

# **PRUDENTIAL FINANCIAL, INC.**

*2021 Annual Report*





## MESSAGE FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Dear Fellow Shareholders,

One of the aspects of Prudential's performance of which I am most proud is our steadfast commitment to our purpose: to make lives better by solving the financial challenges of our changing world.

Our recent achievement of two \$1 billion milestones reflects tangible evidence of this focus, particularly in communities where we live and work.

In 2021, The Prudential Foundation surpassed \$1 billion in total contributions since its inception in 1978, aimed at closing the financial divide by creating inclusive workplaces and communities, and accelerating economic mobility for those who need it most.

And in 2020, we reached our goal of \$1 billion in assets under management in our impact investing portfolio, through which we support transformative infrastructure and institutions that spur economic growth.

The power of these two channels is visible in the impact of our long-term support for Newark, N.J., our hometown for nearly 150 years. Over the past 15 years, we have invested more than \$1 billion in Newark, through significant impact investments and foundation grants, as well as other funding, to support local entrepreneurs and small businesses, back high-quality educational options and pathways to quality jobs, fund a myriad of cultural institutions, and foster economic development.

Driving inclusion and diversity within our company is another way we deliver on our purpose. While we have hard work ahead to achieve our goals, we have made significant strides in the right direction. For example, in 2018, we became one of the first companies to launch an inclusion and diversity modifier as part of our long-term stock compensation plan. We set a three-year goal to improve diversity in our senior management by 5%, with our success or failure directly reflected in executive compensation. In 2020, recognizing this program helped improve the diversity of our senior team, we set new goals, also tied to long-term compensation, and are actively tracking results.

Our commitment to drive inclusion and diversity is fundamental to nine racial equity commitments we announced in 2020, which codify specific goals we intend to achieve for our employees, through our businesses and in society. Integral to fulfilling these commitments is providing greater transparency around our efforts and progress.

To that end, in 2021 we released a summary report in which, for the first time, we published the results of our program to improve diversity in our senior ranks, as well as EEO-1 data on representation and the results of a comprehensive analysis we conducted to evaluate and address the fairness of our pay across our U.S. workforce. By making our goals and results public, we are ensuring greater accountability of our efforts.

The unwavering commitment of our employees to serve our customers is key to how we live our purpose, every day. To ensure we continue fulfilling our purpose and delivering on our promises, we are transforming to be a higher growth, less market sensitive and more nimble company. Over the past three years, we have challenged ourselves to transform in multiple ways, so we can seize new opportunities, reach more customers, and deliver increased value to all our stakeholders.

Thanks to the extraordinary work of our employees, amid the ongoing challenges of a global pandemic, we are seeing results from these efforts. In 2021, we delivered improved financial results, reached multiple milestones, and ended the year with growing confidence and a new vision for our future.

We are proud to be a purpose-led company, working to serve all our stakeholders, and I'm pleased to have this opportunity to share with you some highlights of our efforts in 2021.



Charles F. Lowrey

“In 2021, we delivered improved financial results, reached multiple milestones, and ended the year with growing confidence and a new vision for our future.”

## Transforming Prudential

We reported record-high after-tax adjusted operating income in 2021, buoyed by favorable investment performance and continued high demand for products we introduced during the pandemic to address our customers' evolving needs. We also made significant progress in repositioning our businesses to drive sustainable long-term growth, with reduced market sensitivity, through a notable mix of divestitures, product pivots and strategic acquisitions.

For example, in June, we closed on the sale of our life insurance business in Taiwan, following the divestiture in 2020 of our life insurance operation in Korea. Together these transactions yielded nearly \$2 billion in proceeds.

Two other transactions in 2021 reflect the swift action we are taking to transform Prudential. We reached agreements to sell our full-service retirement recordkeeping and administration business to Empower Retirement, the second-largest retirement services provider in the U.S., and a portion of our in-force legacy variable annuity block to Fortitude Re, a large multi-line reinsurer. We expect these sales to close during the first half of 2022.

To position Prudential for further growth and reach more customers, we are strategically redeploying capital where we see promising opportunities, through targeted acquisitions and investments in asset management and emerging markets. In 2021, those included:

- The purchase of Montana Capital Partners, a European-based private equity secondaries asset manager, which added another capability to the alternatives platform of PGIM, our top-10 global asset manager.
- Our acquisition of Green Harvest, a separately managed account platform that provides customized solutions for high-net-worth investors.
- The investment in ICEA LION Holdings, a highly respected financial services market leader in Kenya with operations in Tanzania and Uganda.

We also continue to enhance returns to our shareholders. Between 2021 and the end of 2023, we plan to return a total of \$11 billion to shareholders, including the \$4.3 billion we returned during 2021 through share repurchases and dividends, which itself was another record.

We remain committed to a capital management philosophy of increasing shareholder distributions as our company grows. As we pursue opportunities for future growth, we will act only on those that meet our strategic and financial requirements and align with our purpose. To the extent we do not find opportunities that meet those criteria, we will return additional capital to shareholders, as we have done in the past. In 2021, we increased buybacks by an additional \$1 billion and our board has authorized the repurchase of up to \$1.5 billion of shares during 2022.

Our systematic approach to capital management also includes decreasing leverage, and in 2021, we reduced debt by \$1.3 billion. We also advanced our cost-savings program and are on track to realize our goal of achieving \$750 million in run-rate cost savings by the end of 2023. At the end of 2021, we had already achieved \$635 million in run-rate cost savings, significantly exceeding our \$500 million target for the year.

We will maintain a disciplined and balanced approach to deploying capital, supported by our strong balance sheet, which as of Dec. 31, 2021, included approximately \$3.6 billion in highly liquid assets.

## Focusing on sustainability

Sustainability is integral to how we anticipate and manage risks and opportunities, and to how we fulfill our long-term promises to stakeholders. Prudential's deep commitment to sustainability is reflected in significant enhancements we made in 2021 to our environmental, social and governance framework.

Our commitment to inclusion and diversity is a key element of our vision for long-term sustainability, and it starts at the top, with our Board of Directors. In 2021, we welcomed a new independent director to our board, in keeping with our determination to ensure our directors represent a broad range of experience and expertise. I am proud that 82% of Prudential's independent directors are diverse.

Recognizing the need for a robust reporting framework to quantify and track our sustainability efforts, last March we released a summary ESG report — in addition to our annual sustainability report — to provide a comprehensive overview of the company's sustainable goals and our progress toward achieving them. As I mentioned earlier, this report included the results of our work to tie executive compensation to diversity goals, as well as EEO-1 data that detailed the composition of our U.S. workforce by race, ethnicity and gender, and corresponding compensation metrics. We provided this additional transparency — and will continue to — so investors, employees, customers and communities can more clearly gauge our progress toward inclusiveness and becoming a sustainable company.

Our focus on sustainability is also reflected in ongoing efforts to improve Prudential's environmental footprint. For example, we announced our commitment to achieve net-zero emissions across our primary global home office operations by 2050, and an interim goal of becoming carbon neutral by 2040. In addition, we're assessing the emissions impact of our investment portfolio and have restricted new direct investments in companies that derive a material portion of their revenues from thermal coal.

These actions build upon our 2019 Global Environmental Commitment, which includes operational and investment goals aimed at mitigating climate change and other

environmental risks. We will continue to take meaningful action toward a more sustainable future for our customers, employees, investors and communities.

### Driving social progress

As the world continues to grapple with the devastating effects of the pandemic, the importance of fulfilling our purpose and helping more people achieve financial security is clearer than ever.

Philanthropy has long been an integral part of this work, and The Prudential Foundation plays a critical role in our efforts. Since its inception in 1978, our Foundation has helped high-impact organizations provide services and opportunities to communities. Through targeted funding, it has helped create quality career paths for diverse talent, enable financial security for underserved populations, build thriving neighborhoods through investments in arts, education, affordable housing and public safety, and ensure delivery of aid in the wake of crises. Most recently, we contributed to help several organizations provide humanitarian aid to people affected by the conflict in Ukraine, in addition to the ongoing support for disaster relief we provide to multiple nonprofits. One of the Foundation's most pressing priorities is to help close the racial wealth gap, working with partners that support minority-owned small businesses and historically Black colleges and universities, and that foster Black economic empowerment.

In 2021, we continued to provide relief to counteract the wide-ranging economic damage caused by the pandemic, especially to communities of color, which have been disproportionately affected. For example, we have deployed more than \$10 million in relief and recovery funding to Newark, as well as other communities where we have a presence.

