company estimates that these programs generated cost savings of approximately \$182 million and \$526 million, respectively, and, as of September 30, 2022, we have exceeded \$750 million of annual run-rate cost savings, more than one year ahead of our targeted date.

COVID-19

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

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

- *Outlook.*

U.S. Businesses:

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

Retirement Strategies. As many of the products in our Institutional Retirement Strategies business assume longevity risk, elevated levels of mortality resulting from COVID-19 may contribute to higher levels of underwriting gains.

Group Insurance. COVID-19 may contribute to elevated levels of mortality, which would result in increased life insurance claims. In addition, we continue to monitor the potential impact of the pandemic on our disability business, overall sales volumes, and the utilization of our workplace benefit offerings.

Individual Life. COVID-19 may contribute to elevated levels of mortality, resulting in increased life insurance claims.

International Businesses:

Our Japanese operations have experienced an elevated level of COVID-19 claims through the first nine months of 2022 due to the continued spread of the virus, including a significant increase in incidence in the third quarter. Most of these claims relate to regulatory guidance that extends hospitalization benefits for at-home recoveries from COVID-19; however, a recent industry-wide revision, effective in late September, now limits these benefits to only certain high-risk individuals. Additionally, we continued to experience modest disruptions to sales and agent recruiting in Japan. The situation remains fluid and COVID-19 might impact future claims, sales and recruiting. 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 2022.
- *Investment Portfolio.* Credit migration and defaults were low in 2021 and have remained limited in 2022. We continue to monitor our portfolio for potential credit issues and opportunities as part of our overall portfolio and risk management process.
- *Sales and Flows.* See “—Segment Results of Operations” for a discussion of sales and flows in each of our segments.
- *Underwriting.* Throughout the pandemic, COVID-19 had a significant net negative impact on our underwriting results, reflecting unfavorable mortality and morbidity impacts in our Group Insurance, Individual Life and International businesses, partially offset by favorable mortality impacts in the Institutional portion of our Retirement Strategies business. Beginning with the third quarter of 2022, the Company has embedded COVID-19 considerations within its best estimate assumptions of future expected mortality impacts for its applicable businesses. The ultimate impact on our underwriting results, however, will continue to depend on various factors including: an insured’s age; geographic concentration; insured versus uninsured populations among the fatalities; the transmissibility and virulence of the virus, including the potential for further mutation; and the ongoing acceptance and efficacy of the vaccines and other therapeutics.
- *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 mortality. This framework includes a specific “pandemic and sell-off” scenario with a mortality calamity (1.5 extra 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 the Company than our current understanding of COVID-19 mortality, which is skewed toward older ages. 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, 2022, 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 mortality 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 Institutional Retirement Strategies business), and is influenced by the age distribution of U.S. COVID-19 mortality. The future evolution of the virus, among other factors, could cause the actual course of the pandemic to differ from our current expectations.

- *Risk Factors.* The COVID-19 pandemic has adversely impacted our results of operations, financial position, investment portfolio, new business opportunities and operations, and these impacts are expected to continue. For additional information on the risks to our business posed by the COVID-19 pandemic, see “Risk Factors” included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021.
- *Business Continuity.* Throughout the COVID-19 pandemic, we have been executing 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. In March 2022, our offices were reopened to employees and most of our workforce has adopted a hybrid work arrangement.

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

Regulatory Developments

Inflation Reduction Act. On August 16, 2022, President Biden signed into law the Inflation Reduction Act of 2022 (the “Inflation Reduction Act”). Among other provisions, the Inflation Reduction Act imposes (1) a 15% book-income alternative minimum tax on corporations with average applicable financial statement income over \$1 billion for any three-year period ending with 2022 or later; and (2) a 1% excise tax on the fair market value of stock that is repurchased by publicly traded U.S. corporations or their specified affiliates. Both provisions are effective in taxable years beginning after December 31, 2022. The impact of the book-income alternative minimum tax, if any, will vary from year to year based on the relationship of our GAAP income to our taxable income.

Current Market Conditions

Geopolitical risk, rapidly rising interest rates and significant equity market declines, as we have seen this year, among other factors, adversely impact our liquidity and capital positions, cash flows, results of operations, and financial position. The statutory capital of certain of our insurance subsidiaries will also be negatively affected by increased reserve requirements due to our annual update of actuarial assumptions and other refinements, particularly in our Individual Life business, and may be negatively affected by asymmetrical and non-economic statutory accounting impacts from rising rates. As we navigate through the current environment, we may take actions consistent with our risk and capital frameworks, as necessary, to preserve our liquidity and capital positions. Such actions may include, among other things, accessing off-balance sheet resources and/or suspending our share repurchase program.

Impact of Changes in the Interest Rate Environment

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

- investment-related activity, including: investment income returns, net investment spread results, new money rates, mortgage loan prepayments and bond redemptions;
- the valuation of fixed income investments and derivative instruments;
- collateral posting requirements, hedging costs and other risk mitigation activities;

- customer account values and assets under management, including their impacts on fee-related income;
- insurance reserve levels, market experience true-ups and amortization of both deferred policy acquisition costs (“DAC”) and value of business acquired (“VOBA”);
- policyholder behavior, including surrender or withdrawal activity;
- product offerings, design features, crediting rates and sales mix; and
- the fair value of, and possible impairments on, intangible assets such as goodwill.

See “—Current Market Conditions” above, for how rapidly rising interest rates, among other factors, adversely impact the Company’s financial results.

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

See below for a discussion of the current interest rate environment and its impact to net investment spread in our U.S. and Japanese operations along with the composition of their insurance liabilities and policyholder account balances.

U.S. Operations excluding the Closed Block Division

While interest rates in the U.S. have experienced a sustained period of historically low levels in recent years, rates have increased throughout 2022 and our average reinvestment yield is generally now exceeding our current average portfolio yield.

In order to manage the impacts that changes in interest rates have on our net investment spread, 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.

The portion of the general account supporting our U.S. Businesses and our Corporate and Other operations has approximately \$169 billion of fixed maturity securities and commercial mortgage loans (based on net carrying value) as of September 30, 2022, with an average portfolio yield of approximately 4.1%. For the portion of the general account attributable to these operations, we estimate annual principal payments and prepayments that we would be required to reinvest to be approximately 6.4% of the fixed maturity security and commercial mortgage loan portfolios through 2023.

Included in the \$169 billion of fixed maturity securities and commercial mortgage loans are approximately \$133 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 \$133 billion, approximately 54% contain provisions for prepayment premiums. Future operating results will be impacted by (i) the reinvestment of scheduled payments or prepayments (not subject to a prepayment fee) at different rates compared to the current portfolio yield, including in some cases at rates below those guaranteed under our insurance contracts, and (ii) our utilization of other asset/liability management strategies, as described above, in order to maintain favorable net investment spread.

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, 2022 (in billions)	
Long-duration insurance products with fixed and guaranteed terms	\$	146
Contracts with adjustable crediting rates subject to guaranteed minimums		36
Participating contracts where investment income risk ultimately accrues to contractholders		2
Total	\$	184

The \$146 billion above relates to long-duration products such as group annuities, structured settlements and other insurance products that have fixed and guaranteed terms. We seek to manage the impact of changes in interest rates on these contracts through asset/liability management, as discussed above.

The \$36 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, 2022, 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%	\$ 1.0	\$ 0.8	\$ 0.1	\$ 0.0	\$ 0.0	\$ 1.9
1.00% - 1.99%	1.3	0.1	0.0	0.8	2.5	4.7
2.00% - 2.99%	1.1	0.0	1.6	1.5	2.9	7.1
3.00% - 4.00%	18.8	0.0	1.8	0.5	0.1	21.2
Greater than 4.00%	0.8	0.0	0.0	0.0	0.0	0.8
Total(1)	\$ 23.0	\$ 0.9	\$ 3.5	\$ 2.8	\$ 5.5	\$ 35.7
Percentage of total	64 %	3 %	10 %	8 %	15 %	100 %

(1) Includes approximately \$0.19 billion related to contracts that impose a market value adjustment if the invested amount is not held to maturity.

The remaining \$2 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.

Closed Block Division

Substantially all of the \$48 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.

Japanese Operations

Japan has experienced a low interest rate environment for many years and, 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.

In order to manage, to the extent possible, the impact that the current interest rate environment has on our net investment spread, our Japanese operations employ a proactive asset/liability management program. 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. 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. Additionally, our diverse product portfolio in terms of currency mix and premium payment structure allows us to further manage any impacts from changes in the interest rate environment. Our Japanese operations have continued to invest in U.S. dollar-denominated assets supporting our U.S. product portfolio, which has now driven average reinvestment rates to exceed current average portfolio rates. For additional information on sales within these operations, see “—International Businesses—Sales Results,” below.

The portion of the general account supporting our Japanese operations has approximately \$148 billion of fixed maturity securities and commercial mortgage loans (based on net carrying value) as of September 30, 2022, with an average portfolio yield of approximately 3.5%. For the portion of the general account attributable to these operations, we estimate annual

principal payments and prepayments that we would be required to reinvest to be approximately 5% of the fixed maturity security and commercial mortgage loan portfolios through 2023.

Included in the \$148 billion of fixed maturity securities and commercial mortgage loans are approximately \$17 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 \$17 billion, approximately 7% contain provisions for prepayment premiums. Future operating results will be impacted by (i) the reinvestment of scheduled payments or prepayments (not subject to a prepayment fee) at different rates compared to the current portfolio yield, including in some cases at rates below those guaranteed under our insurance contracts, and (ii) our utilization of other asset/liability management strategies, as described above, in order to maintain favorable net investment spread.

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, 2022 (in billions)	
Insurance products with fixed and guaranteed terms	\$	123
Contracts with a market value adjustment if invested amount is not held to maturity		24
Contracts with adjustable crediting rates subject to guaranteed minimums		9
Total	\$	156

The \$123 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 \$24 billion related to contracts that impose a market value adjustment if the invested amount is not held to maturity and \$9 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.

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,	
	2022	2021	2022	2021
	(in millions)			
Revenues	\$ 20,480	\$ 21,641	\$ 46,716	\$ 54,510
Benefits and expenses	20,917	19,835	47,779	46,517
Income (loss) before income taxes and equity in earnings of operating joint ventures	(437)	1,806	(1,063)	7,993
Income tax expense (benefit)	(148)	259	(206)	1,504
Income (loss) before equity in earnings of operating joint ventures	(289)	1,547	(857)	6,489
Equity in earnings of operating joint ventures, net of taxes	(1)	18	(49)	63
Net income (loss)	(290)	1,565	(906)	6,552
Less: Income attributable to noncontrolling interests	(6)	35	(26)	36
Net income (loss) attributable to Prudential Financial, Inc.	\$ (284)	\$ 1,530	\$ (880)	\$ 6,516

Three Month Comparison. The \$1,814 million decrease in “Net income (loss) attributable to Prudential Financial, Inc.” for the third quarter of 2022 compared to the third quarter of 2021 reflected the following notable items on a pre-tax basis:

- \$1,421 million unfavorable variance from realized investment gains (losses), net, and related charges and adjustments for PFI, excluding the impact of the hedging program associated with certain variable annuities (see “General Account Investments” for additional information); and
- \$818 million unfavorable variance from lower adjusted operating income from our business segments (see “Segment Results of Operations” for additional information).

Partially offsetting these decreases in “Net income (loss) attributable to Prudential Financial, Inc.” was a \$407 million favorable variance from income taxes reflecting the decrease in pre-tax earnings.

Nine Month Comparison. The \$7,396 million decrease in “Net income (loss) attributable to Prudential Financial, Inc.” for the first nine months of 2022 compared to the first nine months of 2021 reflected the following notable items on a pre-tax basis:

- \$5,917 million unfavorable variance from realized investment gains (losses), net, and related charges and adjustments for PFI, excluding the impact of the hedging program associated with certain variable annuities;
- \$2,252 million unfavorable variance from lower adjusted operating income from our business segments, including an unfavorable net impact from our annual reviews and update of assumptions and other refinements, primarily within the Individual Life business, and the absence of a gain from the sale of the Company’s 35% ownership stake in Pramerica SGR recorded in the prior year period, partially offset by a gain from the sale of PALAC;
- \$768 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; and
- \$485 million unfavorable variance reflecting lower results from our Divested and Run-off Businesses in the current year period, partially offset by a gain from the sale of our Full Service Retirement business.

Partially offsetting these decreases in “Net income (loss) attributable to Prudential Financial, Inc.” was a \$1,710 million favorable variance from income taxes reflecting the decrease 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.

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,	
	2022	2021	2022	2021
(in millions)				
Adjusted operating income before income taxes by segment:				
PGIM	\$ 219	\$ 327	\$ 613	\$ 1,293
U.S. Businesses:				
Retirement Strategies	678	1,070	3,421	3,050
Group Insurance	27	(135)	(31)	(250)
Individual Life	41	210	(1,233)	312
Assurance IQ	(44)	(55)	(142)	(132)
Total U.S. Businesses	702	1,090	2,015	2,980
International Businesses	430	887	1,786	2,561
Corporate and Other	(325)	(460)	(950)	(1,118)
Total segment adjusted operating income before income taxes	1,026	1,844	3,464	5,716
Reconciling items:				
Realized investment gains (losses), net, and related adjustments(1)	(1,455)	116	(4,610)	1,765
Charges related to realized investment gains (losses), net(2)	(9)	(18)	(564)	(254)
Market experience updates	133	(199)	658	330
Divested and Run-off Businesses(3):				
Closed Block division	(24)	27	12	92
Other Divested and Run-off Businesses	(76)	48	27	432
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(4)	(22)	(3)	(23)	(53)
Other adjustments(5)	(10)	(9)	(27)	(35)
Consolidated income (loss) before income taxes and equity in earnings of operating joint ventures	\$ (437)	\$ 1,806	\$ (1,063)	\$ 7,993

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

(2) 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”).

(3) Represents the contribution to 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.

(4) Equity in earnings of operating joint ventures is included in adjusted operating income but excluded from “Income (loss) before income taxes and equity in earnings of operating joint ventures” as it is 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.

(5) 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 contingent consideration.

Segment results for the period presented above reflect the following:

PGIM. Results for the third quarter of 2022 decreased in comparison to the prior year period, primarily reflecting lower net asset management fees and higher operating and compensation expenses. Results for the first nine months of 2022 decreased in comparison to the prior year period, primarily reflecting the absence of a gain in the prior year period from the sale of our 35% ownership stake in Pramerica SGR, lower net other related revenues, higher operating and compensation expenses, and lower net asset management fees.

Retirement Strategies. Results for the third quarter of 2022 decreased in comparison to the prior year period, primarily driven by lower net investment spread results. Results for the first nine months of 2022 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 a gain from the sale of PALAC, market value gains on a strategic investment and lower expenses, partially offset by lower fee income, net of distribution expenses and other associated costs, and lower net investment spread results.

Group Insurance. Results for the third quarter of 2022 increased in comparison to the prior year period, driven by higher underwriting results. Results for the first nine months of 2022 increased in comparison to the prior year period, inclusive of an unfavorable comparative net impact from our annual reviews and update of assumptions and other refinements. Excluding this item, results increased, driven by higher underwriting results, partially offset by lower net investment spread results.

Individual Life. Results for the third quarter of 2022 decreased in comparison to the prior year period, driven by lower net investment spread results. Results for the first nine months of 2022 decreased in comparison to the prior year period, inclusive of an unfavorable comparative net impact from our annual reviews and update of assumptions and other refinements. Excluding this item, results decreased, primarily driven by lower net investment spread results, partially offset by higher underwriting results.

Assurance IQ. Results for the third quarter of 2022 increased in comparison to the prior year period, primarily reflecting an increase in the Medicare line. Results for the first nine months of 2022 decreased in comparison to the prior year period, primarily reflecting an unfavorable net impact from our annual reviews and update of assumptions and other refinements. Excluding this item, results increased, primarily driven by an increase in the Medicare line, partially offset by a decrease in the Health Under 65 line.