In keeping with our purpose, we're working to identify more ways to drive social progress, and to help build more vibrant and inclusive communities around the world.

### Cultivating our culture and talent

Our employees are the foundation of our success and our ability to keep our promises to customers and other stakeholders. Since the start of the pandemic, we have prioritized the health and safety of our employees and their families. During 2021, we continued to devote substantial resources to support employees' well-being and help them care for their loved ones.

We champion Prudential's culture and are committed to nurturing a workplace where everyone feels valued and empowered. During 2021, we continued efforts to fulfill the commitments we made in 2020 to advance racial equity, which include measurable actions to support our employees, and our resolve to be a fully inclusive company.

As part of that work, we devote significant resources to talent management. For example, we have taken steps to provide employees with greater mobility across the company and more opportunities to build rewarding careers. Last year we launched the Prudential Talent Marketplace, an online career development platform that offers all employees free courses and skilling programs, and matches an employee's skills with open jobs, suggesting possible paths for advancement.

Delivering relevant, engaging learning experiences is just one component of our overall talent approach and efforts to prepare employees with the skills they need to help Prudential — and their careers — grow and thrive.

### A new vision for Prudential's future

As we look to the future and increase our focus on driving growth and serving more customers, we will be guided by a new vision: to become a global leader in expanding access to investing, insurance, and retirement security.

We will realize this vision by:

1. Investing in growth businesses and markets around the world.
2. Delivering industry-leading customer and client experiences that blend human touch with advanced technology.
3. Creating the next generation of financial solutions to serve the diverse needs of a broader range of customers and clients.

Together with our purpose, our vision and strategy clearly articulate the company we will become and how we plan to get there. The formative actions we took in 2021 exemplify the kind of steps we will take over the coming year to drive future growth.

Making our vision a reality will require resolve, discipline, focus, innovation and hard work from everyone across Prudential. I am confident in our ability to continue to transform, and our results in 2021 are proof of just how much we can achieve together.

We are proud to live our purpose, every day. And we are determined to become the firm that even more people around the world rely upon to help them solve their financial challenges.

We look forward to sharing our progress with you and our other valued stakeholders.

Thank you, as always, for your support and interest in Prudential.



**Charles F. Lowrey**  
Chairman and Chief Executive Officer

# PRUDENTIAL OFFICERS AND DIRECTORS (as of March 24, 2022)

## EXECUTIVE OFFICERS

**Charles F. Lowrey**  
Chairman and Chief  
Executive Officer

**Robert M. Falzon**  
Vice Chairman

**Lucien A. Alziari**  
Executive Vice President and  
Chief Human Resources Officer

**Stacey Goodman**  
Executive Vice President  
and Chief Information Officer

**Ann M. Kappler**  
Executive Vice President  
and General Counsel

**Scott G. Sleyster**  
Executive Vice President  
and Head of International  
Businesses

**Andrew F. Sullivan**  
Executive Vice President  
and Head of U.S. Businesses

**Kenneth Y. Tanji**  
Executive Vice President  
and Chief Financial Officer

**Timothy L. Schmidt**  
Senior Vice President  
and Chief Investment Officer

**Nicholas C. Silitch**  
Senior Vice President  
and Chief Risk Officer

**Candace J. Woods**  
Senior Vice President  
and Chief Actuary

## BOARD OF DIRECTORS

**Thomas J. Baltimore, Jr.**  
Chairman, President and  
Chief Executive Officer,  
Park Hotels & Resorts, Inc.

**Gilbert F. Casellas**  
Former Chairman, OMNITRU

**Robert M. Falzon**  
Vice Chairman,  
Prudential Financial, Inc.

**Martina T. Hund-Mejean**  
Former Chief Financial Officer,  
Mastercard Worldwide

**Wendy E. Jones**  
Former Senior Vice President,  
Global Operations, eBay, Inc.

**Karl J. Krapek**  
Former President and Chief  
Operating Officer, United  
Technologies Corporation

**Peter R. Lighte**  
Former Vice Chairman of  
J.P. Morgan Corporate Bank  
and Founding Chairman of  
J.P. Morgan Chase Bank, China

**Charles F. Lowrey**  
Chairman and Chief  
Executive Officer,  
Prudential Financial, Inc.

**George Paz**  
Former Chairman and  
Chief Executive Officer,  
Express Scripts Holding  
Company

**Sandra Pianalto**  
Former President and  
Chief Executive Officer,  
Federal Reserve Bank  
of Cleveland

**Christine A. Poon**  
Former Dean and  
John W. Berry, Sr. Chair  
in Business at The Fisher  
College of Business at  
The Ohio State University

**Douglas A. Scovanner**  
Founder and Managing  
Member, Comprehensive  
Financial Strategies, LLC

**Michael A. Todman**  
Former Vice Chairman,  
Whirlpool Corporation

## SHAREHOLDER INFORMATION

### Corporate Headquarters

Prudential Financial, Inc.  
751 Broad Street, Newark, NJ 07102  
973-802-6000

### Stock Exchange Listing

The Common Stock of Prudential Financial, Inc. is traded on the New York Stock Exchange under the symbol "PRU."

### Shareholder Services at Computershare

Computershare Trust Company, N.A., the transfer agent for Prudential Financial, Inc., can assist registered shareholders with a variety of services, including:

- Convenient liquidation of shares
- Direct deposit of dividends
- Consolidating your shares into your brokerage account
- Changing the ownership of your shares
- Change of address

### Electronic Delivery

Now you can receive electronic delivery of all shareholder communications from Computershare, including the annual report and proxy materials, tax forms and other statements. By selecting this option, you are partnering with us to minimize our impact on the environment.

For more information and to sign up for electronic delivery, contact Computershare directly:

- Online: [www.computershare.com/investor](http://www.computershare.com/investor)
- By phone: within the United States at 800-305-9404, outside the United States at 732-512-3782
- By mail: Computershare Trust Company, N.A.  
P.O. Box 505040, Louisville, KY 40233-5040

**Did you know you can also transfer shares registered at Computershare to your broker?** Please contact your broker for additional information.

### Annual Meeting

Shareholders are invited to attend Prudential Financial, Inc.'s annual meeting, which will be held on May 10, 2022, beginning at 2:00 p.m. at our offices located at 751 Broad Street, Newark, New Jersey. Additional information about the meeting can be found in the proxy statement.

### Information about Prudential Financial, Inc.

You may access our news releases, financial information and reports filed with the Securities and Exchange Commission (for example, our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, and our Current Reports on Form 8-K and any amendments to those forms) online at [www.investor.prudential.com](http://www.investor.prudential.com). Copies of current documents on our website are available without charge, and reports filed with or furnished to the Securities and Exchange Commission will be available as soon as reasonably practicable after they are filed with or furnished to the Commission.

### Investor Relations

Institutional investors, analysts and other members of the professional financial community can contact our Investor Relations department via e-mail at [investor.relations@prudential.com](mailto:investor.relations@prudential.com), or by visiting the Investor Relations website at [www.investor.prudential.com](http://www.investor.prudential.com).

### Visit Prudential Financial, Inc. Online

For more information about our corporate governance, as well as to access information for shareholders and information about our company, visit our website at [www.prudential.com/governance](http://www.prudential.com/governance).

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## FINANCIAL HIGHLIGHTS

### Prudential Financial, Inc.

*In millions, except per share amounts*

*For the years ended December 31,*

	2021	2020	2019
<b>RESULTS BASED ON ADJUSTED OPERATING INCOME (A)(C)</b>			
Revenues	\$59,781	\$52,282	\$53,932
Benefits and expenses	52,480	47,332	48,277
Adjusted operating income before income taxes	<u>\$7,301</u>	<u>\$4,950</u>	<u>\$5,655</u>
Operating return on average equity (B)(C)	14.3%	10.1%	11.1%
<b>GAAP RESULTS</b>			
Revenues	\$70,934	\$57,033	\$64,807
Benefits and expenses	61,553	57,356	59,722
Income (loss) before income taxes and equity in earnings of operating joint ventures	<u>\$9,381</u>	<u>\$(323)</u>	<u>\$5,085</u>
Return on average equity (B)	12.4%	-0.6%	7.1%
<b>EARNINGS PER SHARE OF COMMON STOCK – diluted (C)</b>			
Adjusted operating income after income taxes	\$14.58	\$9.72	\$10.74
Reconciling items:			
Realized investment gains (losses), net, and related charges and adjustments	4.17	(10.81)	(2.43)
Other reconciling items	1.20	(2.60)	1.31
Total reconciling items, before income taxes	5.37	(13.41)	(1.12)
Income taxes, not applicable to adjusted operating income	0.44	(2.69)	(0.49)
Total reconciling items, after income taxes	4.93	(10.72)	(0.63)
Net Income (loss) attributable to Prudential Financial, Inc. (after-tax)	<u>\$19.51</u>	<u>\$(1.00)</u>	<u>\$10.11</u>

### Prudential Financial, Inc.

*In millions, unless otherwise noted*

*As of or for the years ended December 31,*

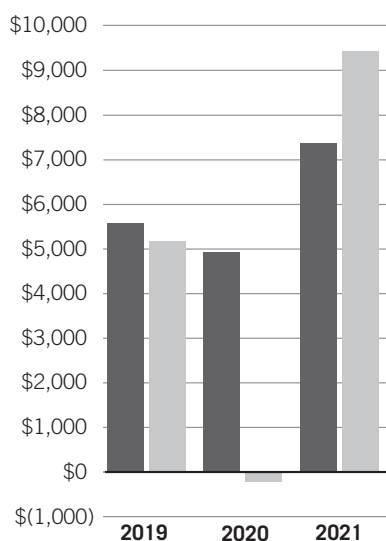
	2021	2020	2019
<b>GAAP RESULTS</b>			
Total revenues	\$70,934	\$57,033	\$64,807
Net Income (loss) (after-tax)	\$7,794	\$(146)	\$4,238
Less: Income (loss) attributable to noncontrolling interests	70	228	52
Net income (loss) attributable to Prudential Financial, Inc. (after-tax)	<u>\$7,724</u>	<u>\$(374)</u>	<u>\$4,186</u>
<b>FINANCIAL POSITION</b>			
Invested assets	\$492,199	\$553,620	\$522,760
Total assets	\$937,582	\$940,722	\$896,552
Prudential Financial, Inc. equity	\$61,876	\$67,425	\$63,115
Assets under management ( <i>in billions</i> )	\$1,742	\$1,721	\$1,551



## Adjusted Operating Income<sup>(A)(C)</sup> and Income (Loss) from Operations

(pre-tax, in millions)

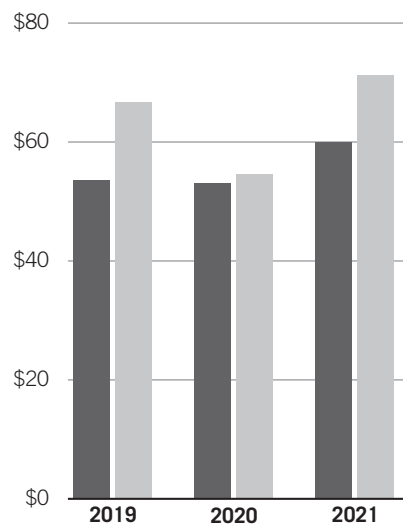
Adjusted operating income  
Income (loss) before income taxes and equity in earnings of operating joint ventures (GAAP)



## Adjusted Operating Revenues<sup>(A)(C)</sup> and GAAP Revenues

(in billions)

Adjusted operating revenues  
Revenues (GAAP)



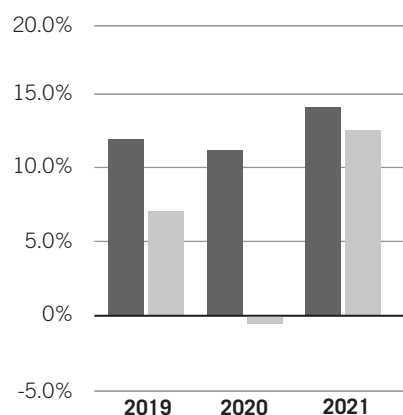
## Assets Under Management

(in billions)



## Operating Return on Average Equity<sup>(B)(C)</sup> and Return on Average Equity<sup>(B)</sup>

Operating return on average equity  
Return on average equity



Consolidated adjusted operating income and adjusted book value, as well as operating return on average equity, which is based on adjusted operating income and adjusted book value, are non-GAAP measures. Reconciliations of these measures to the most directly comparable GAAP measures are included in this Annual Report.

We believe that our use of these non-GAAP measures helps investors understand and evaluate the Company's performance and financial position. The presentation of adjusted operating income as we measure it for management purposes enhances the understanding of the results of operations by highlighting the results from ongoing operations and the underlying profitability of our businesses. Trends in the underlying profitability of our businesses can be more clearly identified without the fluctuating effects of the items described below. Adjusted book value augments the understanding of our financial position by providing a measure of net worth that is primarily attributable to our business operations separate from the portion that is affected by capital and currency market conditions, and by isolating the accounting impact associated with insurance liabilities that are generally not marked to market and the supporting investments that are marked to market through accumulated other comprehensive income under GAAP. Operating return on average equity, which is based on adjusted operating income and adjusted book value, is a useful measure of the operating return the Company achieves in relation to the capital available to our businesses. However, these non-GAAP measures are not substitutes for income, equity, and return on average equity determined in accordance with GAAP, and the adjustments made to derive these measures are important to an understanding of our overall results of operations and financial position.

(A) Adjusted operating income is a non-GAAP measure used by the Company to evaluate segment performance and to allocate resources. Adjusted operating income excludes "Realized investment gains (losses), net," as adjusted, and related charges and adjustments. A significant element of realized investment gains and losses are impairments and credit-related and interest rate-related gains and losses. Impairments and losses from sales of credit-impaired securities, the timing of which depends largely on market credit cycles, can vary considerably across periods. The timing of other sales that would result in gains or losses, such as interest rate-related gains or losses, is largely subject to our discretion and influenced by market opportunities as well as our tax and capital profile. Realized investment gains (losses) within certain businesses for which such gains (losses) are a principal source of earnings, and those associated with terminating hedges of foreign currency earnings and current period yield adjustments are included in adjusted operating income. Adjusted operating income generally excludes realized investment gains and losses from products that contain embedded derivatives, and from associated derivative portfolios that are part of an asset-liability management program related to the risk of those products. Adjusted operating income also excludes gains and losses from changes in value of certain assets and liabilities relating to foreign currency exchange movements that have been economically hedged or considered part of our capital funding strategies for our international subsidiaries, as well as gains and losses on certain investments that are designated as trading. Adjusted operating income also excludes investment gains and losses on assets supporting experience-rated contractholder liabilities and changes in experience-rated contractholder liabilities due to asset value changes, because these recorded changes in asset and liability values are expected to ultimately accrue to contractholders. Additionally, adjusted operating income excludes the changes in fair value of equity securities that are recorded in net income. Adjusted Operating Income excludes market experience updates, reflecting the immediate impacts in current period results from changes in current market conditions on estimates of profitability, which we believe enhances the understanding of underlying performance trends. Adjusted operating income also excludes the results of Divested and Run-off Businesses, which are not relevant to our ongoing operations and discontinued operations and earnings attributable to noncontrolling interests, each of which is presented as a separate component of net income under GAAP. Additionally, adjusted operating income excludes other items, such as certain components of the consideration for acquisitions, which are recognized as compensation expense over the requisite service periods, as well as changes in the fair value of contingent consideration, and goodwill impairments. Earnings attributable to noncontrolling interests is presented as a separate component of net income under GAAP and excluded from adjusted operating income.

See Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of results based on adjusted operating income, and the Consolidated Financial Statements for a reconciliation of results based on adjusted operating income to GAAP results.

(B) Operating return on average equity (based on adjusted operating income) is a non-GAAP measure and represents adjusted operating income after-tax divided by average adjusted book value. Adjusted book value is calculated as total equity (GAAP book value) excluding accumulated other comprehensive income (loss) and the cumulative effect of foreign currency exchange rate remeasurements and currency translation adjustments corresponding to realized investment gains and losses. These items are excluded in order to highlight the book value attributable to our core business operations separate from the portion attributable to external and potentially volatile capital and currency market conditions. The comparable GAAP measure to operating return on average equity is return on average equity which is based on net income and GAAP book value. See chart below for a reconciliation between adjusted book value and GAAP book value.