International Businesses. Results for the third quarter of 2022 decreased in comparison to the prior year period, inclusive of an unfavorable net impact from foreign currency exchange rates, primarily driven by lower underwriting results and lower net investment spread results. Results for the first nine months of 2022 decreased in comparison to the prior year period, inclusive of an unfavorable net impact from foreign currency exchange rates and an unfavorable comparative net impact from our annual reviews and update of assumptions and other refinements. Excluding these items, results decreased, primarily driven by lower net investment spread results, lower underwriting results and lower earnings from joint venture investments.

Corporate and Other. Results for the third quarter and for the first nine months of 2022 reflected decreased losses in comparison to the prior year periods, primarily driven by lower net charges from other corporate activities and favorable pension and employee benefit results.

Closed Block Division. Results for both the third quarter and the first nine months of 2022 decreased in comparison to the prior year periods, primarily driven by lower net investment activity results, partially offset by a reduction 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 that 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 Retirement Strategies business, we analyze account values, which do not correspond directly to U.S. GAAP assets. Net additions (withdrawals) in our Institutional Retirement Strategies business and sales (redemptions) in our Individual Retirement Strategies 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 shareholder return on equity. We seek to mitigate this impact through various hedging strategies, including holding USD-denominated assets in certain of our foreign subsidiaries.

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 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, 2022	December 31, 2021
	(in billions)	
Foreign currency hedging instruments:		
USD-denominated assets held in yen-based entities(1)	\$ 9.2	\$ 9.5
Dual currency and synthetic dual currency investments(2)	0.4	0.5
Total foreign currency hedges	<u>\$ 9.6</u>	<u>\$ 10.0</u>

(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 \$69.8 billion and \$74.3 billion as of September 30, 2022 and December 31, 2021, 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.

For our International Businesses and PGIM, 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,	
	2022	2021	2022	2021
	(in millions)			
Segment impacts of intercompany arrangements:				
International Businesses	\$ (42)	\$ 6	\$ (58)	\$ 7
PGIM	5	0	8	(1)
Impact of intercompany arrangements(1)	(37)	6	(50)	6
Corporate and Other:				
Impact of intercompany arrangements(1)	37	(6)	50	(6)
Settlement gains (losses) on forward currency contracts(2)	6	7	28	21
Net benefit (detriment) to Corporate and Other	43	1	78	15
Net impact on consolidated revenues and adjusted operating income	\$ 6	\$ 7	\$ 28	\$ 21

(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, 2022 and 2021, the total notional amounts of these forward currency contracts within our Corporate and Other operations were \$0.8 billion and \$0.8 billion, respectively.

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.

As a result, 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 \$1.7 billion and \$2.0 billion as of September 30, 2022 and December 31, 2021, 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 2% of the \$1.7 billion balance as of September 30, 2022 will be recognized throughout the remainder of 2022, approximately 8% will be recognized in 2023, and the remaining balance will be recognized from 2024 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 Retirement Strategies 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, 2022, our domestic variable annuities and variable life insurance businesses assume an 8.0% long-term equity expected rate of return and a 8.3% near-term mean reversion equity expected rate of return, and our international variable life insurance business assumes a 4.8% long-term equity expected rate of return and a 3.6% 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 2022 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 further discussion of impacts that could result from changes in certain key assumptions, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Accounting Policies and Pronouncements—Application of Critical Accounting Estimates" in our Annual Report on Form 10-K for the year ended December 31, 2021.

Future Adoption of New Accounting Pronouncements

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

The Company has an established governance framework to manage the implementation of the standard. The Company's implementation efforts continue to progress including, but not limited to, implementing refinements to key accounting policy decisions, modifications to actuarial valuation models, updates to data sourcing capabilities, automation of key financial reporting and analytical processes and updates to internal control over financial reporting.

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 its Consolidated Financial Statements and will significantly increase disclosures. As of the January 1, 2021 transition date, the Company estimates that the implementation of the standard will result in a decrease to "Retained earnings" of approximately \$2 billion to \$3 billion primarily from reclassifying the cumulative effect of changes in non-performance risk from "Retained earnings" to "Accumulated other comprehensive income" ("AOCI") and other changes in reserves, and will

result in a decrease to AOCI of approximately \$40 billion to \$45 billion primarily from remeasuring in-force contract liabilities using upper-medium grade fixed income instrument yields as of the transition date. As of June 30, 2022, the estimated impacts amounted to a decrease to “Retained earnings” of approximately \$2 billion to \$3 billion and an increase to AOCI of approximately \$3 billion to \$8 billion, respectively. The changes in the estimates from January 1, 2021 to June 30, 2022 are primarily due to the increases in interest rates during 2021 and 2022. In addition to the impacts to the balance sheet, the Company also expects an impact to the pattern of earnings emergence following the transition date. See Note 2 to the Unaudited Interim Consolidated Financial Statements for a more detailed discussion of ASU 2018-12, as well as other accounting pronouncements issued but not yet adopted and newly adopted accounting pronouncements.

Results of Operations by Segment

PGIM

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,	
	2022	2021	2022	2021
	(in millions)			
Operating results(1):				
Revenues(2)	\$ 907	\$ 1,072	\$ 2,662	\$ 3,395
Expenses	688	745	2,049	2,102
Adjusted operating income	219	327	613	1,293
Realized investment gains (losses), net, and related adjustments	(1)	2	(6)	(1)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(6)	38	(13)	35
Other adjustments(3)	(7)	(2)	(15)	(2)
Income (loss) before income taxes and equity in earnings of operating joint ventures	\$ 205	\$ 365	\$ 579	\$ 1,325

(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) Revenues for the nine months ended September 30, 2021 include a \$378 million pre-tax gain related to the sale of our 35% ownership stake in Pramerica SGR, an asset management joint venture in Italy.

(3) 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 \$108 million, primarily reflecting lower asset management fees, net of related expenses, and an increase in operating and compensation expenses.

Nine Month Comparison. Adjusted operating income decreased \$680 million, reflecting a decrease in service distribution and other revenues, driven by the absence of a gain in the prior year period from the sale of our Pramerica SGR joint venture, lower other related revenues, net of related expenses, and higher operating and compensation expenses. Also contributing to the decrease were lower asset management fees, net of related expenses.

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,	
	2022	2021	2022	2021
(in millions)				
Revenues by type:				
Asset management fees by source:				
Institutional customers	\$ 364	\$ 366	\$ 1,084	\$ 1,063
Retail customers(1)	256	332	831	941
General account	122	149	392	441
Total asset management fees	742	847	2,307	2,445
Other related revenues by source:				
Incentive fees	16	26	26	77
Transaction fees	2	5	11	14
Seed and co-investments	17	8	(22)	46
Commercial mortgage(2)	45	53	101	123
Total other related revenues	80	92	116	260
Service, distribution and other revenues(3)	85	133	239	690
Total revenues	\$ 907	\$ 1,072	\$ 2,662	\$ 3,395

(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.

(3) Results for the nine months ended September 30, 2021 include a \$378 million pre-tax gain related to the sale of our 35% ownership stake in Pramerica SGR, an asset management joint venture in Italy.

Three Month Comparison. Revenues decreased \$165 million, primarily driven by lower asset management fees due to a decrease in average assets under management, driven by market depreciation reflecting higher interest rates and credit spreads, as well as unfavorable equity markets. Service, distribution and other revenues decreased primarily reflecting lower revenues from certain consolidated funds (which were fully offset by lower variable expenses related to noncontrolling interests in these funds).

Expenses decreased \$57 million, primarily reflecting lower variable expenses associated with a decrease in overall segment earnings and lower revenues from certain consolidated funds, as discussed above. The decrease was partially offset by higher operating expenses primarily driven by an increase in travel and entertainment costs, and an increase in compensation expenses.

Nine Month Comparison. Revenues decreased \$733 million. Service, distribution and other revenues decreased, primarily reflecting the absence of a gain in the prior year period from the sale of our Pramerica SGR joint venture, and lower revenues from certain consolidated funds (which were fully offset by lower variable expenses related to noncontrolling interests in these funds). Other related revenues decreased primarily driven by lower seed and co-investments results and lower performance-based incentive fees, reflecting investment underperformance, and lower commercial mortgage origination revenues driven by higher interest rates. Also contributing to the decrease were lower asset management fees primarily due to a decrease in average assets under management, driven by market depreciation reflecting higher interest rates and credit spreads, as well as unfavorable equity markets.

Expenses decreased \$53 million, primarily reflecting lower variable expenses associated with a decrease in overall segment earnings and lower revenues from certain consolidated funds, as discussed above. The decrease was partially offset by higher operating expenses primarily driven by an increase in travel and entertainment costs, and an increase in compensation expenses.

Assets Under Management

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

	September 30, 2022	December 31, 2021	September 30, 2021
	(in billions)		
Assets Under Management(1) (at fair value):			
Public equity	\$ 144.1	\$ 216.2	\$ 208.4
Public fixed income	762.5	980.7	985.6
Real estate	129.0	132.6	128.7
Private credit and other alternatives	99.7	108.7	109.1
Multi-asset	70.9	85.6	82.1
Total PGIM assets under management	<u>\$ 1,206.2</u>	<u>\$ 1,523.8</u>	<u>\$ 1,513.9</u>
Assets under management within other reporting segments(2)	143.3	218.5	212.7
Total PFI assets under management	<u>\$ 1,349.5</u>	<u>\$ 1,742.3</u>	<u>\$ 1,726.6</u>

(1) "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.

(2) Primarily includes assets related to certain annuity, variable life, retirement and group life products 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, 2022 decreased \$308 billion in comparison to the prior year quarter and \$318 billion in comparison to the prior year end, primarily driven by market depreciation resulting from higher interest rates and credit spreads, as well as unfavorable equity markets. The decreases also reflect a reduction in assets under management from the sales of the Full Service Retirement business and PALAC in the second quarter of 2022, and unfavorable foreign exchange rate impacts.

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

	September 30, 2022	December 31, 2021	September 30, 2021
	(in billions)		
Assets Under Management(1) (at fair value):			
Institutional customers	\$ 536.3	\$ 629.4	\$ 625.3
Retail customers	298.1	401.4	395.4
General account	371.8	493.0	493.2
Total PGIM assets under management	<u>\$ 1,206.2</u>	<u>\$ 1,523.8</u>	<u>\$ 1,513.9</u>
Assets under management within other reporting segments(2)	143.3	218.5	212.7
Total PFI assets under management	<u>\$ 1,349.5</u>	<u>\$ 1,742.3</u>	<u>\$ 1,726.6</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 assets related to certain annuity, variable life, retirement and group life products 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,
	2022	2021	2022	2021	2022
	(in billions)				
Beginning assets under management	\$ 1,257.4	\$ 1,511.4	\$ 1,523.8	\$ 1,498.6	\$ 1,513.9
Institutional third-party flows	0.6	0.7	9.0	7.4	12.5
Retail third-party flows	(4.6)	(0.4)	(17.5)	3.7	(21.1)
Total third-party flows	(4.0)	0.3	(8.5)	11.1	(8.6)
Affiliated flows(1)	7.2	6.1	14.2	(3.5)	5.5
Market appreciation (depreciation)(2)	(50.9)	0.3	(272.7)	17.2	(254.5)
Foreign exchange rate impact	(7.2)	(1.4)	(23.9)	(9.1)	(27.2)
Net money market activity and other increases (decreases)(3)	3.7	(2.8)	(26.7)	(0.4)	(22.9)
Ending assets under management	\$ 1,206.2	\$ 1,513.9	\$ 1,206.2	\$ 1,513.9	\$ 1,206.2

(1) 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.

(2) Includes income reinvestment, where applicable.

(3) Results for the nine months and twelve months ended September 30, 2022 include a reduction in assets under management from the sales of the Retirement Full Service business and PALAC.

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, 2022, these assets decreased approximately \$12.1 billion compared to December 31, 2021, primarily reflecting market depreciation.

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,	
	2022	2021	2022	2021
	(in billions)			
Private capital deployed:				
Real estate debt and equity	\$ 7.4	\$ 8.6	\$ 22.0	\$ 20.8
Private credit and equity	2.2	3.2	12.1	9.8
Total private capital deployed	\$ 9.6	\$ 11.8	\$ 34.1	\$ 30.6

Seed and Co-Investments

As of September 30, 2022 and December 31, 2021, PGIM had approximately \$1,094 million and \$1,175 million of seed investments and \$494 million and \$517 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,	
	2022	2021	2022	2021
(in millions)				
Adjusted operating income before income taxes:				
U.S. Businesses:				
Retirement Strategies	\$ 678	\$ 1,070	\$ 3,421	\$ 3,050
Group Insurance	27	(135)	(31)	(250)
Individual Life	41	210	(1,233)	312
Assurance IQ	(44)	(55)	(142)	(132)
Total U.S. Businesses	702	1,090	2,015	2,980
Reconciling items:				
Realized investment gains (losses), net, and related adjustments	(1,013)	20	(2,656)	1,769
Charges related to realized investment gains (losses), net	(47)	(6)	(637)	(233)
Market experience updates	128	(199)	620	331
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(1)	1	1	3
Other adjustments(1)	(3)	(7)	(12)	(33)
Income (loss) before income taxes and equity in earnings of operating joint ventures	\$ (234)	\$ 899	\$ (669)	\$ 4,817

(1) 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 contingent consideration.

Three Month Comparison. Adjusted operating income for our U.S. Businesses decreased by \$388 million primarily due to:

- Lower net investment spread results driven by lower income on non-coupon investments, partially offset by higher reinvestment rates and business growth; and
- Lower fee income, net of distribution expenses and other associated costs, primarily in our Individual Retirement Strategies business due to a reduction in account values as a result of the sale of PALAC and unfavorable equity markets.
- Partially offsetting these decreases were higher underwriting results, primarily reflecting improved mortality experience and more favorable disability results in our Group Insurance business, and favorable mortality experience, net of reinsurance, in our Individual Life business.

Nine Month Comparison. Adjusted operating income for our U.S. Businesses decreased by \$965 million primarily due to:

- An unfavorable comparative net impact from our annual reviews and update of assumptions and other refinements, primarily reflecting a net charge from these updates in the second quarter of 2022 in our Individual Life business, mainly driven by unfavorable impacts related to assumptions for policyholder behavior and mortality;
- Lower net investment spread results driven by lower income on non-coupon investments, partially offset by higher reinvestment rates and business growth; and
- Lower fee income, net of distribution expenses and other associated costs, primarily in our Individual Retirement Strategies business due to a reduction in account values as a result of the sale of PALAC and unfavorable equity markets.
- Partially offsetting these decreases were a gain in our Individual Retirement Strategies business from the sale of PALAC in the second quarter of 2022; and

- Higher underwriting results, including lower COVID-19 related mortality claims, in our Group Insurance and Individual Life businesses, as well as more favorable disability results in our Group Insurance business.

Retirement Strategies

In October 2021, the Company announced the creation of Retirement Strategies, a new U.S. business that would serve the retirement needs of both our institutional and individual customers by bringing the institutional investment and pension solutions offered through our Retirement business together with the financial solutions and capabilities of our Individual Annuities business. Commencing with the second quarter of 2022, this new structure has been fully operationalized; therefore, the results of our former Retirement segment (now known as the “Institutional Retirement Strategies” operating segment) and our former Individual Annuities segment (now known as the “Individual Retirement Strategies” operating segment) have been aggregated into the Retirement Strategies segment. Prior periods have been updated to conform to this new presentation.

Business Updates

- In April 2022, the Company completed the sale of its Full Service Retirement business to Great-West Life & Annuity Insurance Company (“Great-West”). The transaction involved the sale of legal entities, reinsurance, and the transfer of contracts and brokerage accounts to Great-West. See Note 1 to the Unaudited Interim Consolidated Financial Statements for additional information.

Beginning in the third quarter of 2021, the Company reported the assets and liabilities of the Full Service Retirement business as “held-for-sale” and transferred the results of this business to Divested and Run-off Businesses within Corporate and Other operations. As such, the following results for the Institutional Retirement Strategies operating segment are now solely reflective of the Company’s Institutional Investment Products business.

- In April 2022, the Company completed the sale of PALAC, which represented a portion of its in-force traditional variable annuity block of business, to Fortitude Group Holdings, LLC, resulting in a pre-tax gain of \$852 million. See Note 1 to the Unaudited Interim Consolidated Financial Statements for additional information.

Beginning in the third quarter of 2021, the Company reported the assets and liabilities of this block of business as “held-for-sale” with the results continuing to be reported within the former Individual Annuities segment’s operating results until the sale was completed.