(C) Prior period amounts have been reclassified to conform to current period presentation.

As of December 31,	2021	2020	2019
	(in millions)		
GAAP book value at end of period	\$61,876	\$67,425	\$63,115
Less: Accumulated other comprehensive income	21,324	30,738	24,039
Less: Cumulative effect of remeasurement of foreign currency <sup>(1)</sup>	(1,164)	(1,399)	(1,835)
Adjusted book value	\$41,716	\$38,086	\$40,911

(1) Includes the cumulative impact of net gains and losses resulting from foreign currency exchange rate remeasurement and associated realized investment gains and losses included in net income (loss) and currency translation adjustments corresponding to realized investment gains and losses.

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*Throughout this Annual Report, "Prudential Financial" refers to Prudential Financial, Inc., the ultimate holding company for all of our companies. "Prudential Insurance" refers to The Prudential Insurance Company of America. "Prudential," the "Company," "we" and "our" refer to our consolidated operations.*

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## FORWARD-LOOKING STATEMENTS

Certain of the statements included in this Annual Report 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 Prudential Financial's 2021 Annual Report on Form 10-K for discussion of certain risks relating to our businesses and investment in our securities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*Certain of the statements included in this section constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. 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. Prudential Financial, Inc.'s actual results may differ, possibly materially, from expectations or estimates reflected in such forward-looking statements. Certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements can be found in the "Forward-Looking Statements" included in this Annual Report, as well as the "Risk Factors" included in Prudential Financial's 2021 Annual Report on Form 10-K.*

*Pursuant to the FAST Act Modernization and Simplification of Regulation S-K, discussions related to the results of operations for the year ended December 31, 2020 in comparison to the year ended December 31, 2019 have been omitted. For such omitted discussions, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.*

### Overview

Our principal operations consist of PGIM (our global investment management business), our U.S. Businesses (consisting of our Retirement, Group Insurance, Individual Annuities, Individual Life and Assurance IQ businesses), our International Businesses, the Closed Block division, and our Corporate and Other operations. The Closed Block division is accounted for as a divested business that is reported separately from the Divested and Run-off Businesses that are included in Corporate and Other. Divested and Run-off Businesses are composed 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. See "Business—" included in Prudential Financial's 2021 Annual Report on Form 10-K for a description of our sources of revenue and details on how our profitability is impacted. In addition, our profitability is impacted by our ability to effectively deploy capital, utilize our tax capacity and manage expenses.

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

Management expects that results in 2022 will continue to benefit from our differentiated mix of market-leading businesses that complement each other to provide competitive advantages, earnings diversification and capital benefits from a balanced risk profile. While challenges exist in the form of a low interest rate environment (see "Impact of a Low Interest Rate Environment" below), fee compression in certain of our businesses and other market factors, we expect that our businesses will produce appropriate returns for the current market environment. We believe we are well-positioned to tap into market opportunities to meet the evolving needs of individual customers, workplace clients, and society at large. Our mix of high-quality protection, retirement and investment management businesses enables us to offer solutions that cover a broad range of financial needs and to engage with our clients through multiple channels, including the ability to sell solutions across a broad socio-economic spectrum through Assurance IQ's digital platform. We aim to expand our addressable market, build deeper and longer-lasting relationships with customers and clients, and meaningfully improve their financial wellness.

In order to become more competitive, we are working to enhance the experience of our customers and the capabilities of our businesses, which we expect will improve 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. In 2021, we incurred approximately \$250 million of costs in connection with these programs. We expect these programs will generate significant expense efficiencies over several years. For the year ended December 31, 2021, the Company estimates that these programs generated cost savings of approximately \$540 million and, as of December 31, 2021, we continue to remain on track to accumulate approximately \$750 million of annual run-rate cost savings by the end of 2023.

### COVID-19

Since the first quarter of 2020, the novel coronavirus ("COVID-19") has 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 continued to impact our results of operations in the current period and is expected to impact our results of operations in future periods.

In 2021, the United States experienced multiple waves of COVID-19, with the severity of each wave depending on such factors as seasonality, varying levels of population immunity, and the evolution of the virus itself into different variants. Deaths from COVID-19 in the United States peaked in the first quarter of 2021, prior to widespread vaccination, and again in the third quarter, due to the emergence of the Delta variant. In December, the Omicron variant emerged in the United States and has since become the dominant strain, causing many more infections but with a smaller percentage of infections resulting in hospitalizations and deaths compared to prior waves. Several vaccines are now widely accessible and other therapeutics, such as antiviral treatments, are increasingly becoming available. As a result, the overall financial impact to the Company is expected to remain manageable; however, the future evolution of the virus, among other factors, could cause the actual course of the pandemic to differ from our current expectations.

The Company has taken several measures to manage the impacts of this pandemic. The actual and expected impacts of these measures and other items are set forth below:

- *Underwriting Results.* In 2021, we estimate that COVID-19 had a significant net negative impact on our underwriting results reflecting unfavorable mortality impacts in our Group Insurance, Individual Life and International businesses, partially offset by favorable mortality impacts in our Retirement business. For the first quarter of 2022, the Company expects underwriting results to be adversely impacted by approximately \$160 million in our U.S. Businesses, predominantly in our Group Insurance business, and approximately \$20 million in our International Businesses; however, the ultimate impact on our underwriting results will depend on 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.
- *Investment Portfolio.* The economy continues to recover and remains on a path to re-opening. Credit migration and defaults were low in 2021 and are expected to remain limited in 2022. The sectors most impacted from COVID-19 have started to recover but could be influenced by periods of volatility due to the possibility of additional variants emerging. In certain instances, the Company may agree to modify an investment to provide forbearance, which grants borrowers additional time to make payments. Under the terms of forbearance, the borrower is allowed to defer a portion of current year principal and/or interest payments for a short period (e.g., 6 months). These deferrals accrue additional interest and do not have a material impact on our investment value. As of December 31, 2021, approximately 1.5% of total invested assets, including those held for sale, were currently subject to a modification to allow for limited forbearance.
- *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 2020 and 2021.

We believe all of our businesses can sustain long-term remote work and social distancing 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.

In addition to the considerations disclosed above, other COVID-19 related impacts are discussed in the following sections of this document:

- *Business Outlooks.* See “—Outlook” for a discussion of specific outlook considerations for each of our businesses, including impacts related to COVID-19.
- *Results of Operations by Segment.* See “—Results of Operations by Segment” for a discussion of COVID-19 impacts on segment results, where applicable.
- *Sales and Flows.* See “—Segment Results of Operations” for a discussion of sales and flows in each of our segments.
- *Risk Management.* See “—Risk Management—COVID-19” for a discussion of our risk management framework and its incorporation of pandemic stress scenarios.
- *Risk Factors.* See “Risk Factors” included in Prudential Financial’s 2021 Annual Report on Form 10-K for a discussion of the risks to our businesses posed by the COVID-19 pandemic.
- *CARES Act and Other Regulatory Developments.* See “Business—Regulation—Regulatory Response to the COVID-19 Pandemic” included in Prudential Financial’s 2021 Annual Report on Form 10-K for additional information.

## Outlook

We feel confident about our prospects for the future based on the foundation of our integrated and complementary businesses. We plan to continue our transformation by further executing on our cost savings plan and taking additional steps to increase our growth potential and reduce our market sensitivity. Our plan remains to reallocate capital across the businesses with the intention of doubling the earnings contribution from our higher-growth businesses and reducing the earnings contribution from our Individual Annuities business.

Specific outlook considerations for each of our businesses include the following:

- *PGIM.* Our global investment management business, PGIM, is focused on maintaining strong investment performance while leveraging the scale of its approximately \$1.524 trillion of assets under management and diversified global operations. We are broadening our distribution channels and asset management capabilities through acquisitions and organic initiatives to better serve our clients and support growth. In addition to serving third-party clients, we provide our U.S. and International businesses with a competitive advantage through our investment expertise across a broad array of asset classes, including public and private asset class capabilities. Underpinning our growth strategy is our ability to continue to deliver robust investment performance and to attract and retain high-caliber investment talent.

There remain risks to earnings across the asset management industry as adverse changes in market conditions (e.g., market declines, higher rates or credit spread widening) could lead to lower fee-based revenues, incentive fees taking longer to be realized and losses in our seed and co-investments. An economic downturn could also have impacts on real estate prices as well as transaction volumes in certain private asset classes. We believe PGIM’s uniquely diversified global platform is well positioned to be resilient in the face of market and industry headwinds.

- *Retirement.* Consistent with the Company’s strategy of becoming higher growth and less market sensitive, in the third quarter of 2021 we entered into a definitive agreement to sell our Full Service Retirement business. See Note 1 to the Consolidated Financial



Statements for additional information. Our remaining Institutional Investment Products business continues to be focused on providing products that respond to the needs of plan sponsors, retirees, and annuitants to manage risk and control their benefit costs while ensuring we maintain appropriate pricing and return expectations under changing market conditions. In our pension risk transfer business, we expect our differentiated capabilities and demonstrated execution to drive our business momentum in the face of increasing competition while we maintain appropriate pricing and return expectations under changing market conditions; however, we expect that growth will not be linear given the episodic nature of these transactions. As many of the products in our Institutional Investment Products business assume longevity risk, elevated levels of mortality resulting from COVID-19 may continue to contribute to a higher level of underwriting gains.

- *Group Insurance.* We continue to focus on expanding our Premier and Association market segments and affinity relations, while maintaining a leadership position in the National segment. We anticipate that COVID-19 will continue to contribute in the near-term to elevated levels of mortality resulting in increased life insurance claims. In addition, we are continuing to monitor the potential impact of the pandemic on our disability business, overall sales volumes, and the utilization of workplace benefits.
- *Individual Annuities.* We remain focused on helping customers meet their investment and retirement needs. Consistent with our strategy of becoming a higher growth and less market sensitive business, in the third quarter of 2021 we entered into an agreement to sell approximately 18% of our in-force traditional variable annuity block of business. See Note 1 to the Consolidated Financial Statements for more information. Additionally, we continue to execute on our strategy to pivot to less interest rate-sensitive products to ensure we realize appropriate returns within the current economic environment. We expect to continue to shift our focus to products that provide protected outcomes for our customers through simpler, technology-enabled channels and which deliver shareholder value across a wide range of economic environments. We also expect account values, fee income, and spread income to continue to be impacted by market conditions.
- *Individual Life.* We continue to focus on making life insurance solutions more available for financial professionals to distribute and for consumers to purchase, including the growth of accumulation and simplified protection products. We have taken pricing and product actions to ensure we realize appropriate returns for the current economic environment and to diversify our product mix to further limit our sensitivity to interest rates. We expect COVID-19 to continue to contribute in the near-term to elevated levels of mortality, resulting in increased life insurance claims.
- *Assurance IQ.* We remain focused on expanding our addressable market and increasing access to more retail customers through our agent and digital channels. We continue to expand carriers and product offerings on our platform in an effort to meet our customers' evolving needs. We expect that Assurance IQ will contribute to the growth of our U.S. Businesses over time.
- *International Businesses.* We remain focused on meeting customers' protection and financial needs as well as maintaining the underlying strength of our distribution channels. Our strategy is to maintain and strengthen our position in Japan while expanding our footprint in select high-growth emerging markets. We continue to invest in our existing businesses and regularly assess acquisition opportunities to build scale, complement our businesses, and support our long-term growth aspirations, recently expanding in Africa by acquiring a 24% interest in ICEA LION in Kenya. We also regularly evaluate strategic options for our businesses as part of ensuring their alignment with our broader business goals and strategic vision, and in 2021 we sold our life insurance operation in Taiwan. For additional information on our strategic acquisitions and dispositions, see “—Results of Operations by Segment—International Insurance Division—International Insurance” below.

We saw an elevated level of claims due to COVID-19 in 2021, with the most material impacts in Brazil and Japan; however, expenses to support our captive agents due to COVID-19 impacts have decreased significantly compared to 2020. In connection with COVID-19, we experienced a moderation in claims at the end of 2021 that we believe resulted from the global increase in vaccination rates; however, COVID-19 might impact future claims, sales and costs depending on the development of the pandemic in the geographic markets in which we operate. 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.

## Industry Trends

Our U.S. and International Businesses are impacted by financial markets, economic conditions, regulatory oversight, and a variety of trends that affect the industries in which we compete.

### *Financial and Economic Environment:*

- *U.S. Businesses.* As discussed further under “—Impact of a Low Interest Rate Environment” below, interest rates in the U.S. have experienced a sustained period of historically low levels, which continue to negatively impact our investment-related activity, including our investment income returns, net investment spread results, and portfolio income and reinvestment yields. In addition, we are subject to financial impacts associated with movements in equity markets and the evolution of the credit cycle as discussed in “—Segment Results of Operations” where applicable and more broadly in “Risk Factors” included in Prudential Financial’s 2021 Annual Report on Form 10-K.
- *International Businesses.* Our International Businesses’ operations, especially in Japan, have operated in a low interest rate environment for many years, as discussed under “—Impact of a Low Interest Rate Environment” below, and these low interest rates negatively impact our net investment spread results and reinvestment yields. The current reinvestment yields for certain blocks of business are generally lower than the current portfolio yields supporting these blocks of business. In addition, we are subject to financial impacts associated with movements in foreign currency rates, particularly the Japanese yen. Fluctuations in the value of the yen can impact the relative attractiveness to customers of both yen-denominated and non-yen denominated products. In addition, we are subject to financial impacts associated with movements in equity markets and the evolution of the credit cycle as discussed in “—Segment Results of Operations” where applicable and more broadly in “Risk Factors” included in Prudential Financial’s 2021 Annual Report on Form 10-K.

## Demographics:

- *U.S. Businesses.* Customer demographics continue to evolve and new opportunities present themselves in different consumer segments such as the millennial and multicultural markets. Consumer expectations and preferences are changing. We believe existing customers and potential customers are increasingly looking for cost-effective solutions that they can easily understand and access through technology-enabled devices. At the same time, income protection, wealth accumulation and the needs of retiring baby boomers are continuing to shape the insurance industry. A persistent retirement security gap exists in terms of both savings and protection. Despite the ongoing shift of the risk and responsibility of retirement savings from employers to employees, employers are increasingly focusing on the financial wellness of the individuals they employ.
- *International Businesses.* Japan has an aging population as well as a large pool of household assets invested in low-yielding deposit and savings vehicles. The aging of Japan's population, along with strains on government pension and healthcare programs, have led to a growing demand for products that provide financial solutions for retirement and wealth transfer, as well as for health-related products.

*Regulatory Environment.* See “Business—Regulation” included in Prudential Financial’s 2021 Annual Report on Form 10-K for a discussion of regulatory developments that may impact the Company and the associated risks.

*Competitive Environment.* See “Business—” included in Prudential Financial’s 2021 Annual Report on Form 10-K for a discussion of the competitive environment and the basis on which we compete in each of our segments.

## Impact of a Low Interest Rate Environment

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

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

For more information on interest rate risks, see “Risk Factors—Market Risk” included in Prudential Financial’s 2021 Annual Report on Form 10-K.

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

## U.S. Operations excluding the Closed Block Division

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

For the general account supporting our U.S. Businesses and our Corporate and Other operations, we estimate annual principal payments and prepayments that we would be required to reinvest to be approximately 6.6% of the fixed maturity security and commercial mortgage loan portfolios through 2023. The portion of the general account attributable to these operations has approximately \$238 billion of such assets (based on net carrying value and including assets classified as “held-for-sale”) as of December 31, 2021. The average portfolio yield for fixed maturity securities and commercial mortgage loans is approximately 3.7%, as of December 31, 2021.

Included in the \$238 billion of fixed maturity securities and commercial mortgage loans are approximately \$181 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 \$181 billion, approximately 51% contain provisions for prepayment premiums. If we reinvest scheduled payments or prepayments (not subject to a prepayment fee) at rates below the current portfolio yield, including in some cases at rates below those guaranteed under our insurance contracts, future operating results will be impacted to the extent we do not, or are unable to, reduce crediting rates on in-force blocks of business, or effectively utilize other asset/liability management strategies described below, in order to maintain current net interest margins.



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

	As of December 31, 2021 (in billions)
Long-duration insurance products with fixed and guaranteed terms . . . . .	\$155
Contracts with adjustable crediting rates subject to guaranteed minimums . . . . .	61
Participating contracts where investment income risk ultimately accrues to contractholders . . . . .	14
Total . . . . .	<u>\$230</u>

The \$155 billion above relates to long-duration products such as group annuities, structured settlements and other insurance products that have fixed and guaranteed terms, for which underlying assets may have to be reinvested at interest rates that are lower than portfolio rates. We seek to mitigate the impact of a prolonged low interest rate environment on these contracts through asset/liability management, as discussed further below.