Operating Results

The following table sets forth Retirement Strategies' operating results for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
(in millions)				
Operating results:				
Revenues:				
Institutional Retirement Strategies	\$ 11,566	\$ 8,386	\$ 17,003	\$ 12,658
Individual Retirement Strategies	1,067	1,260	4,258	3,687
Total revenues	12,633	9,646	21,261	16,345
Benefits and expenses:				
Institutional Retirement Strategies	11,333	7,815	15,804	11,023
Individual Retirement Strategies	622	761	2,036	2,272
Total benefits and expenses	11,955	8,576	17,840	13,295
Adjusted operating income:				
Institutional Retirement Strategies	233	571	1,199	1,635
Individual Retirement Strategies	445	499	2,222	1,415
Total adjusted operating income	678	1,070	3,421	3,050
Realized investment gains (losses), net, and related adjustments	(760)	103	(1,238)	1,912
Charges related to realized investment gains (losses), net	(60)	(35)	(582)	(413)
Market experience updates	88	(83)	221	321
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(1)	1	1	3
Income (loss) before income taxes and equity in earnings of operating joint ventures	\$ (55)	\$ 1,056	\$ 1,823	\$ 4,873

Adjusted Operating Income

Three Month Comparison. Adjusted operating income from our Institutional Retirement Strategies business decreased \$338 million, driven by lower net investment spread results primarily reflecting lower income on non-coupon investments, partially offset by higher reinvestment rates and business growth.

Adjusted operating income from our Individual Retirement Strategies business decreased \$54 million, primarily driven by lower fee income, net of distribution expenses and other associated costs, reflecting the reduction in separate account values resulting from the sale of PALAC, unfavorable equity markets and net outflows. This decrease was partially offset by higher net investment spread results, driven by growth in indexed variable annuities and more favorable interest rates, partially offset by lower income on non-coupon investments, and lower expenses.

Nine Month Comparison. Adjusted operating income from our Institutional Retirement Strategies business decreased \$436 million, including a favorable comparative net impact from our annual reviews and update of assumptions and other refinements. Results for 2022 had no net impact from our annual reviews and update of assumptions, while results for 2021 included a \$14 million net charge. Excluding this item, adjusted operating income decreased \$450 million, driven by lower net investment spread results, primarily reflecting lower income on non-coupon investments, partially offset by higher reinvestment rates and business growth.

Adjusted operating income from our Individual Retirement Strategies business increased \$807 million, including a favorable comparative net impact from our annual reviews and update of assumptions and other refinements, which resulted in a \$25 million net benefit in 2022 compared to a \$15 million charge in 2021. Excluding this item, adjusted operating income increased \$767 million primarily driven by a gain from the sale of PALAC. Also contributing to the increase were higher net investment spread results, driven by growth in indexed variable annuities and more favorable interest rates as well as market value gains on a strategic investment and lower expenses. These increases were partially offset by lower fee income, net of

distribution expenses and other associated costs, resulting from lower separate account values due to net outflows, the impact of the sale of PALAC and unfavorable equity markets, partially offset by favorable impacts from our living benefits guarantees.

Revenues, Benefits and Expenses

Three Month Comparison. Revenues from our Institutional Retirement Strategies business increased \$3,180 million. This increase primarily reflected higher pension risk transfer premiums due to a significant sale in the current quarter, with corresponding offsets in policyholders' benefits, as discussed below, partially offset by lower net investment income and other income, primarily reflecting lower income on non-coupon investments.

Benefits and expenses of our Institutional Retirement Strategies business increased \$3,518 million. Policyholders' benefits, including the change in policy reserves, increased primarily related to the higher pension risk transfer premiums discussed above.

Revenues from our Individual Retirement Strategies business decreased \$193 million primarily driven by lower policy charges and fee income, reflecting the reduction in account values resulting from the sale of PALAC, unfavorable equity markets and net outflows as well as lower net investment income, primarily reflecting lower income on non-coupon investments. These decreases were partially offset by higher asset management and service fees, largely driven by higher assumed reinsurance related to indexed variable annuities.

Benefits and expenses of our Individual Retirement Strategies business decreased \$139 million primarily due to lower general and administrative expenses, net of capitalization, driven by lower distribution and asset management expenses reflecting lower average separate account values, as discussed above, and lower operating and other expenses.

Nine Month Comparison. Revenues from our Institutional Retirement Strategies business increased \$4,345 million. This increase primarily reflected higher pension risk transfer premiums due to a significant sale in the current quarter, with corresponding offsets in policyholders' benefits, as discussed below, partially offset by lower other income and net investment income, primarily reflecting lower income on non-coupon investments.

Benefits and expenses of our Institutional Retirement Strategies business increased \$4,781 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, benefits and expenses increased \$4,795 million. Policyholders' benefits, including the change in policy reserves, increased primarily related to the higher pension risk transfer premiums discussed above.

Revenues from our Individual Retirement Strategies business increased \$571 million primarily driven by a gain from the sale of PALAC and market value gains on a strategic investment, partially offset by lower policy charges and fee income, reflecting lower average separate account values due to net outflows, the impact of the sale of PALAC and unfavorable equity markets.

Benefits and expenses of our Individual Retirement Strategies business decreased \$236 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, benefits and expenses decreased \$196 million primarily driven by lower general and administrative expenses, net of capitalization, driven by lower distribution and asset management expenses reflecting lower average separate account values, as discussed above, as well as lower operating and other expenses.

Account Values

Institutional Retirement Strategies. 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 Institutional Retirement Strategies' products for the periods indicated. Account values include both internally- and externally-managed client balances as the total balances drive revenue for the Institutional Retirement Strategies 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,
	2022	2021	2022	2021	2022
	(in millions)				
Total Institutional Retirement Strategies:					
Beginning total account value	\$ 234,594	\$ 243,843	\$ 245,720	\$ 243,387	\$ 246,068
Additions(1)	13,518	8,045	19,496	18,466	22,997
Withdrawals and benefits	(3,691)	(4,546)	(12,150)	(15,932)	(17,043)
Change in market value, interest credited and interest income	(553)	618	(4,512)	1,311	(3,942)
Other(2)	(5,555)	(1,892)	(10,241)	(1,164)	(9,767)
Ending total account value	\$ 238,313	\$ 246,068	\$ 238,313	\$ 246,068	\$ 238,313

(1) Additions primarily include: group annuities and funded pension reinsurance calculated based on premiums received; international longevity 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 calculated based on premiums received.

(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, 2022 and 2021, "Other" activity also includes \$1,461 million in receipts offset by \$958 million in payments and \$793 million in receipts offset by \$735 million in payments, respectively, and for the nine months ended September 30, 2022 and 2021, includes \$3,172 million in receipts offset by \$2,666 million in payments and \$2,096 million in receipts offset by \$2,231 million in payments, respectively, related to funding agreements backed by commercial paper which typically have maturities of less than 90 days.

The increase in Institutional Retirement Strategies account values for the three months ended September 30, 2022 reflects net additions primarily driven by a significant pension risk transfer deal, partially offset by the negative impact of foreign exchange rate changes.

The decreases in Institutional Retirement Strategies account values for the nine months and twelve months ended September 30, 2022 reflect decreases in other activity primarily driven by the negative impact of foreign exchange rate changes and the decline in the market value of account assets. These decreases were partially offset by net additions primarily driven by a significant pension risk transfer deal in the current quarter.

Individual Retirement Strategies. 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,
	2022	2021	2022	2021	2022
	(in millions)				
Total Individual Retirement Strategies(1)(2):					
Beginning total account value	\$ 123,138	\$ 182,411	\$ 182,305	\$ 176,280	\$ 178,678
Sales	1,389	1,500	4,530	5,048	6,081
Full surrenders and death benefits	(1,225)	(2,573)	(4,973)	(7,748)	(7,626)
Sales, net of full surrenders and death benefits	164	(1,073)	(443)	(2,700)	(1,545)
Partial withdrawals and other benefit payments	(976)	(1,334)	(3,437)	(4,091)	(5,058)
Net flows	(812)	(2,407)	(3,880)	(6,791)	(6,603)
Change in market value, interest credited and other activity(3)	(5,920)	(422)	(60,548)	11,928	(53,288)
Policy charges	(616)	(904)	(2,087)	(2,739)	(2,997)
Ending total account value	\$ 115,790	\$ 178,678	\$ 115,790	\$ 178,678	\$ 115,790

- (1) Includes gross variable and fixed annuities sold as retail investment products. Variable annuity account values were \$110.0 billion and \$172.8 billion as of September 30, 2022 and 2021, respectively. Fixed annuity account values were \$5.8 billion and \$5.9 billion as of September 30, 2022 and 2021, respectively.
- (2) Beginning total account values for nine months and twelve months ended September 30, 2022 and ending total account values for the three months and nine months ended September 30, 2021 include approximately \$30 billion of account values that were classified as “held-for-sale” as of September 30, 2021 and December 31, 2021, in relation to the PALAC sale, as discussed above.
- (3) Results for the nine months and twelve months ended September 30, 2022 reflect the reduction in account values resulting from the sale of PALAC, as discussed above.

Sales, net of full surrenders and death benefits, for the three months and the nine months ended September 30, 2022 increased in comparison to the prior year periods driven by lower full surrenders due to general uncertainty and volatility in financial markets in the current year period, partially offset by lower sales.

The decrease in account values for the three months ended September 30, 2022 was primarily driven by market value depreciation. The decreases in account values for the nine months and twelve months ended September 30, 2022 were primarily driven by the impact of the sale of PALAC, market value depreciation and net outflows.

Risks and Risk Mitigants

The following is a summary of certain risks associated with Individual Retirement Strategies’ 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 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 some 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 April 2022, the Company completed the sale of a portion of our in-force traditional variable annuity block, as discussed 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 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 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, 2022	December 31, 2021(1)
	(in millions)	
U.S. GAAP liability, including NPR, net of reinsurance recoverables	\$ 5,165	\$ 13,028
NPR adjustment, net of reinsurance recoverables	3,864	2,832
Subtotal	9,029	15,860
Adjustments including risk margins and valuation methodology differences	(3,027)	(3,444)
Economic liability managed through the ALM strategy	\$ 6,002	\$ 12,416

(1) Includes the portion of the traditional variable annuities block of business that was classified as “held-for-sale” as of December 31, 2021 in relation to the PALAC sale, as discussed above.

As of September 30, 2022, 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. Changes in value of these derivatives are excluded from adjusted operating income, which the Company believes enhances the understanding of underlying performance trends.

Product Specific Risks and Risk Mitigants

As noted above, the risks associated with our Individual Retirement Strategies' 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, 2022		December 31, 2021		September 30, 2021	
	Account Value	% of Total	Account Value(1)	% of Total	Account Value(1)	% of Total
(\$ in millions)						
Living benefit/GMDB features(2):						
Both ALM strategy and automatic rebalancing(3)(4)	\$ 67,570	62 %	\$ 112,543	64 %	\$ 110,999	64 %
ALM strategy only(4)	1,924	2 %	7,278	4 %	7,205	4 %
Automatic rebalancing only	84	0 %	567	0 %	582	1 %
External reinsurance(5)	2,446	2 %	3,303	2 %	3,229	2 %
PDI	11,893	11 %	16,909	10 %	17,239	10 %
Other products	1,519	1 %	2,444	1 %	2,431	1 %
Total living benefit/GMDB features	\$ 85,436		\$ 143,044		\$ 141,685	
GMDB features and other(6)	24,594	22 %	33,395	19 %	31,130	18 %
Total variable annuity account value	\$ 110,030		\$ 176,439		\$ 172,815	

(1) Includes approximately \$30 billion of account values that were classified as "held-for-sale" as of September 30, 2021 and December 31, 2021 in relation to the PALAC sale, as discussed above.

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

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

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

(5) 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.

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

Results excluded from adjusted operating income

The following table provides the net impact to the Unaudited Interim Consolidated Statements of Operations from the portion of Retirement Strategies' 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,	
	2022	2021(1)	2022	2021(1)
	(in millions)(2)			
Results excluded from adjusted operating income:				
Change in value of U.S. GAAP liability, pre-NPR(3)	\$ 1,066	\$ 639	\$ 3,115	\$ 7,079
Change in the NPR adjustment	(242)	(292)	1,728	(1,292)
Change in fair value of hedge assets, excluding capital hedges(4)	(926)	(404)	(3,542)	(3,916)
Change in fair value of capital hedges(5)	154	(12)	824	(805)
Other(6)	(812)	172	(3,363)	846
Realized investment gains (losses), net, and related adjustments	(760)	103	(1,238)	1,912
Market experience updates(7)	88	(83)	221	321
Charges related to realized investment gains (losses), net	(60)	(35)	(582)	(413)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(1)	1	1	3
Total results excluded from adjusted operating income(8)	<u>\$ (733)</u>	<u>\$ (14)</u>	<u>\$ (1,598)</u>	<u>\$ 1,823</u>

(1) Prior periods have been updated to reflect the aggregated results of the Retirement Strategies segment.

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

(3) 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.

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

(5) 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.

(6) Largely represents realized gains (losses) associated with sales and changes in the market value of fixed maturity securities as well as changes in the market value of derivative instruments.

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

(8) Excludes amounts from the change in unrealized gains and losses on fixed income instruments recorded in OCI (versus net income) of \$(34) million, and \$(25) million for the three months ended September 30, 2022 and 2021, respectively, and \$(324) million and \$(1,763) million for the nine months ended September 30, 2022 and 2021, respectively.

For the three months ended September 30, 2022, the loss of \$733 million was primarily driven by the impact of rising interest rates on fixed maturity securities and derivatives. Changes in the Individual Retirement Strategies U.S. GAAP embedded derivative liability and hedge positions under the ALM strategy were largely offsetting.

For the nine months ended September 30, 2022, the loss of \$1,598 million was driven by the impact of rising interest rates on fixed maturity securities and derivatives as well as unfavorable impacts related to the U.S. GAAP liability before NPR, including the change in fair value of hedge assets (excluding capital hedges) largely due to unfavorable equity markets and the impact from our annual reviews and update of assumptions and other refinements. Also contributing to the decrease were unfavorable impacts related to the amortization of DAC and other costs. These decreases were partially offset by favorable NPR adjustments largely due to favorable impacts from our annual reviews and update of assumptions and other refinements and widening credit spreads, gains associated with our capital hedges driven by unfavorable equity markets as well as favorable market experience updates resulting from the impact of rising interest rates.

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,	
	2022	2021	2022	2021
(\$ in millions)				
Operating results:				
Revenues	\$ 1,527	\$ 1,553	\$ 4,567	\$ 4,627
Benefits and expenses	1,500	1,688	4,598	4,877
Adjusted operating income	27	(135)	(31)	(250)
Realized investment gains (losses), net, and related adjustments	15	6	(94)	(19)
Income (loss) before income taxes and equity in earnings of operating joint ventures	\$ 42	\$ (129)	\$ (125)	\$ (269)
Benefits ratio(1)(4):				
Group life(2)	91.4 %	105.2 %	94.2 %	100.2 %
Group disability(2)	72.5 %	85.9 %	73.8 %	82.4 %
Total Group Insurance(2)	86.6 %	100.7 %	89.2 %	96.2 %
Administrative operating expense ratio(3)(4):				
Group life	10.9 %	11.7 %	10.7 %	11.2 %
Group disability	30.3 %	32.3 %	31.2 %	32.4 %
Total Group Insurance	15.9 %	16.8 %	15.8 %	16.2 %

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

(2) Benefit ratios for the nine months ended September 30, 2022 and 2021 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 94.4%, 73.0% and 89.1% for the nine months ended September 30, 2022, respectively; and 100.2%, 82.5% and 96.2% for the nine months ended September 30, 2021, 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 increased \$162 million, primarily reflecting higher underwriting results in our group life business, including a decline in COVID-19 impacts on non-experience-rated contracts, and higher underwriting results in our group disability business driven by favorable claims experience and a favorable impact to reserves from higher interest rates on long-term disability contracts, as well as business growth. These increases were partially offset by lower net investment spread results driven by lower income on non-coupon investments, partially offset by higher reinvestment rates.

Nine Month Comparison. Adjusted operating income increased \$219 million, including an unfavorable comparative net impact from our annual reviews and update of assumptions and other refinements. Results for 2022 included a \$3 million net charge from these updates while 2021 included a \$1 million net benefit from these updates. Excluding this item, adjusted operating income increased \$223 million, primarily reflecting higher underwriting results in our group life business, including a decline in COVID-19 impacts on non-experience-rated contracts, and higher underwriting results in our group disability business driven by more favorable claims experience and a favorable impact to reserves from higher interest rates on long-term disability contracts, as well as business growth. These increases were partially offset by lower net investment spread results driven by lower income on non-coupon investments.

Revenues, Benefits and Expenses

Three Month Comparison. Revenues decreased \$26 million. The decrease primarily reflected lower net investment income driven by lower income on non-coupon investments, partially offset by higher reinvestment rates.

Benefits and expenses decreased \$188 million. The decrease primarily reflected lower policyholders' benefits and changes in reserves in our group life business driven by less unfavorable claim experience, including a decline in COVID-19 impacts, as well as in our group disability business driven by a favorable impact from claims experience and a favorable impact to reserves from higher interest rates on long-term disability contracts.

Nine Month Comparison. Revenues decreased \$60 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, revenues decreased \$56 million. The decrease primarily reflected lower net investment income driven by lower income on non-coupon investments.

Benefits and expenses decreased \$279 million. The decrease primarily reflected lower policyholders' benefits and changes in reserves in our group life business driven by less unfavorable claim experience, including a decline in COVID-19 impacts, as well as in our group disability business driven by a more favorable impact from claims experience and a favorable impact to reserves from higher interest rates 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,	
	2022	2021	2022	2021
(in millions)				
Annualized new business premiums(1):				
Group life	\$ 67	\$ 51	\$ 273	\$ 242
Group disability	36	17	183	172
Total	<u>\$ 103</u>	<u>\$ 68</u>	<u>\$ 456</u>	<u>\$ 414</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, 2022 increased \$35 million compared to the prior year period, due to higher sales in both our group disability and group life businesses, primarily in the National segment.

Total annualized new business premiums for the nine months ended September 30, 2022 increased \$42 million compared to the prior year period, driven by higher group life sales, primarily in the National segment, and higher sales in our group disability business in the Premier and National segments, including an increase in supplemental health product sales.

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,	
	2022	2021	2022	2021
	(in millions)			
Operating results:				
Revenues	\$ 1,623	\$ 1,839	\$ 5,388	\$ 5,090
Benefits and expenses	1,582	1,629	6,621	4,778
Adjusted operating income	41	210	(1,233)	312
Realized investment gains (losses), net, and related adjustments	(268)	(89)	(1,324)	(124)
Charges related to realized investment gains (losses), net	13	29	(55)	180
Market experience updates	40	(116)	399	10
Income (loss) before income taxes and equity in earnings of operating joint ventures	<u>\$ (174)</u>	<u>\$ 34</u>	<u>\$ (2,213)</u>	<u>\$ 378</u>

Adjusted Operating Income

Three Month Comparison. Adjusted operating income decreased \$169 million, primarily reflecting lower net investment spread results driven by lower income on non-coupon investments, partially offset by higher underwriting results, driven by favorable mortality experience, net of reinsurance.

Nine Month Comparison. Adjusted operating income decreased \$1,545 million, primarily reflecting an unfavorable comparative net impact from our annual reviews and update of assumptions and other refinements. Results for 2022 included a \$1,401 million net charge from these updates, mainly driven by unfavorable impacts related to assumptions for policyholder behavior and mortality, and inclusive of out of period adjustments (see Note 1 and Note 13 to the Unaudited Interim Consolidated Financial Statements for additional information). Results for 2021 included a \$7 million net benefit from these updates. Excluding this item, adjusted operating income decreased \$137 million primarily reflecting lower net investment spread results driven by lower income on non-coupon investments, partially offset by higher underwriting results, driven by the impact from less unfavorable mortality experience, net of reinsurance, including lower COVID-19 related claims.

Revenues, Benefits and Expenses

Three Month Comparison. Revenues decreased \$216 million. This decrease was primarily driven by lower policy charges and fee income driven by the absence of a benefit from the recapture of previously reinsured liabilities in the prior year period, which was mostly offset by reserve changes in policyholders' benefits, as discussed below, and unfavorable equity markets. Also contributing to the decrease was lower net investment income driven by lower income on non-coupon investments.

Benefits and expenses decreased \$47 million. This decrease was primarily driven by lower policyholders' benefits and changes in reserves, driven by the impacts of the reinsurance recapture in the prior year period, as described above.

Nine Month Comparison. Revenues increased \$298 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, revenues decreased \$42 million. This decrease was primarily driven by lower policy charges and fee income driven by the absence of a benefit from the recapture of previously reinsured liabilities in the prior year period, which was mostly offset by reserve changes in policyholders' benefits, and unfavorable equity markets. Also contributing to the decrease was lower net investment income driven by lower income on non-coupon investments. These decreases were partially offset by higher premiums due to lower ceded reinsurance, which was mostly offset in policyholders' benefits below.

Benefits and expenses increased \$1,843 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, benefits and expenses increased \$95 million. This increase was primarily driven by higher policyholders' benefits and changes in reserves, driven by lower ceded reinsurance, as described above, partially offset by a favorable comparative impact from mortality experience, net of reinsurance, including lower COVID-19 related claims and the impacts of the reinsurance recapture in the prior year period, as described above. Also contributing to the increase were higher interest credited on policyholders' account balances due to business growth and higher interest expense driven by higher interest rates.

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, 2022			Three Months Ended September 30, 2021		
	Prudential Advisors	Third- Party	Total	Prudential Advisors	Third- Party	Total
	(in millions)					
Variable Life	\$ 27	\$ 76	\$ 103	\$ 29	\$ 115	\$ 144
Term Life	4	20	24	4	22	26
Universal Life(1)	2	21	23	2	17	19
Total	<u>\$ 33</u>	<u>\$ 117</u>	<u>\$ 150</u>	<u>\$ 35</u>	<u>\$ 154</u>	<u>\$ 189</u>
	Nine Months Ended September 30, 2022			Nine Months Ended September 30, 2021		
	Prudential Advisors	Third- Party	Total	Prudential Advisors	Third- Party	Total
	(in millions)					
Variable Life	\$ 83	\$ 234	\$ 317	\$ 89	\$ 313	\$ 402
Term Life	13	58	71	16	75	91
Universal Life(1)	5	62	67	6	74	80
Total	<u>\$ 101</u>	<u>\$ 354</u>	<u>\$ 455</u>	<u>\$ 111</u>	<u>\$ 462</u>	<u>\$ 573</u>

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

Total annualized new business premiums for the third quarter of 2022 decreased \$39 million compared to the prior year period primarily from lower third-party sales of variable life products due to pricing and product actions taken ahead of the prior year period. Total annualized new business premiums for the first nine months of 2022 decreased \$118 million compared to the prior year period, primarily from lower third-party sales across variable life, term life and universal life products due to pricing and product actions taken in the prior year period.

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,	
	2022	2021	2022	2021
	(in millions)			
Operating results:				
Revenues	\$ 99	\$ 110	\$ 285	\$ 331
Expenses	143	165	427	463
Adjusted operating income	(44)	(55)	(142)	(132)
Other adjustments(1)	(3)	(7)	(12)	(33)
Income (loss) before income taxes and equity in earnings of operating joint ventures	<u>\$ (47)</u>	<u>\$ (62)</u>	<u>\$ (154)</u>	<u>\$ (165)</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. For additional information regarding contingent consideration, see Note 14 to the Unaudited Interim Consolidated Financial Statements.

Adjusted Operating Income

Three Month Comparison. Adjusted operating income increased \$11 million, primarily reflecting an increase in the Medicare line driven by higher commission revenue.

Nine Month Comparison. Adjusted operating income decreased \$10 million, primarily reflecting an unfavorable net impact from our annual reviews and update of assumptions and other refinements. Results for 2022 included a \$17 million net charge from these updates primarily reflecting updates to persistency assumptions in the Medicare line. Excluding this item, adjusted operating income increased \$7 million primarily reflecting an increase in the Medicare line driven by higher commission revenue, partially offset by a decrease in the Health Under 65 line driven by lower commission and case referral revenues.

Revenues and Expenses

Three Month Comparison. Revenues decreased \$11 million primarily due to lower case referral and commission revenues in the Health Under 65 line and lower case referral revenues in the Life, Property and Casualty, and Personal Finance lines. These decreases were partially offset by higher commission revenue in the Medicare line.

Expenses decreased \$22 million, primarily driven by lower variable expenses from the Life, Personal Finance, Property and Casualty, and Health Under 65 lines, partially offset by higher variable expenses in the Medicare line.

Nine Month Comparison. Revenues decreased \$46 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, revenues decreased \$29 million due to lower commission and case referral revenues in the Health Under 65 and Life lines. These decreases were partially offset by an increase in commission revenue in the Medicare line.

Expenses decreased \$36 million, primarily driven by lower variable expenses from the Life and Health Under 65 lines, partially offset by higher variable expenses from the Medicare line, as well as higher general and administrative expenses.

International Businesses

Business Update

- In the third quarter of 2022, the Company completed the acquisition (through a private equity limited partnership managed by LeapFrog Investments) of a 33% minority interest in Alexander Forbes Group Holdings Limited, a leading provider of financial advice, retirement, investment and holistic wealth management services in South Africa.

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 104 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,	
	2022	2021	2022	2021
	(in millions)			
Operating results:				
Revenues:				
Life Planner	\$ 2,356	\$ 2,695	\$ 7,705	\$ 8,108
Gibraltar Life and Other	2,502	2,923	7,615	8,534
Total revenues	4,858	5,618	15,320	16,642
Benefits and expenses:				
Life Planner	2,102	2,220	6,630	6,762
Gibraltar Life and Other	2,326	2,511	6,904	7,319
Total benefits and expenses	4,428	4,731	13,534	14,081
Adjusted operating income:				
Life Planner	254	475	1,075	1,346
Gibraltar Life and Other	176	412	711	1,215
Total adjusted operating income	430	887	1,786	2,561
Realized investment gains (losses), net, and related adjustments	(451)	107	(2,007)	(76)
Charges related to realized investment gains (losses), net	40	(5)	67	(25)
Market experience updates	0	0	11	0
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(14)	(19)	26	(57)
Income (loss) before income taxes and equity in earnings of operating joint ventures	\$ 5	\$ 970	\$ (117)	\$ 2,403

Adjusted Operating Income

Three Month Comparison. Adjusted operating income from our Life Planner operations decreased \$221 million, including a net unfavorable impact of \$7 million from currency fluctuations, inclusive of the currency hedging program discussed above. Excluding this item, adjusted operating income from our Life Planner operations decreased \$214 million primarily reflecting lower underwriting results, driven by unfavorable mortality and morbidity experience from COVID-19 related claims, and unfavorable policyholder behavior in Japan. Also contributing to the decrease were lower net investment spread results driven by lower income on non-coupon investments.

Adjusted operating income from our Gibraltar Life and Other operations decreased \$236 million, including a net favorable impact of \$2 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 decreased \$238 million primarily reflecting lower underwriting results, driven by unfavorable mortality and morbidity experience from COVID-19 related claims, as well as lower net investment spread results driven by lower income on non-coupon investments and lower prepayment fee income.

Nine Month Comparison. Adjusted operating income from our Life Planner operations decreased \$271 million, including a net unfavorable impact of \$18 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 \$19 million net charge in 2022 compared to a \$2 million net benefit in 2021.

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 decreased \$232 million primarily reflecting lower net investment spread results driven by lower income on non-coupon investments, as well as lower underwriting results, primarily driven by unfavorable mortality and morbidity experience from COVID-19 related claims, and unfavorable policyholder behavior in Japan.

Adjusted operating income from our Gibraltar Life and Other operations decreased \$504 million, including a net favorable impact of \$7 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 \$12 million net charge in 2022 compared to a \$16 million net charge in 2021.

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 decreased \$515 million primarily reflecting lower net investment spread results driven by lower income on non-coupon investments and lower prepayment fee income, as well as lower underwriting results, primarily driven by unfavorable mortality and morbidity experience from COVID-19 related claims. Also contributing to the decrease were lower earnings from joint venture investments.

Revenues, Benefits and Expenses

Three Month Comparison. Revenues from our Life Planner operations decreased \$339 million, including a net unfavorable impact of \$229 million from currency fluctuations. Excluding this item, revenues decreased \$110 million, primarily reflecting lower net investment income driven by lower income on non-coupon investments.

Benefits and expenses of our Life Planner operations decreased \$118 million, including a net favorable impact of \$222 million from currency fluctuations. Excluding this item, benefits and expenses increased \$104 million, primarily reflecting higher policyholders' benefits, including changes in reserves, driven by unfavorable mortality and morbidity experience from COVID-19 related claims, and higher amortization, including write offs of deferred policy acquisition costs related to unfavorable policyholder behavior.

Revenues from our Gibraltar Life and Other operations decreased \$421 million, including a net unfavorable impact of \$285 million from currency fluctuations. Excluding this item, revenues decreased \$136 million, primarily reflecting lower premiums and policy charges and fee income due to the decline of business in force, and lower net investment income driven by lower income on non-coupon investments and lower prepayment fee income.

Benefits and expenses of our Gibraltar Life and Other operations decreased \$185 million, including a net favorable impact of \$287 million from currency fluctuations. Excluding this item, benefits and expenses increased \$102 million, primarily reflecting higher policyholders' benefits, including changes in reserves, driven by unfavorable mortality and morbidity experience from COVID-19 related claims, and higher amortization, including write offs of deferred policy acquisition costs related to unfavorable policyholder behavior.

Nine Month Comparison. Revenues from our Life Planner operations decreased \$403 million, including a net unfavorable impact of \$470 million from currency fluctuations and a net benefit of \$12 million from our annual reviews and update of assumptions and other refinements. Excluding these items, revenues increased \$55 million, primarily reflecting higher premiums and policy charges and fee income, driven by the growth of business in force, partially offset by lower net investment income driven by lower income on non-coupon investments.

Benefits and expenses of our Life Planner operations decreased \$132 million, including a net favorable impact of \$452 million from currency fluctuations and a net charge of \$33 million from our annual reviews and update of assumptions and other refinements. Excluding these items, benefits and expenses increased \$287 million, primarily reflecting higher policyholders' benefits, including changes in reserves, driven by unfavorable mortality and morbidity experience from COVID-19 related claims, and higher amortization, including write offs of deferred policy acquisition costs related to unfavorable policyholder behavior.

Revenues from our Gibraltar Life and Other operations decreased \$919 million, including a net unfavorable impact of \$615 million from currency fluctuations. Excluding this item, revenues decreased \$304 million, primarily reflecting lower premiums and policy charges and fee income due to the decline of business in force, lower net investment income driven by lower income on non-coupon investments and lower prepayment fee income, and lower other income from a decline in earnings from joint venture investments.

Benefits and expenses of our Gibraltar Life and Other operations decreased \$415 million, including a net favorable impact of \$622 million from currency fluctuations and a net benefit of \$4 million from our annual reviews and update of assumptions and other refinements. Excluding these items, benefits and expenses increased \$211 million, primarily reflecting higher policyholders' benefits, including changes in reserves, driven by unfavorable mortality and morbidity experience from COVID-19 related claims, and higher amortization, including write offs of deferred policy acquisition costs related to unfavorable policyholder behavior.

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,	
	2022	2021	2022	2021
	(in millions)			
Annualized new business premiums:				
On an actual exchange rate basis:				
Life Planner	\$ 215	\$ 234	\$ 697	\$ 713
Gibraltar Life and Other	198	269	634	788
Total	<u>\$ 413</u>	<u>\$ 503</u>	<u>\$ 1,331</u>	<u>\$ 1,501</u>
On a constant exchange rate basis:				
Life Planner	\$ 241	\$ 237	\$ 746	\$ 724
Gibraltar Life and Other	206	272	653	793
Total	<u>\$ 447</u>	<u>\$ 509</u>	<u>\$ 1,399</u>	<u>\$ 1,517</u>

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 generally resulted in an increase in sales of products denominated in USD relative to products denominated in other currencies.