The \$61 billion above relates to contracts with crediting rates that may be adjusted over the life of the contract, subject to guaranteed minimums. Although we may have the ability to lower crediting rates for those contracts above guaranteed minimums, our willingness to do so may be limited by competitive pressures. The following table sets forth the related account values by range of guaranteed minimum crediting rates and the related range of the difference, in basis points (“bps”), between rates being credited to contractholders as of December 31, 2021, and the respective guaranteed minimums.

Account Values with Adjustable Crediting Rates Subject to Guaranteed Minimums:						
	At guaranteed minimum	1-49 bps above guaranteed minimum	50-99 bps above guaranteed minimum	100-150 bps above guaranteed minimum	Greater than 150 bps above guaranteed minimum	Total
	(\$ in billions)					
<b>Range of Guaranteed Minimum Crediting Rates:</b>						
Less than 1.00% . . . . .	\$ 1.1	\$ 1.1	\$0.1	\$0.0	\$0.0	\$ 2.3
1.00%—1.99% . . . . .	3.3	14.2	1.9	0.2	2.9	22.5
2.00%—2.99% . . . . .	1.3	0.0	1.6	2.3	1.7	6.9
3.00%—4.00% . . . . .	25.8	2.0	0.3	0.4	0.1	28.6
Greater than 4.00% . . . . .	0.8	0.0	0.0	0.0	0.0	0.8
Total(1) . . . . .	<u>\$32.3</u>	<u>\$17.3</u>	<u>\$3.9</u>	<u>\$2.9</u>	<u>\$4.7</u>	<u>\$61.1</u>
Percentage of total . . . . .	53%	28%	6%	5%	8%	100%

(1) Includes approximately \$0.50 billion related to contracts that impose a market value adjustment if the invested amount is not held to maturity.

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

Assuming a hypothetical scenario where the average 10-year U.S. Treasury rate is 1.75% (which is reasonably consistent with recent rates) for the period from January 1, 2022 through December 31, 2022 (and credit spreads remain unchanged from average levels experienced during the fourth quarter 2021), we estimate that the unfavorable impact to net investment income of reinvesting activities, including scheduled maturities and estimated prepayments of fixed maturities and commercial mortgage and other loans (excluding assets supporting participating contracts) would be between \$30 million and \$60 million for the period from January 1, 2022 through December 31, 2022.

In order to mitigate the unfavorable impact that a low interest rate environment has on our net interest margins, we employ a proactive asset/liability management program, which includes strategic asset allocation and hedging strategies within a disciplined risk management framework. These strategies seek to match the characteristics of our products, and to closely approximate the interest rate sensitivity of the assets with the estimated interest rate sensitivity of the product liabilities. Our asset/liability management program also helps manage duration gaps, currency and other risks between assets and liabilities through the use of derivatives. We adjust this dynamic process as products change, as customer behavior changes and as changes in the market environment occur. As a result, our asset/liability management process has permitted us to manage the interest rate risk associated with our products through several market cycles. Our interest rate exposure is also mitigated by our business mix, which includes lines of business for which fee-based and insurance underwriting earnings play a more prominent role in product profitability. We also regularly examine our product offerings and their profitability. As a result, we may reprice certain products and discontinue sales of other products that do not meet our profit expectations.

### Closed Block Division

Substantially all of the \$59 billion of general account assets in the Closed Block division support obligations and liabilities relating to the Closed Block policies only. See Note 15 to the Consolidated Financial Statements for additional information on the Closed Block.

## International Insurance Operations

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

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

	As of December 31, 2021 (in billions)
Insurance products with fixed and guaranteed terms	\$139
Contracts with a market value adjustment if invested amount is not held to maturity	25
Contracts with adjustable crediting rates subject to guaranteed minimums	11
Total	<u>\$175</u>

The \$139 billion is primarily comprised of long-duration insurance products that have fixed and guaranteed terms, for which underlying assets may have to be reinvested at interest rates that are lower than current portfolio yields. The remaining insurance liabilities and policyholder account balances include \$25 billion related to contracts that impose a market value adjustment if the invested amount is not held to maturity and \$11 billion related to contracts with crediting rates that may be adjusted over the life of the contract, subject to guaranteed minimums. Most of the current crediting rates on these contracts, however, are at or near contractual minimums. Although we have the ability in some cases to lower crediting rates for those contracts that are above guaranteed minimum crediting rates, the majority of this business has interest crediting rates that are determined by formula.

Assuming a hypothetical scenario where the average 30-year Japanese Government Bond yield is 0.65% and the 10-year U.S. Treasury rate is 1.60% (which is reasonably consistent with recent rates) for the period from January 1, 2022 through December 31, 2022 (and credit spreads remain unchanged from average levels experienced during the fourth quarter 2021), we estimate that the unfavorable impact to net investment income of reinvesting activities, including scheduled maturities and estimated prepayments of fixed maturities and commercial mortgage and other loans (excluding assets supporting participating contracts) would be between \$20 million and \$40 million for the period from January 1, 2022 through December 31, 2022.

## Results of Operations

### Consolidated Results of Operations

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

	Year ended December 31,		
	2021	2020	2019
	(in millions)		
Revenues	\$70,934	\$57,033	\$64,807
Benefits and expenses	61,553	57,356	59,722
Income (loss) before income taxes and equity in earnings of operating joint ventures	9,381	(323)	5,085
Income tax expense (benefit)	1,674	(81)	947
Income (loss) before equity in earnings of operating joint ventures	7,707	(242)	4,138
Equity in earnings of operating joint ventures, net of taxes	87	96	100
Net income (loss)	7,794	(146)	4,238
Less: Income attributable to noncontrolling interests	70	228	52
Net income (loss) attributable to Prudential Financial, Inc.	<u>\$ 7,724</u>	<u>\$ (374)</u>	<u>\$ 4,186</u>

**2021 to 2020 Annual Comparison.** The \$8,098 million increase in “Net income (loss) attributable to Prudential Financial, Inc.” reflected the following notable items on a pre-tax basis:

- \$3,336 million favorable 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);
- \$2,591 million favorable variance reflecting the impact from changes in the value of our embedded derivatives and related hedge positions, net of DAC and other costs, associated with certain variable annuities;
- \$2,351 million favorable variance from higher adjusted operating income from our business segments (see “Segment Results of Operations” for additional information);
- \$1,390 million favorable variance driven by market experience updates primarily within our Individual Annuities and Individual Life businesses (see Note 22 to the Consolidated Financial Statements for additional information); and
- \$1,330 million favorable variance from a net gain in the current year from our Divested and Run-off Businesses compared to a net loss in the prior year.

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

- \$1,755 million unfavorable variance from a higher tax expense reflecting the increase in pre-tax earnings; and
- \$1,163 million unfavorable variance due to other adjustments, primarily reflecting a \$1,060 million goodwill impairment recognized in the current year related to Assurance IQ (see Note 2 and Note 10 to the Consolidated Financial Statements for additional information).

## 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 Consolidated Statements of Operations.

	Year ended December 31,		
	2021	2020(1)	2019(1)
	(in millions)		
Adjusted operating income before income taxes by segment:			
PGIM .....	\$ 1,643	\$ 1,262	\$ 998
U.S. Businesses:			
Retirement .....	2,178	1,385	1,238
Group Insurance .....	(455)	(16)	285
Individual Annuities .....	1,901	1,470	1,843
Individual Life .....	393	(48)	87
Assurance IQ(2) .....	(142)	(88)	(9)
Total U.S. Businesses .....	3,875	2,703	3,444
International Businesses .....	3,390	2,952	3,112
Corporate and Other .....	(1,607)	(1,967)	(1,899)
Total segment adjusted operating income before income taxes .....	7,301	4,950	5,655
Reconciling items:			
Realized investment gains (losses), net, and related adjustments(3) .....	1,947	(4,140)	(876)
Charges related to realized investment gains (losses), net(4) .....	(320)	(160)	(123)
Market experience updates(5) .....	750	(640)	(449)
Divested and Run-off Businesses(6):			
Closed Block division .....	140	(24)	36
Other Divested and Run-off Businesses .....	716	(450)	992
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(7) .....	(41)	90	(103)
Other adjustments(8)(9) .....	(1,112)	51	(47)
Consolidated income (loss) before income taxes and equity in earnings of operating joint ventures .....	\$ 9,381	\$ (323)	\$ 5,085

- (1) Effective third quarter of 2021, the results of the Full Service Retirement business are excluded from the Retirement segment and are included in Divested and Run-off Businesses. Prior period amounts have been updated to conform to current period presentation. See Note 1 to the Consolidated Financial Statements for additional information.
- (2) Assurance IQ was acquired by the Company in October 2019. See Note 1 to the Consolidated Financial Statements and “—Assurance IQ” for additional information.

- (3) Prior period amounts have been updated to conform to current period presentation. See “—General Account Investments” and Note 22 to the Consolidated Financial Statements for additional information.
- (4) 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”). Prior period amounts have been updated to conform to current period presentation.
- (5) Represents the immediate impacts in current period results from changes in current market conditions on estimates of profitability, which are excluded from adjusted operating income beginning with the second quarter of 2019. See Note 22 to the Consolidated Financial Statements for additional information.
- (6) 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.
- (7) Equity in earnings of operating joint ventures are included in adjusted operating income but excluded from “Income (loss) before income taxes and equity in earnings of operating joint ventures” as they are reflected on an after-tax U.S. GAAP basis as a separate line in the 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 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.
- (8) 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. See Note 22 to the Consolidated Financial Statements for additional information.
- (9) In the fourth quarter of 2021, the Company recognized a goodwill impairment charge of \$1,060 million related to Assurance IQ. See Note 2 and Note 10 to the Consolidated Financial Statements for additional information.

Segment results for 2021 presented above reflect the following:

*PGIM.* Results for 2021 increased in comparison to 2020, primarily reflecting a gain from the sale of our 35% ownership stake in Pramerica SGR in the current year, as well as an increase in asset management fees, partially offset by lower other related revenues.

*Retirement.* Results for 2021 increased in comparison to 2020, inclusive of a favorable comparative net impact from our annual reviews and update of assumptions and other refinements. Excluding this item, results increased, primarily reflecting higher net investment spread results.

*Group Insurance.* Results for 2021 decreased in comparison to 2020, inclusive of an unfavorable comparative net impact from our annual reviews and update of assumptions and other refinements. Excluding this item, results decreased, primarily reflecting lower underwriting results.

*Individual Annuities.* Results for 2021 increased in comparison to 2020, inclusive of a favorable comparative net impact from our annual reviews and update of assumptions and other refinements. Excluding this item, results increased, primarily driven by higher fee income, net of distribution expenses and other associated costs, and higher net investment spread results.

*Individual Life.* Results for 2021 increased in comparison to 2020, inclusive of a favorable comparative net impact from our annual reviews and update of assumptions and other refinements. Excluding this item, results increased, primarily driven by higher net investment spread results and higher underwriting results.

*Assurance IQ.* Results for 2021 decreased in comparison to 2020, reflecting an increase in operating expenses, including those supporting business growth, partially offset by higher revenues.

*International Businesses.* Results for 2021 increased in comparison to 2020, inclusive of an unfavorable net impact from foreign currency exchange rates and a favorable comparative net impact from our annual reviews and update of assumptions and other refinements. Excluding these items, results increased, primarily reflecting higher net investment spread results, lower expenses and more favorable underwriting results.

*Corporate and Other.* Results for 2021 reflected decreased losses in comparison to 2020, driven by lower net charges from other corporate activities, favorable pension and employee benefit results, lower interest expense on debt and higher investment income.

*Closed Block Division.* Results for 2021 increased in comparison to 2020, primarily driven by higher net investment activity results, partially offset by an increase in the policyholder dividend obligation.

## Segment Measures

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

underlying profitability of our businesses. See Note 22 to the 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 Individual Annuities and Retirement businesses, we analyze account values, which do not correspond directly to U.S. GAAP assets. Net sales (redemptions) in our Individual Annuities business and net additions (withdrawals) in our Retirement business do not correspond to revenues under U.S. GAAP, but are used as a relevant measure of business activity.

## Impact of Foreign Currency Exchange Rates

### *Foreign currency exchange rate movements and related hedging strategies*

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

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

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

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

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in billions)</b>	
<b>Foreign currency hedging instruments:</b>		
Hedging USD-equivalent earnings:		
Forward currency contracts (notional amount outstanding) . . . . .	\$ 0.0	\$ 0.4
Hedging USD-equivalent equity:		
USD-denominated assets held in yen-based entities(1) . . . . .	9.5	10.1
Dual currency and synthetic dual currency investments(2) . . . . .	0.5	0.5
Total USD-equivalent equity foreign currency hedging instruments . . . . .	10.0	10.6
Total foreign currency hedges . . . . .	\$10.0	\$11.0

(1) Includes USD-denominated fixed maturities at amortized cost plus any related accrued investment income, as well as USD notional amount of foreign currency derivative contracts outstanding. Note this amount represents only those USD assets serving to hedge the impact of foreign currency volatility on equity. Separate from this program, our Japanese operations also have \$74.3 billion and \$65.8 billion as of December 31, 2021 and 2020, respectively, of USD-denominated assets supporting USD-denominated liabilities related to USD-denominated products.



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

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

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

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

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

For our International Businesses, the fixed currency exchange rates are generally determined in connection with a foreign currency income hedging program designed to mitigate the impact of exchange rate changes on the segment's expected USD-equivalent earnings. Pursuant to this program, our Corporate and Other operations execute forward currency contracts with third-parties to sell the net exposure of projected earnings for certain currencies in exchange for USD at specified exchange rates. The maturities of these contracts correspond with the future periods (typically on a three-year rolling basis) in which the identified non-USD-denominated earnings are expected to be generated. In establishing the level of non-USD-denominated earnings that will be hedged through this program, we exclude the anticipated level of USD-denominated earnings that will be generated by USD-denominated products and investments. For the year ended December 31, 2021, approximately 4% of the segment's earnings were yen-based and, as of December 31, 2021, we have hedged 100%, 72% and 28% of expected yen-based earnings for 2022, 2023 and 2024, respectively. To the extent currently unhedged, our International Businesses' future expected USD-equivalent of yen-based earnings will be impacted by yen exchange rate movements.

As a result of these arrangements, our International Businesses' results for 2021, 2020 and 2019 reflect the impact of translating yen-denominated earnings at fixed currency exchange rates of 103, 104, and 105 yen per USD, respectively. We expect our 2022 results to reflect the impact of translating yen-denominated earnings at a fixed currency exchange rate of 104 yen per USD. Since determination of the fixed currency exchange rates for a given year is impacted by changes in foreign currency exchange rates over time, the segment's future earnings will ultimately be impacted by these changes in exchange rates.

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

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

	<b>Year ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
	<b>(in millions)</b>		
Segment impacts of intercompany arrangements:			
International Businesses .....	\$ 15	\$ 64	\$ 39
PGIM .....	(1)	(4)	6
Impact of intercompany arrangements(1) .....	14	60	45
Corporate and Other:			
Impact of intercompany arrangements(1) .....	(14)	(60)	(45)
Settlement gains (losses) on forward currency contracts(2) .....	33	67	55
Net benefit (detriment) to Corporate and Other .....	19	7	10
Net impact on consolidated revenues and adjusted operating income .....	<u>\$ 33</u>	<u>\$ 67</u>	<u>\$ 55</u>

- (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 December 31, 2021, 2020 and 2019, the total notional amounts of these forward currency contracts within our Corporate and Other operations were \$0.6 billion, \$1.0 billion and \$1.3 billion, respectively, of which \$0.0 billion, \$0.4 billion and \$0.6 billion, respectively, were related to our Japanese insurance operations.

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

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

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 \$2.0 billion and \$2.3 billion as of December 31, 2021 and 2020, respectively, and will be recognized in earnings within “Realized investment gains (losses), net” over time as these assets mature or are sold. Absent the sale of any of these assets prior to their stated maturity, approximately 13% of the \$2.0 billion balance as of December 31, 2021 will be recognized in 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 Consolidated Financial Statements could change significantly.