The tables below present annualized new business premiums on a constant exchange rate basis, by product category and distribution channel, for the periods indicated:

	Three Months Ended September 30, 2022					Three Months Ended September 30, 2021				
	Life	Accident & Health	Retirement(1)	Annuity(2)	Total	Life	Accident & Health	Retirement(1)	Annuity(2)	Total
	(in millions)									
Life Planner	\$ 140	\$ 19	\$ 77	\$ 5	\$ 241	\$ 126	\$ 16	\$ 94	\$ 1	\$ 237
Gibraltar Life and Other:										
Life Consultants	42	8	7	73	130	66	7	11	67	151
Banks(3)	13	0	0	21	34	54	0	3	14	71
Independent Agency	19	0	23	0	42	18	1	26	5	50
Subtotal	74	8	30	94	206	138	8	40	86	272
Total	\$ 214	\$ 27	\$ 107	\$ 99	\$ 447	\$ 264	\$ 24	\$ 134	\$ 87	\$ 509

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

(2) Includes market value adjusted investment contracts.

(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 46%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the three months ended September 30, 2022, and 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.

Three Month Comparison. Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations increased \$4 million, primarily driven by higher life product sales in Brazil, partially offset by lower USD-denominated sales in Japan.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life and Other operations decreased \$66 million. Bank channel and Life Consultants sales decreased \$37 million and \$21 million, respectively, both reflecting lower USD-denominated life product sales. Independent Agency sales decreased \$8 million reflecting product actions taken since the prior year period.

	Nine Months Ended September 30, 2022					Nine Months Ended September 30, 2021				
	Life	Accident & Health	Retirement(1)	Annuity(2)	Total	Life	Accident & Health	Retirement(1)	Annuity(2)	Total
	(in millions)									
Life Planner	\$ 418	\$ 56	\$ 263	\$ 9	\$ 746	\$ 386	\$ 51	\$ 285	\$ 2	\$ 724
Gibraltar Life and Other:										
Life Consultants	143	21	26	186	376	199	20	30	145	394
Banks(3)	66	0	3	50	119	202	0	8	40	250
Independent Agency	65	8	84	1	158	54	22	65	8	149
Subtotal	274	29	113	237	653	455	42	103	193	793
Total	\$ 692	\$ 85	\$ 376	\$ 246	\$ 1,399	\$ 841	\$ 93	\$ 388	\$ 195	\$ 1,517

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

(2) Includes market value adjusted investment contracts.

(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 57%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the nine months ended September 30, 2022, and 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.

Nine Month Comparison. Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations increased \$22 million, primarily driven by higher life product sales in Brazil and Argentina, partially offset by lower USD-denominated sales in Japan.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life and Other operations decreased \$140 million. Bank channel and Life Consultants sales decreased \$131 million and \$18 million, respectively, both reflecting lower USD-denominated life product sales. The decrease in Life Consultants was partially offset by higher sales of

USD-denominated market value adjusted investment contracts, driven by rising interest rates. Independent Agency sales increased \$9 million, primarily driven by higher sales of USD-denominated endowment products and life product sales, partially offset by the absence of accident & health product sales made to a single large client in the prior year period.

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,	
	2022	2021	2022	2021
	(in millions)			
Operating results:				
Interest expense on debt	\$ (213)	\$ (209)	\$ (620)	\$ (628)
Investment income	38	40	115	112
Pension and employee benefits	100	75	288	217
Other corporate activities	(250)	(366)	(733)	(819)
Adjusted operating income	(325)	(460)	(950)	(1,118)
Realized investment gains (losses), net, and related adjustments	10	(13)	59	73
Charges related to realized investment gains (losses), net	(2)	(7)	6	4
Market experience updates	5	0	27	(1)
Divested and Run-off Businesses	(76)	48	27	432
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(1)	(23)	(37)	(34)
Income (loss) before income taxes and equity in earnings of operating joint ventures	<u>\$ (389)</u>	<u>\$ (455)</u>	<u>\$ (868)</u>	<u>\$ (644)</u>

Three Month Comparison. The loss from Corporate and Other operations, on an adjusted operating income basis, decreased \$135 million. Net charges from other corporate activities decreased \$116 million primarily driven by the absence of a \$94 million cost related to the early extinguishment of debt in the prior year period, gains from the sales of certain home office properties, and favorable foreign exchange rate impacts, partially offset by an increase in costs related to corporate initiatives. Pension and employee benefits results were favorable by \$25 million primarily driven by higher earnings from our pension and post-retirement plans resulting from higher returns on plan assets, and lower benefit costs for these plans resulting from the sale of the Full Service Retirement business.

Nine Month Comparison. The loss from Corporate and Other operations, on an adjusted operating income basis, decreased \$168 million. Net charges from other corporate activities decreased \$86 million primarily driven by the absence of costs related to the early extinguishment of debt in the prior year period, favorable exchange rate impacts, gains from the sales of certain home office properties, and lower costs for long-term compensation plans, partially offset by an increase in corporate initiative and advertising costs. Pension and employee benefits results were favorable by \$71 million primarily driven by higher earnings from our pension and post-retirement plans resulting from higher returns on plan assets, lower benefit costs for these plans resulting from the sale of the Full Service Retirement business, and a favorable impact from design changes to the Company’s Retiree Medical Savings Account plan.

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,	
	2022	2021	2022	2021
	(in millions)			
Long-Term Care	\$ (93)	\$ 56	\$ (455)	\$ 302
Other	17	(8)	482	130
Total Divested and Run-off Businesses income (loss) excluded from adjusted operating income	<u>\$ (76)</u>	<u>\$ 48</u>	<u>\$ 27</u>	<u>\$ 432</u>

Long-Term Care

Three Month Comparison. Results decreased \$149 million compared to the prior year period primarily driven by unfavorable impacts from changes in the market value of equity securities and lower income on non-coupon investments.

Nine Month Comparison. Results decreased \$757 million, including an unfavorable comparative net impact from our annual reviews and update of assumptions and other refinements. Results for 2022 included a \$28 million net charge from these updates, while results for 2021 included a \$62 million net benefit from these updates. Excluding this item, results decreased \$667 million compared to the prior year period primarily driven by unfavorable impacts from changes in the market value of equity securities and derivatives used for duration management as well as from lower income on non-coupon investments.

Other Divested and Run-off Businesses

Results for the third quarter and nine months ended September 30, 2022 increased \$25 million and \$352 million, respectively. The results for the nine months ended September 30, 2022 primarily reflect the gain on the sale of the Full Service Retirement business. See Note 1 to the Unaudited Interim Consolidated Financial Statements for additional information regarding this sale. The results for the first nine months of 2022 also include losses related to the Full Service Retirement business in the first quarter, largely driven by the impact of rising interest rates on the market value of assets supporting experience-rated contractholder liabilities. For more information, see “—Experience-Rated Contractholder Liabilities, Assets Supporting Experience-Rated Contractholder Liabilities and Other Related Investments.”

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. 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. 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. Additionally, any accumulated net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block are reflected as a policyholder dividend obligation, with a corresponding amount reported in AOCI, while any accumulated net unrealized investment losses are reflected as a reduction of the policyholder dividend obligation, to the extent the overall policyholder dividend obligation is otherwise positive.

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. 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.”

As of September 30, 2022, the excess of actual cumulative earnings over the expected cumulative earnings was \$3,502 million; however, due to the accumulation of net unrealized investment losses in excess of this amount, the policyholder dividend obligation balance as of September 30, 2022 was reduced to zero.

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,	
	2022	2021	2022	2021
	(in millions)			
U.S. GAAP results:				
Revenues	\$ 711	\$ 1,321	\$ 2,205	\$ 4,299
Benefits and expenses	735	1,294	2,193	4,207
Income (loss) before income taxes and equity in earnings of operating joint ventures	<u>\$ (24)</u>	<u>\$ 27</u>	<u>\$ 12</u>	<u>\$ 92</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 decreased \$51 million. Net investment activity results decreased primarily reflecting lower other income driven by unfavorable changes in the value of non-coupon investments and equity securities, lower net investment income on non-coupon investments, as well as a decrease in realized investment gains (losses) driven by losses on the sale of fixed income investments in the current quarter. Net insurance activity results increased driven by a favorable comparative change in reserves, partially offset by lower premiums due to the runoff of policies in force. As a result of the above, a \$232 million reduction in the policyholder dividend obligation was recorded in the third quarter of 2022, compared to a \$259 million increase in the third quarter of 2021.

Nine Month Comparison. Income (loss) before income taxes and equity in earnings of operating joint ventures decreased \$80 million. Net investment activity results decreased primarily reflecting lower other income driven by unfavorable changes in the value of equity securities, a decrease in realized investment gains (losses) driven by losses on the sale of fixed income investments in the current quarter, and lower net investment income on non-coupon investments. Net insurance activity results increased driven by a favorable comparative change in claims experience and reserves, partially offset by lower premiums due to the runoff of policies in force. As a result of the above, a \$885 million reduction in the policyholder dividend obligation was recorded in the first nine months of 2022, compared to a \$988 million increase in the first nine months of 2021.

Revenues, Benefits and Expenses

Three Month Comparison. Revenues decreased \$610 million primarily driven by a decrease in other income, net investment income, realized gains (losses) and premiums, as discussed above.

Benefits and expenses decreased \$559 million primarily driven by a decrease in dividends to policyholders, reflecting a reduction in the policyholder dividend obligation expense due to changes in cumulative earnings, as discussed above.

Nine Month Comparison. Revenues decreased \$2,094 million primarily driven by a decrease in other income, realized investment gains (losses), net investment income and premiums, as discussed above.

Benefits and expenses decreased \$2,014 million primarily driven by a decrease in dividends to policyholders, reflecting a reduction 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

International Businesses. Certain products included in our International Businesses 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.

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 and related liabilities are reflected on the Unaudited Interim Consolidated Statements of Financial Position as “Assets supporting experience-rated contractholder liabilities, at fair value” and “Policyholders’ account balances,” respectively. The associated realized and unrealized gains (losses) on the investments are reported on the Unaudited Interim Consolidated Statements of Operations as “Other income (loss)”, while interest and dividend income are reported in “Net investment income.”

Adjusted operating income excludes net investment gains (losses) on assets supporting experience-rated contractholder liabilities. This is consistent with the exclusion of realized investment gains (losses) with respect to other investments supporting insurance liabilities managed on a consistent basis. In addition, to be consistent with the historical treatment of charges related to realized investment gains (losses) on investments, adjusted operating income also excludes the change in contractholder liabilities due to asset value changes in the pool of investments supporting these experience-rated contracts, which are reflected in “Interest credited to policyholders’ account balances.” The result of this approach is that adjusted operating income for these products includes net fee revenue and interest spread we earn on these experience-rated contracts, and excludes changes in fair value of the pool of investments, both realized and unrealized, that we expect will ultimately accrue to the contractholders.

Full Service Retirement Business. Prior to the second quarter of 2022, the Full Service Retirement business included within the Company’s Divested and Run-off Businesses held two types of experience-rated products that were supported by assets supporting experience-rated contractholder liabilities and other related investments. On April 1, 2022, the Company completed the sale of its Full Service Retirement business to Great-West. See Note 1 to the Unaudited Interim Consolidated Financial Statements for additional information regarding this transaction. For additional information on these products and how they were recorded in the Company’s financial statements prior to the sale, 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, 2021.

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,	
	2022	2021	2022	2021
(in millions)				
International Businesses:				
Investment gains (losses) on assets supporting experience-rated contractholder liabilities, net	\$ (20)	\$ 62	\$ (173)	\$ 308
Change in experience-rated contractholder liabilities due to asset value changes	20	(62)	173	(308)
Gains (losses), net, on experienced rated contracts	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Divested and Run-off Businesses:				
Investment gains (losses) on assets supporting experience-rated contractholder liabilities, net	\$ 0	\$ (91)	\$ (950)	\$ (418)
Change in experience-rated contractholder liabilities due to asset value changes	0	88	818	394
Gains (losses), net, on experienced rated contracts	<u>\$ 0</u>	<u>\$ (3)</u>	<u>\$ (132)</u>	<u>\$ (24)</u>
Total:				
Investment gains (losses) on assets supporting experience-rated contractholder liabilities, net	\$ (20)	\$ (29)	\$ (1,123)	\$ (110)
Change in experience-rated contractholder liabilities due to asset value changes	20	26	991	86
Gains (losses), net, on experienced rated contracts	<u>\$ 0</u>	<u>\$ (3)</u>	<u>\$ (132)</u>	<u>\$ (24)</u>

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, 2022				As of December 31, 2021			
	PFI excluding Closed Block Division		Closed Block Division		PFI excluding Closed Block Division		Closed Block Division	
	Total at Fair Value	Total Level 3(1)	Total at Fair Value	Total Level 3(1)	Total at Fair Value	Total Level 3(1)	Total at Fair Value	Total Level 3(1)
(in millions)								
Fixed maturities, available-for-sale	\$ 266,225	\$ 4,379	\$ 29,616	\$ 791	\$ 334,006	\$ 5,810	\$ 38,404	\$ 1,510
Assets supporting experience-rated contractholder liabilities:								
Fixed maturities	887	0	0	0	1,057	0	0	0
Equity securities	1,693	0	0	0	2,271	0	0	0
All other(2)	0	0	0	0	20	0	0	0
Subtotal	2,580	0	0	0	3,348	0	0	0
Fixed maturities, trading	4,803	308	887	14	7,686	403	1,137	18
Equity securities	5,283	555	1,599	98	6,089	699	2,288	100
Commercial mortgage and other loans	978	0	0	0	1,263	0	0	0
Other invested assets(3)	2,406	499	9	3	3,749	489	7	4
Short-term investments	4,287	4	137	0	5,186	268	457	62
Cash equivalents	9,171	0	911	0	4,857	48	402	22
Other assets	139	139	0	0	164	164	0	0
Separate account assets	167,270	1,091	0	0	219,971	1,283	0	0
Total assets	\$ 463,142	\$ 6,975	\$ 33,159	\$ 906	\$ 586,319	\$ 9,164	\$ 42,695	\$ 1,716
Future policy benefits	\$ 5,163	\$ 5,163	\$ 0	\$ 0	\$ 9,068	\$ 9,068	\$ 0	\$ 0
Policyholders' account balances	3,745	3,745	0	0	1,436	1,436	0	0
Other liabilities(3)	2,832	1	0	0	1,860	0	0	0
Total liabilities	\$ 11,740	\$ 8,909	\$ 0	\$ 0	\$ 12,364	\$ 10,504	\$ 0	\$ 0

(1) 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 1.5% and 2.7%, respectively, as of September 30, 2022, and 1.6% and 4.0%, respectively, as of December 31, 2021.

(2) "All other" represents cash equivalents and short-term investments.

(3) "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 \$1.5 billion of public fixed maturities as of September 30, 2022, with values primarily based on indicative broker quotes, and approximately \$3.2 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, 2021.

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, 2022				
	PFI Excluding Closed Block Division		Closed Block Division	Total
(\$ in millions)				
Fixed maturities:				
Public, available-for-sale, at fair value	\$ 214,847	61.3 %	\$ 20,922	\$ 235,769
Public, held-to-maturity, at amortized cost, net of allowance	1,128	0.3	0	1,128
Private, available-for-sale, at fair value	50,896	14.5	8,694	59,590
Private, held-to-maturity, at amortized cost, net of allowance	71	0.1	0	71
Fixed maturities, trading, at fair value	4,605	1.3	887	5,492
Assets supporting experience-rated contractholder liabilities, at fair value	2,580	0.7	0	2,580
Equity securities, at fair value	4,653	1.3	1,599	6,252
Commercial mortgage and other loans, at book value, net of allowance	47,838	13.6	8,070	55,908
Policy loans, at outstanding balance	6,254	1.8	3,666	9,920
Other invested assets, net of allowance(1)	13,021	3.7	4,118	17,139
Short-term investments, net of allowance	5,037	1.4	137	5,174
Total general account investments	350,930	100.0 %	48,093	399,023
Invested assets of other entities and operations(2)	6,216		0	6,216
Total investments	\$ 357,146		\$ 48,093	\$ 405,239

December 31, 2021				
	PFI Excluding Closed Block Division(3)		Closed Block Division	Total
(\$ in millions)				
Fixed maturities:				
Public, available-for-sale, at fair value	\$ 276,868	65.0 %	\$ 28,167	\$ 305,035
Public, held-to-maturity, at amortized cost, net of allowance	1,413	0.3	0	1,413
Private, available-for-sale, at fair value	56,660	13.3	10,237	66,897
Private, held-to-maturity, at amortized cost, net of allowance	101	0.1	0	101
Fixed maturities, trading, at fair value	7,473	1.8	1,137	8,610
Assets supporting experience-rated contractholder liabilities, at fair value	3,358	0.8	0	3,358
Equity securities, at fair value	5,587	1.3	2,288	7,875
Commercial mortgage and other loans, at book value, net of allowance	49,146	11.6	8,241	57,387
Policy loans, at outstanding balance	6,571	1.5	3,815	10,386
Other invested assets, net of allowance(1)	12,485	2.9	4,358	16,843
Short-term investments, net of allowance	6,043	1.4	557	6,600
Total general account investments	425,705	100.0 %	58,800	484,505
Invested assets of other entities and operations(2)	7,694		0	7,694
Total investments	\$ 433,399		\$ 58,800	\$ 492,199

(1) 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.

(2) 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.

(3) Excludes “Assets held-for-sale” of \$40,669 million as of December 31, 2021. See Note 1 of the Unaudited Interim Consolidated Statements for additional information.

The decrease in general account investments attributable to PFI excluding the Closed Block division in the first nine months of 2022 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. 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, 2022 and December 31, 2021, 45% and 48%, 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, 2022	December 31, 2021
	(in millions)	
Fixed maturities:		
Public, available-for-sale, at fair value	\$ 109,042	\$ 146,600
Public, held-to-maturity, at amortized cost, net of allowance	1,128	1,413
Private, available-for-sale, at fair value	18,390	21,079
Private, held-to-maturity, at amortized cost, net of allowance	71	101
Fixed maturities, trading, at fair value	587	839
Assets supporting experience-rated contractholder liabilities, at fair value	2,580	3,328
Equity securities, at fair value	1,606	2,187
Commercial mortgage and other loans, at book value, net of allowance	18,283	19,969
Policy loans, at outstanding balance	2,434	2,726
Other invested assets(1)	4,311	4,203
Short-term investments, net of allowance	171	692
Total Japanese general account investments	\$ 158,603	\$ 203,137

(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 2022 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 net business inflows and the reinvestment of net investment income.

As of September 30, 2022, our Japanese insurance operations had \$77.6 billion, at carrying value, of investments denominated in U.S. dollars, including \$1.6 billion that were hedged to yen through third-party derivative contracts and \$67.2 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, 2021, our Japanese insurance operations had \$92.5 billion, at carrying value, of investments denominated in U.S. dollars, including \$2.1 billion that were hedged to yen through third-party derivative contracts and \$80.2 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 \$14.9 billion decrease in the carrying value of U.S. dollar-denominated investments from December 31, 2021 was primarily attributable to an increase in U.S. interest rates partially offset by reinvestment of net investment income and portfolio growth as a result of net business inflows.

Our Japanese insurance operations had \$5.3 billion and \$8.0 billion, at carrying value, of investments denominated in Australian dollars that support liabilities denominated in Australian dollars as of September 30, 2022 and December 31, 2021, respectively. The \$2.7 billion decrease in the carrying value of Australian dollar-denominated investments from December 31, 2021 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.”

2022 to 2021 Three Month Comparison

Three Months Ended September 30, 2022								
	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)	4.57 %	\$ 1,663	2.82 %	\$ 954	3.72 %	\$ 2,617	\$ 343	\$ 2,960
Assets supporting experience-rated contractholder liabilities	0.00	0	1.07	7	1.07	7	0	7
Equity securities	2.18	15	1.04	4	1.73	19	9	28
Commercial mortgage and other loans	3.82	277	3.63	169	3.75	446	82	528
Policy loans	4.88	46	3.94	24	4.51	70	54	124
Short-term investments and cash equivalents	3.24	118	3.07	12	3.23	130	7	137
Gross investment income	4.33	2,119	2.88	1,170	3.67	3,289	495	3,784
Investment expenses	(0.04)	(50)	(0.13)	(74)	(0.08)	(124)	(40)	(164)
Investment income after investment expenses	4.29 %	2,069	2.75 %	1,096	3.59 %	3,165	455	3,620
Other invested assets(3)		(30)		6		(24)	(21)	(45)
Investment results of other entities and operations(4)		56		0		56	0	56
Total investment income		\$ 2,095		\$ 1,102		\$ 3,197	\$ 434	\$ 3,631

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

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- (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 3.62% and 3.46% for the three months ended September 30, 2022 and 2021, 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.

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, 2022, compared to the three months ended September 30, 2021, was primarily the result of higher returns on short-term investments based on an increase in short-term rates and higher fixed income reinvestment rates.

The increase in investment income after investment expenses yield attributable to the Japanese insurance operations' portfolio, for the three months ended September 30, 2022, compared to the three months ended September 30, 2021, was primarily the result of higher returns on short-term investments based on an increase in short-term rates and higher 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 \$60.3 billion for the three months ended September 30, 2022 and 2021, 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 \$5.4 billion and \$7.7 billion for the three months ended September 30, 2022 and 2021, 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.

2022 to 2021 Nine Month Comparison

Nine Months Ended September 30, 2022								
	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)	4.53 %	\$ 5,131	2.75 %	\$ 2,863	3.68 %	\$ 7,994	\$ 1,021	\$ 9,015
Assets supporting experience-rated contractholder liabilities	1.79	123	1.00	23	1.60	146	0	146
Equity securities	1.54	34	2.89	41	2.07	75	29	104
Commercial mortgage and other loans	3.62	870	3.65	521	3.64	1,391	242	1,633
Policy loans	4.94	139	3.92	75	4.53	214	162	376
Short-term investments and cash equivalents	1.82	184	2.08	18	1.83	202	10	212
Gross investment income	4.08	6,481	2.84	3,541	3.53	10,022	1,464	11,486
Investment expenses	(0.07)	(139)	(0.13)	(197)	(0.10)	(336)	(104)	(440)
Investment income after investment expenses	4.01 %	6,342	2.71 %	3,344	3.43 %	9,686	1,360	11,046
Other invested assets(3)		554		142		696	148	844
Investment results of other entities and operations(4)		37		0		37	0	37
Total investment income		\$ 6,933		\$ 3,486		\$ 10,419	\$ 1,508	\$ 11,927

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

(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% for both the nine months ended September 30, 2022 and 2021.
- (6) The denominator in the yield percentage includes “Assets held-for-sale.” See Note 1 of the Unaudited Interim Consolidated Statement for additional information.

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, 2022, compared to the nine months ended September 30, 2021, was primarily the result of higher returns on short-term investments based on an increase in short-term rates and higher fixed income reinvestment rates.

The increase in investment income after investment expenses yield attributable to the Japanese insurance operations’ portfolio, for the nine months ended September 30, 2022, compared to the nine months ended September 30, 2021, was primarily the result of higher returns on short-term investments based on an increase in short-term rates and higher 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 \$59.4 billion and \$59.9 billion for the nine months ended September 30, 2022 and 2021, 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 \$6.2 billion and \$8.0 billion for the nine months ended September 30, 2022 and 2021, 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,	
	2022	2021	2022	2021
(in millions)				
PFI excluding Closed Block Division:				
Realized investment gains (losses), net:				
(Addition to) release of allowance for credit losses on fixed maturities	\$ (30)	\$ (11)	\$ (14)	\$ 28
Write-downs on fixed maturities(1)	(20)	0	(81)	0
Net gains (losses) on sales and maturities	76	144	(837)	1,343
Fixed maturity securities(2)	26	133	(932)	1,371
(Addition to) release of allowance for credit losses on loans	(16)	38	(79)	92
Net gains (losses) on sales and maturities	0	0	(10)	1
Commercial mortgage and other loans	(16)	38	(89)	93
Derivatives	(609)	14	(1,354)	1,021
OTTI losses on other invested assets recognized in earnings	(8)	(31)	(14)	(46)
(Addition to) release of allowance for credit losses on other invested assets	(2)	0	(3)	0
Other net gains (losses)	(11)	43	91	136
Other	(21)	12	74	90
Subtotal	(620)	197	(2,301)	2,575
Investment results of other entities and operations(3)	77	67	255	66
Total — PFI excluding Closed Block Division	(543)	264	(2,046)	2,641
Related adjustments	(912)	(148)	(2,564)	(876)
Realized investment gains (losses), net, and related adjustments	(1,455)	116	(4,610)	1,765
Charges related to realized investment gains (losses), net	(9)	(18)	(564)	(254)
Realized investment gains (losses), net, and charges related to realized investment gains (losses), net and adjustments	<u>\$ (1,464)</u>	<u>\$ 98</u>	<u>\$ (5,174)</u>	<u>\$ 1,511</u>
Closed Block Division:				
Realized investment gains (losses), net:				
(Addition to) release of allowance for credit losses on fixed maturities	\$ (13)	\$ (1)	\$ (23)	\$ 16
Write-downs on fixed maturities(1)	0	0	(31)	0
Net gains (losses) on sales and maturities	(124)	87	(180)	359
Fixed maturity securities(2)	(137)	86	(234)	375
(Addition to) release of allowance for credit losses on loans	(7)	5	(16)	12
Net gains (losses) on sales and maturities	0	0	0	0
Commercial mortgage and other loans	(7)	5	(16)	12
Derivatives	175	77	328	116
(Addition to) release of allowance for credit losses on other invested assets	(2)	0	(2)	0
Other net gains (losses)	0	0	(7)	2
Other	(2)	0	(9)	2
Subtotal — Closed Block Division	29	168	69	505
Consolidated PFI realized investment gains (losses), net	<u>\$ (514)</u>	<u>\$ 432</u>	<u>\$ (1,977)</u>	<u>\$ 3,146</u>

(1) Amounts represent write-downs of credit adverse securities 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.

Three Month Comparison. Net gains on sales and maturities of fixed maturity securities were \$76 million for the third quarter of 2022 primarily driven by the impact of foreign currency exchange rate movements on non-U.S. dollar-denominated securities that matured or were sold within our International Businesses, partially offset by net losses on sales of fixed maturity securities in a higher interest rate environment. 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 realized losses on derivative instruments of \$609 million, for the third quarter of 2022 primarily included:

- \$955 million of losses on interest rate derivatives due to an increase in the swap and U.S. Treasury rates; and
- \$80 million of losses on product-related embedded derivatives and related hedge positions associated with certain variable annuity contracts.

Partially offsetting these losses were:

- \$364 million of gains on foreign currency hedges due to U.S. dollar appreciation versus the Euro, British Pound, and Australian dollar; and
- \$117 million of gains on capital hedges due to decreases in equity indices.

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.

For a discussion of living benefit guarantees and related hedge positions in our Individual Retirement Strategies business, see “—Results of Operations by Segment—U.S. Businesses—Retirement Strategies” 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 2022 and 2021 reflect net related adjustments of \$(912) million and \$(148) 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 third quarter of 2022 also include the impact of foreign currency exchange rate movements on certain non-local currency denominated assets and liabilities.

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 2022 and 2021 reflected net charges of \$9 million and \$18 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 losses on sales and maturities of fixed maturity securities were \$837 million for the first nine months of 2022 primarily driven by rotation sales of public securities into private securities and mortgage loans coupled with relative value trading in a higher interest rate environment, partially offset by the impact of foreign currency exchange rate movements on U.S. and Australian dollar-denominated securities that matured or sold within our International Businesses segment. Net gains on sales and maturities of fixed maturity securities were \$1,343 million for the first nine months of 2021 primarily driven by the 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 realized losses on derivative instruments of \$1,354 million, for the first nine months of 2022 primarily included:

- \$4,138 million of losses on interest rate derivatives due to an increase in the swap and U.S. Treasury rates; and
- \$124 million of losses on credit default swaps due to spreads widening.

Partially offsetting these losses were:

- \$1,762 million of gains on product-related embedded derivatives and related hedge positions associated with certain variable annuity contracts;
- \$660 million of gains on capital hedges due to decreases in equity indices; and
- \$608 million of gains on foreign currency hedges due to U.S. dollar appreciation versus the Euro, British Pound, and Australian dollar.

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.

For a discussion of living benefit guarantees and related hedge positions in our Individual Retirement Strategies business, see “—Results of Operations by Segment—U.S. Businesses—Retirement Strategies” above.

Results for the first nine months of 2022 and 2021 reflected net related adjustments of \$(2,564) million and \$(876) 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 2022 also include the impact of foreign currency exchange rate movements on certain non-local currency denominated assets and liabilities.

Results for the first nine months of 2022 and 2021 reflect net charges of \$564 million and \$254 million, respectively, and were primarily driven by the impact of derivative activity on the amortization of DAC and other costs, and certain policyholder reserves, inclusive of impacts from our annual reviews and update of assumptions and other refinements.

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, 2021.

Russia and Ukraine Exposure

In April 2022, we divested all of our holdings in Russian sovereign and state-owned enterprises and have no direct investment exposure in either country as of the date of this filing.

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, 2022					December 31, 2021				
	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	\$ 38,927	\$ 330	\$ 5,499	\$ 2	\$ 33,756	\$ 37,669	\$ 3,362	\$ 175	\$ 1	\$ 40,855
Consumer non-cyclical	30,876	429	4,869	23	26,413	30,345	3,675	182	0	33,838
Utility	24,719	382	3,895	20	21,186	23,617	3,076	114	21	26,558
Capital goods	15,859	224	2,562	32	13,489	14,556	1,352	85	9	15,814
Consumer cyclical	10,468	190	1,317	2	9,339	10,504	1,049	52	0	11,501
Foreign agencies	4,103	121	386	0	3,838	5,204	603	21	0	5,786
Energy	11,168	215	1,421	0	9,962	11,487	1,336	60	0	12,763
Communications	6,523	153	984	15	5,677	6,524	1,041	53	39	7,473
Basic industry	6,618	123	956	5	5,780	6,385	662	41	1	7,005
Transportation	9,553	184	1,446	5	8,286	9,532	997	69	19	10,441
Technology	4,305	40	634	0	3,711	4,723	274	41	3	4,953
Industrial other	4,452	56	1,042	0	3,466	4,340	540	35	0	4,845
Total corporate securities	167,571	2,447	25,011	104	144,903	164,886	17,967	928	93	181,832
Foreign government(2)	68,144	5,299	4,085	1	69,357	82,752	11,741	521	1	93,971
Residential mortgage-backed(3)	2,184	27	225	0	1,986	2,451	117	13	0	2,555
Asset-backed	9,249	156	270	4	9,131	8,678	114	10	0	8,782
Commercial mortgage-backed	7,786	28	560	0	7,254	8,434	459	15	0	8,878
U.S. Government	25,922	1,178	3,277	0	23,823	20,747	5,133	21	0	25,859
State & Municipal	10,012	206	929	0	9,289	9,992	1,667	8	0	11,651
Total fixed maturities, available-for-sale(4)	\$ 290,868	\$ 9,341	\$ 34,357	\$ 109	\$ 265,743	\$ 297,940	\$ 37,198	\$ 1,516	\$ 94	\$ 333,528

(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, 2022 and December 31, 2021, based on amortized cost, 87% and 89%, respectively, represent Japanese government bonds held by our Japanese insurance operations with no other individual country representing no more than 5% of the balance.

(3) As of September 30, 2022 and December 31, 2021, based on amortized cost, 99% and 97% were rated A or higher, respectively.

(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 \$13,569 million (amortized cost of \$13,145 million) as of December 31, 2021. Unrealized gains of \$572 million, unrealized losses of \$147 million and the allowance for credit losses of \$1 million as of December 31, 2021, 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.

The decrease in net unrealized gains (losses) from December 31, 2021 to September 30, 2022 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, 2022					December 31, 2021				
	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	\$ 396	\$ 22	\$ 0	\$ 418	\$ 2	\$ 486	\$ 49	\$ 0	\$ 535	\$ 5
Basic industry	7	0	0	7	0	9	0	0	9	0
Total corporate securities	403	22	0	425	2	495	49	0	544	5
Foreign government(2)	661	140	0	801	0	833	221	0	1,054	0
Residential mortgage-backed(3)	137	8	0	145	0	191	14	0	205	0
Total fixed maturities, held-to-maturity	\$ 1,201	\$ 170	\$ 0	\$ 1,371	\$ 2	\$ 1,519	\$ 284	\$ 0	\$ 1,803	\$ 5

(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 both September 30, 2022 and December 31, 2021, based on amortized cost, 97% represent Japanese government bonds held by our Japanese insurance operations.

(3) As of September 30, 2022 and December 31, 2021, based on amortized cost, 94% and 100% were rated A or higher, respectively.

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, 2022					December 31, 2021				
	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	\$ 198,679	\$ 7,960	\$ 20,423	\$ 4	\$ 186,212	\$ 207,926	\$ 28,904	\$ 666	\$ 0	\$ 236,164
2	74,081	1,096	11,676	0	63,501	70,437	7,283	408	0	77,312
Subtotal High or Highest Quality Securities(4)	272,760	9,056	32,099	4	249,713	278,363	36,187	1,074	0	313,476
3	11,081	181	1,393	0	9,869	12,279	716	235	0	12,760
4	5,078	80	610	1	4,547	5,475	194	140	9	5,520
5	1,449	17	185	25	1,256	1,389	68	47	27	1,383
6	500	7	70	79	358	434	33	20	58	389
Subtotal Other Securities(5) (6)	18,108	285	2,258	105	16,030	19,577	1,011	442	94	20,052
Total fixed maturities, available-for-sale(7)	\$ 290,868	\$ 9,341	\$ 34,357	\$ 109	\$ 265,743	\$ 297,940	\$ 37,198	\$ 1,516	\$ 94	\$ 333,528

(1) Reflects equivalent ratings for investments of the international insurance operations.

(2) Includes, as of September 30, 2022 and December 31, 2021, 684 securities with amortized cost of \$6,674 million (fair value, \$5,992 million) and 617 securities with amortized cost of \$4,547 million (fair value, \$4,596 million), respectively, that have been categorized based on expected NAIC Designations pending receipt of SVO ratings.

(3) As of September 30, 2022, includes gross unrealized losses of \$1,220 million on public fixed maturities and \$1,038 million on private fixed maturities considered to be other than high or highest quality and, as of December 31, 2021, includes gross unrealized losses of \$295 million on public fixed maturities and \$147 million on private fixed maturities considered to be other than high or highest quality.

(4) On an amortized cost basis, as of September 30, 2022, includes \$223,004 million of public fixed maturities and \$49,756 million of private fixed maturities and, as of December 31, 2021, includes \$234,323 million of public fixed maturities and \$44,040 million of private fixed maturities.

(5) On an amortized cost basis, as of September 30, 2022, includes \$8,958 million of public fixed maturities and \$9,150 million of private fixed maturities and, as of December 31, 2021, includes \$9,824 million of public fixed maturities and \$9,753 million of private fixed maturities.

(6) On an amortized cost basis, as of September 30, 2022, securities considered below investment grade based on low issue composite ratings total \$15,194 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 \$13,569 million at fair value as of December 31, 2021. See Note 1 of the Unaudited Interim Consolidated Financial Statements for additional information.

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, 2022					December 31, 2021				
	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	\$ 1,127	\$ 165	\$ 0	\$ 1,292	\$ 1	\$ 1,428	\$ 276	\$ 0	\$ 1,704	\$ 3
2	74	5	0	79	1	91	8	0	99	2
Subtotal High or Highest Quality Securities(3)	1,201	170	0	1,371	2	1,519	284	0	1,803	5
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	\$ 1,201	\$ 170	\$ 0	\$ 1,371	\$ 2	\$ 1,519	\$ 284	\$ 0	\$ 1,803	\$ 5

(1) Reflects equivalent ratings for investments of the international insurance operations.

(2) As of both September 30, 2022 and December 31, 2021, 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, 2022, includes \$1,130 million of public fixed maturities and \$71 million of private fixed maturities and, as of December 31, 2021, includes \$1,418 million of public fixed maturities and \$101 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, 2022				December 31, 2021			
	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	\$ 6,656	\$ 6,633	\$ 7,775	\$ 7,243	\$ 7,180	\$ 7,225	\$ 8,423	\$ 8,867
AA	2,331	2,205	0	0	1,395	1,395	0	0
A	182	169	2	2	12	12	2	2
BBB	19	18	9	9	18	20	9	9
BB and below	61	106	0	0	73	130	0	0
Total(4)	\$ 9,249	\$ 9,131	\$ 7,786	\$ 7,254	\$ 8,678	\$ 8,782	\$ 8,434	\$ 8,878

(1) The table above provides ratings as assigned by nationally recognized rating agencies as of September 30, 2022, 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 education loans, auto loans and other asset types.

(3) As of both September 30, 2022 and December 31, 2021, based on amortized cost, 99% 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 \$1,391 million and \$1,024 million at fair value of asset-backed securities and commercial mortgage-backed securities, as of December 31, 2021. See Note 1 of the Unaudited Interim Consolidated Financial Statements for additional information.

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, 2022		December 31, 2021	
	Collateralized Loan Obligations			
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
AAA	\$ 5,906	\$ 5,902	\$ 6,361	\$ 6,388
AA	2,281	2,155	1,295	1,292
A	12	10	10	10
BBB	13	11	10	10
BB and below	11	9	8	8
Total(2)(3)	\$ 8,223	\$ 8,087	\$ 7,684	\$ 7,708

- (1) The table above provides ratings as assigned by nationally recognized rating agencies as of September 30, 2022, 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, 2022 and December 31, 2021.
- (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 \$1,277 million at fair value as of December 31, 2021. See Note 1 of the Unaudited Interim Consolidated Financial Statements for additional information.

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, 2022	December 31, 2021
	(in millions)	
Commercial mortgage and agricultural property loans	\$ 47,427	\$ 48,550
Uncollateralized loans	453	561
Residential property loans	42	67
Other collateralized loans	101	70
Total recorded investment gross of allowance(1)	48,023	49,248
Allowance for credit losses	(185)	(102)
Total net commercial mortgage and other loans(2)	\$ 47,838	\$ 49,146

- (1) As a percentage of recorded investment gross of allowance, 99% of these assets were current as of both September 30, 2022 and December 31, 2021, 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 \$6,565 million net of allowance for credit losses of \$15 million as of December 31, 2021. See Note 1 of the Unaudited Interim Consolidated Financial Statements for additional information.

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. To the extent there is a default on 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 mezzanine real estate debt investments and 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, 2022		December 31, 2021	
	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	\$ 17,474	36.8 %	\$ 17,744	36.5 %
South Atlantic	7,256	15.3	7,570	15.6
Middle Atlantic	5,388	11.4	5,179	10.7
East North Central	2,561	5.4	2,490	5.1
West South Central	5,211	11.0	4,965	10.2
Mountain	1,948	4.1	2,203	4.5
New England	1,331	2.8	1,409	2.9
West North Central	486	1.0	468	1.0
East South Central	1,179	2.5	1,099	2.3
Subtotal-U.S.	42,834	90.3	43,127	88.8
Europe	2,919	6.2	3,308	6.8
Asia	767	1.6	919	1.9
Other	907	1.9	1,196	2.5
Total commercial mortgage and agricultural property loans(2)	\$ 47,427	100.0 %	\$ 48,550	100.0 %

(1) Regions as defined by the United States Census Bureau.

(2) Excludes "Assets held-for-sale" of \$6,580 million as of December 31, 2021. See Note 1 of the Unaudited Interim Consolidated Financial Statements for additional information.

	September 30, 2022		December 31, 2021	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
(\$ in millions)				
Commercial mortgage and agricultural property loans by property type:				
Industrial	\$ 11,565	24.4 %	\$ 11,773	24.3 %
Retail	4,791	10.1	5,294	10.9
Office	7,695	16.2	8,454	17.4
Apartments/Multi-Family	13,665	28.8	13,734	28.3
Agricultural properties	4,838	10.2	4,375	9.0
Hospitality	1,738	3.7	1,601	3.3
Other	3,135	6.6	3,319	6.8
Total commercial mortgage and agricultural property loans(1)	<u>\$ 47,427</u>	<u>100.0 %</u>	<u>\$ 48,550</u>	<u>100.0 %</u>

(1) Excludes "Assets held-for-sale" of \$6,580 million as of December 31, 2021. See Note 1 of the Unaudited Interim Consolidated Financial Statements for additional information.

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, 2022, our commercial mortgage and agricultural property loans attributable to PFI excluding the Closed Block division had a weighted-average debt service coverage ratio of 2.40 times and a weighted-average loan-to-value ratio of 57%. As of September 30, 2022, 95% of commercial mortgage and agricultural property loans were fixed rate loans. For those commercial mortgage and agricultural property loans that were originated in 2022, the weighted-average debt service coverage ratio was 2.29 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 \$2.5 billion and \$2.3 billion of such loans as of September 30, 2022 and December 31, 2021, respectively. All else being equal, these loans are inherently riskier than those collateralized by properties that have already stabilized. As of both September 30, 2022 and December 31, 2021, there were less than \$1 million, 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:

<u>Loan-to-Value Ratio</u>	September 30, 2022				Total Commercial Mortgage and Agricultural Property Loans
	Debt Service Coverage Ratio				
	≥ 1.2x	1.0x to < 1.2x	< 1.0x		
	(in millions)				
0%-59.99%	\$ 23,071	\$ 1,107	\$ 715	\$ 24,893	
60%-69.99%	13,681	1,029	1,015	15,725	
70%-79.99%	5,328	497	506	6,331	
80% or greater	132	121	225	478	
Total commercial mortgage and agricultural property loans	\$ 42,212	\$ 2,754	\$ 2,461	\$ 47,427	

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:

<u>Year of Origination</u>	September 30, 2022	
	Gross Carrying Value	% of Total
	(\$ in millions)	
2022	\$ 3,043	6.4 %
2021	7,524	15.9
2020	3,763	7.9
2019	6,930	14.6
2018	6,675	14.1
2017	4,376	9.2
2016	4,306	9.1
2015 & Prior	10,777	22.7
Revolving Loans	33	0.1
Total commercial mortgage and agricultural property loans	<u>\$ 47,427</u>	<u>100.0 %</u>

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, 2022	December 31, 2021
	(in millions)	
Allowance, beginning of year	\$ 102	\$ 207
Addition to (release of) allowance for credit losses	79	(87)
Reclassified (to) from "Assets held-for-sale"(1)	0	(15)
Other	4	(3)
Allowance, end of period	\$ 185	\$ 102

(1) See Note 1 of the Unaudited Interim Consolidated Financial Statements for additional information.

The allowance for credit losses as of September 30, 2022 increased compared to December 31, 2021 primarily related to increases in loan-specific reserves as well as increases in reserves to reflect declining market conditions.

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, 2022				December 31, 2021			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)							
Mutual funds	\$ 770	\$ 361	\$ 4	\$ 1,127	\$ 1,158	\$ 699	\$ 0	\$ 1,857
Other Common Stocks	2,760	822	135	3,447	2,553	1,073	34	3,592
Non-redeemable Preferred Stocks	40	48	9	79	97	49	8	138
Total equity securities, at fair value(1)	\$ 3,570	\$ 1,231	\$ 148	\$ 4,653	\$ 3,808	\$ 1,821	\$ 42	\$ 5,587

(1) 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 \$322 million at fair value as of December 31, 2021. See Note 1 of the Unaudited Interim Consolidated Financial Statements for additional information.

The net change in unrealized gains (losses) from equity securities attributable to PFI excluding Closed Block division, still held at period end, recorded within "Other income (loss)," was \$(282) million and \$85 million during the three months ended September 30, 2022 and 2021, respectively. The net change in unrealized gains (losses) from equity securities attributable to

PFI excluding Closed Block division still held at period end, recorded within “Other income (loss),” was \$(696) million and \$328 million during the nine months ended September 30, 2022 and 2021, 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, 2022	December 31, 2021
	(in millions)	
LPs/LLCs:		
Equity method:		
Private equity	\$ 5,637	\$ 5,163
Hedge funds	2,288	2,044
Real estate-related	1,746	1,487
Subtotal equity method	9,671	8,694
Fair value:		
Private equity	921	1,124
Hedge funds	1,028	1,078
Real estate-related	37	34
Subtotal fair value	1,986	2,236
Total LPs/LLCs	11,657	10,930
Real estate held through direct ownership(1)	679	889
Derivative instruments	52	337
Other(2)	633	329
Total other invested assets(3)	\$ 13,021	\$ 12,485

(1) As of September 30, 2022 and December 31, 2021, real estate held through direct ownership had mortgage debt of \$205 million and \$274 million, respectively.

(2) Primarily includes equity investments accounted for under the measurement alternative, leveraged leases and member and activity stock held in the Federal Home Loan Bank of New York. For additional information regarding our holdings in the Federal Home Loan Bank 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, 2021.

(3) Excludes “Assets held-for-sale” of \$104 million as of December 31, 2021. See Note 1 of the Unaudited Interim Consolidated Financial Statements for additional information.

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, 2022	December 31, 2021
	(in millions)	
Fixed maturities:		
Public, available-for-sale, at fair value(1)	\$ 482	\$ 478
Fixed maturities, trading, at fair value(1)	198	213
Equity securities, at fair value	630	699
Commercial mortgage and other loans, at book value(2)	988	1,279
Other invested assets	3,911	4,990
Short-term investments	7	35
Total investments	\$ 6,216	\$ 7,694

(1) As of September 30, 2022 and December 31, 2021, balances include investments in CLOs with fair value of \$273 million and \$329 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.

See “—Current Market Conditions” above for a discussion of recent market conditions and the impacts to our liquidity and capital positions.

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

From the beginning of 2022 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, we issued \$1.0 billion of junior subordinated notes. We used these proceeds in September to redeem our \$1.0 billion of 5.875% junior subordinated notes due in 2042.
- In April, we completed the sale of our Full Service Retirement business. Also, in April, we completed the sale of a portion of our in-force traditional variable annuities block of business through the sale of PALAC. See Note 1 to the Unaudited Interim Consolidated Financial Statements for additional information on these transactions.
- In August, we issued \$1.5 billion of junior subordinated notes. We intend to use these proceeds for general corporate purposes, which may include the redemption or repurchase of our \$1.5 billion of junior subordinated notes due in 2043.
- In September, we redeemed our \$1.0 billion of 5.875% junior subordinated notes due in 2042, as discussed above.

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, 2022, the Company had \$51.4 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, 2022	December 31, 2021
	(in millions)	
Equity(1)	\$ 37,376	\$ 40,552
Junior subordinated debt (including hybrid securities)	9,088	7,619
Other capital debt	4,978	5,073
Total capital	\$ 51,442	\$ 53,244

(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.

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.

PICA's RBC ratio as of December 31, 2021, its most recent statutory fiscal year-end and RBC reporting date, was 456%. PICA's RBC ratio is calculated on a consolidated basis and included 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").

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, 2022, the most recent date for which this information is available.

	Ratio
Prudential of Japan consolidated(1)	769 %
Gibraltar Life consolidated(2)	883 %

(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. The statutory capital of our insurance companies and our overall capital flexibility could be impacted by, among other things, market conditions and changes in insurance reserves, including those stemming from updates to our actuarial assumptions. 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, 2021.

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, 2021, for a discussion of our use of captive reinsurance companies.

Shareholder Distributions

Share Repurchase Program and Shareholder Dividends

In November 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, 2022 through December 31, 2022. In general, the timing and amount of share repurchases are determined by management based on market conditions and other considerations, including compliance with applicable laws and 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, 2022.

Three months ended:	Dividend Amount		Shares Repurchased	
	Per Share	Aggregate	Shares	Total Cost
	(in millions, except per share data)			
March 31, 2022	\$ 1.20	\$ 462	3.3	\$ 375
June 30, 2022	\$ 1.20	\$ 457	3.6	\$ 375
September 30, 2022	\$ 1.20	\$ 454	3.9	\$ 375

See “—Current Market Conditions” above for a discussion of recent market conditions and their potential impact to our share repurchase program.

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, 2022, Prudential Financial had highly liquid assets with a carrying value totaling \$6,071 million, an increase of \$1,845 million from December 31, 2021. 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 \$5,115 million as of September 30, 2022, an increase of \$1,562 million from December 31, 2021.

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,	
	2022	2021
	(in millions)	
Highly Liquid Assets, beginning of period	\$ 3,553	\$ 5,560
Dividends and/or returns of capital from subsidiaries(1)	1,171	2,030
Affiliated (borrowings)/loans - (capital activities)	(403)	406
Capital contributions to subsidiaries(2)	(2,527)	(84)
Total Business Capital Activity	(1,759)	2,352
Share repurchases(3)	(1,113)	(2,097)
Common Stock dividends(4)	(1,371)	(1,374)
Business dispositions(5)	4,481	648
Total Share Repurchases, Dividends and Business Disposition Activity	1,997	(2,823)
Proceeds from the issuance of debt	2,474	0
Repayments of debt	(1,002)	(908)
Total Debt Activity	1,472	(908)
Proceeds from stock-based compensation and exercise of stock options	255	272
Net income tax receipts & payments	170	212
Interest income on intercompany agreements	15	31
Interest paid on external debt	(691)	(702)
Affiliated (borrowings)/loans - (operating activities)(6)	420	(39)
Swap terminations	(22)	(69)
Other, net	(295)	(122)
Total Other Activity	(148)	(417)
Net increase/(decrease) in highly liquid assets	1,562	(1,796)
Highly Liquid Assets, end of period	\$ 5,115	\$ 3,764

(1) 2022 includes \$998 million from international insurance and investment subsidiaries, \$136 million from PGIM subsidiaries, \$32 million from Prudential Annuities Holding Company, and \$5 million from other subsidiaries. 2021 includes \$1,159 million from international insurance and investment subsidiaries, \$420 million from Prudential Annuities Holding Company, \$393 million from PGIM subsidiaries, and \$58 million from other subsidiaries.

- (2) 2022 includes capital contributions of \$1,000 million to PICA, \$780 million to an international reinsurance subsidiary, \$487 million to international insurance subsidiaries, and \$260 million to other subsidiaries. The majority of the capital contribution to our international reinsurance subsidiary was to fund the payment of ceding commissions to our domestic insurance subsidiaries. 2021 includes \$75 million to international insurance subsidiaries and \$9 million to PGIM subsidiaries.
- (3) Excludes cash payments made on trades that settled in the subsequent period.
- (4) Includes cash payments made on dividends declared in prior periods.
- (5) 2022 includes proceeds and capital releases related to the sales of the Full Service Retirement business and PALAC.
- (6) 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 2022, Prudential Financial received dividends of \$32 million from Prudential Annuities Holding Company. In addition to paying Common Stock dividends, our domestic insurance operations may return capital to Prudential Financial by other means, such as affiliated lending, and reinsurance with Bermuda-based affiliates.

International insurance subsidiaries. During the first nine months of 2022, Prudential Financial received dividends of \$998 million from its 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 2022, Prudential Financial received dividends and returns of capital of \$136 million from PGIM subsidiaries and dividends of \$5 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 those of New Jersey.

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, 2021, 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, 2022				December 31, 2021(2)
	Prudential Insurance(1)	PLIC	Pruco Life	Total	
	(in billions)				
Cash and short-term investments	\$ 9.2	\$ 1.2	\$ 2.9	\$ 13.3	\$ 14.0
Fixed maturity investments(3):					
High or highest quality	107.4	26.6	16.5	150.5	214.9
Other than high or highest quality	7.4	2.7	1.6	11.7	16.2
Subtotal	114.8	29.3	18.1	162.2	231.1
Public equity securities, at fair value	1.3	1.6	0.3	3.2	4.2
Total	\$ 125.3	\$ 32.1	\$ 21.3	\$ 178.7	\$ 249.3

(1) Represents legal entity view and as such includes both domestic and international activity.

(2) Includes \$24.4 billion and \$12.2 billion related to PRIAC and PALAC, respectively. See Note 1 to the Unaudited Consolidated Financial Statements for more information about these 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, 2022				December 31, 2021
	Prudential of Japan	Gibraltar Life(1)	All Other(2)	Total	
	(in billions)				
Cash and short-term investments	\$ 0.8	\$ 2.4	\$ 1.9	\$ 5.1	\$ 4.9
Fixed maturity investments(3):					
High or highest quality(4)	30.7	64.7	9.0	104.4	138.0
Other than high or highest quality	0.3	1.4	2.3	4.0	5.0
Subtotal	31.0	66.1	11.3	108.4	143.0
Public equity securities	1.8	1.4	0.1	3.3	4.5
Total	\$ 33.6	\$ 69.9	\$ 13.3	\$ 116.8	\$ 152.4

(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, 2022, \$76.4 billion, or 73%, were invested in government or government agency bonds.

Liquidity associated with other activities

Hedging activities associated with Individual Retirement Strategies

For the portion of our Individual Retirement Strategies' 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 Retirement Strategies' risk management strategy, see “—Results of Operations by Segment—U.S. Businesses—Retirement Strategies.” This portion of our Individual Retirement Strategies' 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 Retirement Strategies' 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, 2022, the derivatives comprising the hedging portion of our Individual Retirement Strategies' ALM strategy and capital hedge program were in a net post position of \$8.5 billion compared to a net post position of \$5.5 billion as of December 31, 2021. The change in collateral position was primarily driven by the impact of increasing interest rates partially offset by equity market depreciation.

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.

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,	
	2022	2021
Cash Settlements: Received (Paid)	(in millions)	
Income Hedges (External)(1)	\$ 28	\$ 21
Equity Hedges:		
Internal(2)	610	328
External	(219)	(40)
Total Equity Hedges	391	288
Total Cash Settlements	\$ 419	\$ 309
Assets (Liabilities):	September 30, 2022	December 31, 2021
	(in millions)	
Income Hedges (External)(3)	\$ 16	\$ 47
Equity Hedges:		
Internal(2)	1,806	955
External	43	(20)
Total Equity Hedges(4)	1,849	935
Total Assets (Liabilities)	\$ 1,865	\$ 982

(1) Includes non-yen related cash settlements of \$12 million, primarily denominated in Chilean peso, Brazilian real, and Australian dollar, and \$11 million, primarily denominated in Brazilian real, Australian dollar, and Chilean peso for the nine months ended September 30, 2022 and 2021, 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 liabilities of \$18 million, primarily denominated in Brazilian real, Australian dollar and Chilean peso as of September 30, 2022 and assets of \$28 million, primarily denominated in Brazilian real, Chilean peso and Australian dollar, as of December 31, 2021.

(4) As of September 30, 2022, approximately \$68 million, \$754 million, \$589 million and \$438 million of the net market values are scheduled to settle in 2022, 2023, 2024, 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, 2021.

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 Bank of New York, 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, 2021.

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, 2022			December 31, 2021		
	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	\$ 6,019	\$ 2,204	\$ 8,223	\$ 7,393	\$ 2,792	\$ 10,185
Cash collateral for loaned securities(1)	5,835	30	5,865	4,168	82	4,250
Securities sold but not yet purchased	1	0	1	3	0	3
Total(2)(3)	\$ 11,855	\$ 2,234	\$ 14,089	\$ 11,564	\$ 2,874	\$ 14,438
Portion of above securities that may be returned to the Company overnight requiring immediate return of the cash collateral	\$ 10,778	\$ 2,234	\$ 13,012	\$ 10,637	\$ 2,874	\$ 13,511
Weighted average maturity, in days(4)	27	N/A		31	N/A	

(1) Excludes "Liabilities held-for-sale" of \$5,680 million December 31, 2021.

(2) The daily average outstanding balance for the three and nine months ended September 30, 2022 was \$11,819 million and \$11,715 million, respectively, for PFI excluding the Closed Block division, and \$2,517 million and \$2,792 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, 2022, our domestic insurance entities had assets eligible for the asset-based or secured financing programs of \$82.2 billion, of which \$13.2 billion were on loan. Taking into account market conditions and outstanding loan balances as of September 30, 2022, we believe approximately \$8.7 billion of the remaining eligible assets are readily lendable, including approximately \$5.8 billion relating to PFI excluding the Closed Block division, of which \$1.9 billion relates to certain separate accounts and may only be used for financing activities related to those accounts, and the remaining \$2.9 billion relating to the Closed Block division.

Financing Activities

As of September 30, 2022, total short-term and long-term debt of the Company on a consolidated basis was \$20.7 billion, an increase of \$1.3 billion from December 31, 2021. 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, 2022			December 31, 2021		
	Prudential Financial	Subsidiaries	Consolidated	Prudential Financial	Subsidiaries	Consolidated
Borrowings:	(in millions)					
General obligation short-term debt:						
Commercial paper	\$ 25	\$ 403	\$ 428	\$ 25	\$ 395	\$ 420
Current portion of long-term debt	0	173	173	0	0	0
Other short-term debt	0	0	0	0	98	98
Subtotal	25	576	601	25	493	518
General obligation long-term debt:						
Senior debt	10,115	0	10,115	10,109	173	10,282
Junior subordinated debt	9,044	43	9,087	7,564	54	7,618
Surplus notes(1)	0	345	345	0	344	344
Subtotal	19,159	388	19,547	17,673	571	18,244
Total general obligations	19,184	964	20,148	17,698	1,064	18,762
Limited and non-recourse borrowings(2):						
Short-term debt	0	11	11	0	7	7
Current portion of long-term debt	0	155	155	0	197	197
Long-term debt	0	351	351	0	378	378
Total limited and non-recourse borrowings	0	517	517	0	582	582
Total borrowings	\$ 19,184	\$ 1,481	\$ 20,665	\$ 17,698	\$ 1,646	\$ 19,344

(1) Amounts are net of assets under set-off arrangements of \$10,866 million and \$10,691 million as of September 30, 2022 and December 31, 2021, respectively.

(2) Limited and non-recourse borrowing primarily represents mortgage debt of our subsidiaries that has recourse only to real estate investment property of \$205 million and \$274 million as of September 30, 2022 and December 31, 2021, 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, 2022 and December 31, 2021.

As of September 30, 2022, and December 31, 2021, the Company was in compliance with all debt covenants related to the borrowings in the table above. For additional information on the Company's 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 our Annual Report on Form 10-K for the year ended December 31, 2021.

Prudential Financial's consolidated borrowings increased \$1.3 billion from December 31, 2021, primarily driven by a \$1.5 billion increase in Prudential Financial borrowings and a \$165 million decrease in subsidiary borrowings. In February 2022, the Company issued \$1.0 billion in aggregate principal amount of 5.125% junior subordinated notes due in March 2052. In August 2022, the Company issued \$1.2 billion in aggregate principal amount of 6.00% junior subordinated notes due in September 2052 and \$300 million in aggregate principal amount of 5.95% junior subordinated notes due in September 2062. In September 2022, the Company redeemed, in full, \$1.0 billion in aggregate principal amount of 5.875% junior subordinated notes due in 2042.

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"). We had Credit-Linked Note Structures with an aggregate issuance capacity of \$14,600 million as of both September 30, 2022 and December 31, 2021, of which \$12,896 million and \$12,721 million was outstanding, respectively. 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, 2021.

The following table summarizes our Credit-Linked Note Structures, which are reported on a net basis, as of September 30, 2022.

Credit-Linked Note Structures:	Surplus Notes		Outstanding as of September 30, 2022	Facility Size
	Original Issue Dates	Maturity Dates		
			(\$ in millions)	
XXX	2012-2021	2022-2036	\$ 1,600 (1)	\$ 1,750
AXXX	2013	2033	3,500	3,500
XXX	2014-2018	2022-2034	2,130 (2)	2,150
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	950	1,200
Total Credit-Linked Note Structures			<u>\$ 12,896</u>	<u>\$ 14,600</u>

(1) Prudential Financial has agreed to reimburse amounts paid under the credit-linked notes issued in this structure up to \$250 million.

(2) The \$2,130 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, 2022, we also had outstanding an aggregate of \$3,025 million of debt issued for the purpose of financing Regulation XXX and Guideline AXXX non-economic reserves, of which \$1,125 million relates to Regulation XXX reserves and \$1,900 million relates to Guideline AXXX reserves. In addition, as of September 30, 2022, for purposes of financing Guideline AXXX reserves, one of our captives had \$3,982 million of surplus notes outstanding that were issued to affiliates.

The Company 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.

Off-Balance Sheet Arrangements

See additional information on off-balance sheet arrangements in Note 9 and other commitments in Note 14 to the Unaudited Interim Consolidated Financial Statements.

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, 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.

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, 2021, for a discussion of our financial strength and credit ratings and their impact on our business.

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, 2021. On April 1, 2022 Prudential completed the sales of PALAC to Fortitude Group Holdings, LLC and PRIAC to Great-West Life & Annuity Insurance Company. As a result, PALAC and PRIAC no longer fall under Prudential Financial’s group ratings.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

In order to ensure that the information we must disclose in our filings with the SEC is recorded, processed, summarized, and reported on a timely basis, the Company’s management, including our Chief Executive Officer and Chief Financial Officer, have reviewed and evaluated the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of September 30, 2022. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2022, our disclosure controls and procedures were effective. No change in our internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), occurred during the quarter ended September 30, 2022, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

See Note 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, 2021. 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, 2022, 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, 2022 through July 31, 2022	1,315,467	\$ 95.39	1,310,274	
August 1, 2022 through August 31, 2022	1,251,687	\$ 100.20	1,247,579	
September 1, 2022 through September 30, 2022	1,354,984	\$ 92.57	1,350,195	
Total	3,922,138		3,908,048	\$ 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 November 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, 2022 through December 31, 2022.

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 13, 2022. Incorporated by reference to Exhibit 3.1 to the Registrant's September 13, 2022 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).

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	Assurance IQ, LLC	PRIAC	Prudential Retirement Insurance and Annuity Company
Company	Prudential Financial, Inc. and its subsidiaries	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.

Defined Terms

Board	Prudential Financial's Board of Directors	Moody's	Moody's Investors Service, Inc.
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	Morningstar	Morningstar, Inc.
Credit-Linked Note Structures	Agreements with external counterparties providing for the issuance of surplus notes by our captive reinsurers in return for the receipt of credit-linked notes	Other Postretirement Benefits	Certain health care and life insurance benefits provided by the Company for its retired employees, their beneficiaries and covered dependents
Exchange Act	The Securities Exchange Act of 1934	Pension Benefits	Funded and non-funded non-contributory defined benefit pension plans which cover substantially all of the Company's employees
Fitch	Fitch Ratings Inc.	PGIM	The global investment management businesses of Prudential Financial, Inc.
Fortitude	Fortitude Group Holdings, LLC	POT	Prudential Life Insurance Company of Taiwan Inc.
Great-West	Great-West Life & Annuity Insurance Company	Regulation XXX	Valuation of Life Insurance Policies Model Regulation
Guideline AXXX	The Application of the Valuation of Life Insurance Policies Model Regulation	S&P	Standard & Poor's Rating Services
Inflation Reduction Act	The Inflation Reduction Act of 2022	U.S. GAAP	Generally accepted accounting principles in the United States of America

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	NPR	Non-Performance Risk
AUD	Australian Dollar	OCI	Other Comprehensive Income (Loss)
bps	Basis Points	OTC	Over-The-Counter
CECL	Current Expected Credit Loss	OTTI	Other-Than-Temporary Impairments
CLO	Collateralized Loan Obligations	PALAC	Prudential Annuities Life Assurance Corporation
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	SOFR	Secured Overnight Financing Rate
FSA	Financial Services Agency (an agency of the Japanese government)	SVO	Securities Valuation Office
GICs	Guaranteed Investment Contracts	TBA	To-Be-Announced
GILTI	Global Intangible Low-Taxed Income	TDR	Troubled Debt Restructuring
GMDB	Guaranteed Minimum Death Benefits	URR	Unearned Revenue Reserve
HDI	Highest Daily Lifetime Income	U.S.	The United States of America
LIBOR	London Inter-Bank Offered Rate	USD	U.S. Dollar
LPs/LLCs	Limited Partnerships and Limited Liability Companies	VIEs	Variable Interest Entities
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations	VOBA	Value of Business Acquired

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 3, 2022

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 3, 2022

/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 3, 2022

/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, 2022 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 3, 2022

/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, 2022 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 3, 2022

/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.