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

### **Insurance Assets**

#### ***Deferred Policy Acquisition Costs and Deferred Sales Inducements***

We capitalize costs that are directly related to the acquisition or renewal of insurance and annuity contracts. These costs primarily include commissions, as well as costs of policy issuance and underwriting and certain other expenses that are directly related to successfully negotiated contracts. We have also deferred costs associated with sales inducements related to our variable and fixed annuity contracts primarily within our Individual Annuities segment. Sales inducements are amounts that are credited to the policyholders’ account balances mainly as an inducement to purchase the contract. For additional information about sales inducements, see Note 13 to the Consolidated Financial Statements. We generally amortize DAC and deferred sales inducements (“DSI”) over the expected lives of the contracts, based on our estimates of the level and timing of gross premiums, gross profits, or gross margins, depending on the type of contract. As described in more detail below, in calculating DAC and DSI amortization, we are required to make assumptions about investment returns, mortality, persistency, and other items that impact our estimates of the level and timing of gross margins, gross profits, or gross premiums. We also periodically evaluate the recoverability of our DAC and DSI. For certain contracts, this evaluation is performed as part of our premium deficiency testing, as discussed further below in “—Insurance Liabilities—Future Policy Benefits.” As of December 31, 2021, DAC and DSI for PFI excluding the Closed Block division were \$18.0 billion and \$0.8 billion, respectively, and



DAC in our Closed Block division was \$0.2 billion. This excludes amounts presented within “Assets held-for-sale” on the Consolidated Statement of Financial Position as of December 31, 2021. See Note 1 and Note 7 to the Consolidated Financial Statements for additional information.

### *Amortization methodologies*

**Gross Premiums.** DAC, associated with the non-participating term life policies of our Individual Life segment and the whole life, term life, endowment and health policies of our International Businesses segment, is primarily amortized in proportion to gross premiums. Gross premiums are defined as the premiums charged to a policyholder for an insurance contract.

**Gross Profits.** DAC and DSI, associated with the variable and universal life policies of our Individual Life and International Businesses segments and the variable and fixed annuity contracts of our Individual Annuities and International Businesses segments, are generally amortized over the expected lives of these policies in proportion to total gross profits. Total gross profits include both actual gross profits and estimates of gross profits for future periods. Gross profits are defined as: i) amounts assessed for mortality, contract administration, surrender charges, and other assessments plus amounts earned from investment of policyholder balances, less ii) benefits in excess of policyholder balances, costs incurred for contract administration, the net cost of reinsurance for certain businesses, interest credited to policyholder balances and other credits. If significant negative gross profits are expected in any periods, the amount of insurance in force is generally substituted as the base for computing amortization. U.S. GAAP gross profits and amortization rates also include the impacts of the embedded derivatives associated with certain of the optional living benefit features of our variable annuity contracts, and index-linked crediting features of certain universal life and annuity contracts and related hedging activities. For additional information on the significant inputs to the valuation models for these embedded derivatives including capital market assumptions and actuarially-determined assumptions, see below “—Insurance Liabilities—Future Policy Benefits.” In calculating amortization expense, we estimate the amounts of gross profits that will be included in our U.S. GAAP results and in adjusted operating income, and utilize these estimates to calculate distinct amortization rates and expense amounts. We also regularly evaluate and adjust the related DAC and DSI balances with a corresponding charge or credit to current period earnings for the impact of actual gross profits and changes in our projections of estimated future gross profits on our DAC and DSI amortization rates. Adjustments to the DAC and DSI balances include the impact to our estimate of total gross profits of the annual review of assumptions, our quarterly adjustments for current period experience, and our quarterly adjustments for market performance. Each of these adjustments is further discussed below in “—Annual assumptions review and quarterly adjustments.”

**Gross Margins.** DAC associated with the traditional participating products of our Closed Block is amortized over the expected lives of these contracts in proportion to total gross margins. Total gross margins are defined as: i) amounts received from premiums, earned from investment of policyholder balances and other assessments, less ii) benefits paid, costs for contract administration, changes in the net level premium reserve for death and endowment benefits, annual policyholder dividends and other credits. We evaluate our estimates of future gross margins and adjust the related DAC balance with a corresponding charge or credit to current period earnings for the effects of actual gross margins and changes in our expected future gross margins. DAC adjustments for these participating products generally have not created significant volatility in our results of operations since many of the factors that affect gross margins are also included in the determination of our dividends to these policyholders and, during most years, the Closed Block has recognized a cumulative policyholder dividend obligation expense in “Policyholders’ dividends,” for the excess of actual cumulative earnings over expected cumulative earnings as determined at the time of demutualization. However, if actual cumulative earnings fall below expected cumulative earnings in future periods, thereby eliminating the cumulative policyholder dividend obligation expense, changes in gross margins and DAC amortization would result in a net impact to the Closed Block results of operations. As of December 31, 2021, the excess of actual cumulative earnings over the expected cumulative earnings was \$4,387 million.

The amortization methodologies for products not discussed above primarily relate to less significant DAC and DSI balances associated with products in our Group Insurance and Retirement segments, which comprised approximately 1% of the Company’s total DAC and DSI balances as of December 31, 2021.

### *Value of Business Acquired*

In addition to DAC and DSI, we also recognize an asset for VOBA, which is an intangible asset that represents an adjustment to the stated value of acquired in-force insurance contract liabilities to present them at fair value, determined as of the acquisition date. VOBA is amortized over the expected life of the acquired contracts using the same methodology and assumptions used to amortize DAC and DSI, as discussed above. VOBA is also subject to recoverability testing. As of December 31, 2021, VOBA was \$771 million, and included \$740 million related to the acquisition from American International Group (“AIG”) of AIG Star Life Insurance Co., Ltd, AIG Edison Life Insurance Company, AIG Financial Assurance Japan K.K. and AIG Edison Service Co., Ltd. (collectively, the “Star and Edison Businesses”) in 2011. The remaining balance primarily relates to previously-acquired traditional life and defined benefit businesses. The VOBA balance excludes amounts presented within “Assets held-for-sale” on the Consolidated Statement of Financial Position as of December 31, 2021. See Note 1 and Note 8 to the Consolidated Financial Statements for additional information. The VOBA associated with the in-force contracts of the Star and Edison Businesses is less sensitive to assumption changes, as the majority is amortized in proportion to gross premiums which are more predictably stable compared to gross profits.

### *Annual assumptions review and quarterly adjustments*

We perform an annual comprehensive review of the assumptions used in estimating gross profits for future periods. Over the last several years, the Company’s most significant assumption updates that have resulted in a change to expected future gross profits and the amortization of DAC, DSI and VOBA have been related to lapse and other contractholder behavior assumptions, mortality, and revisions to

expected future rates of returns on investments. These assumptions may also cause potential significant variability in amortization expense in the future. The impact on our results of operations of changes in these assumptions can be offsetting and we are unable to predict their movement or offsetting impact over time.

The quarterly adjustments for current period experience referred to above reflect the impact of differences between actual gross profits for a given period and the previously estimated expected gross profits for that period. To the extent each period's actual experience differs from the previous estimate for that period, the assumed level of total gross profits may change. In these cases, we recognize a cumulative adjustment to all previous periods' amortization, also referred to as an experience true-up adjustment.

The quarterly adjustments for market performance referred to above 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.

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 December 31, 2021, our domestic variable annuities and variable life insurance businesses assume an 8.0% long-term equity expected rate of return and a 0.0% near-term mean reversion equity expected rate of return, and our international variable life insurance business assumes a 4.8% long-term equity expected rate of return and a 0.7% near-term mean reversion equity expected rate of return.

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

## **Insurance Liabilities**

### ***Future Policy Benefits***

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

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

- For most long-duration contracts, we utilize a net premium valuation methodology in measuring the liability for future policy benefits. Under this methodology, a liability for future policy benefits is accrued when premium revenue is recognized. The liability, which represents the present value of future benefits to be paid to or on behalf of policyholders and related expenses less the present value of future net premiums (portion of the gross premium required to provide for all benefits and expenses), is estimated using methods that include assumptions applicable at the time the insurance contracts are made with provisions for the risk of adverse deviation, as appropriate. Original assumptions continue to be used in subsequent accounting periods to determine changes in the liability for future policy benefits (often referred to as the "lock-in concept"), unless a premium deficiency exists. The result of the net premium valuation methodology is that the liability at any point in time represents an accumulation of the portion of premiums received to date expected to be needed to fund future benefits (i.e., net premiums received to date), less any benefits and expenses already paid. The liability does not necessarily reflect the full policyholder obligation the Company expects to pay at the conclusion of the contract since a portion of that obligation would be funded by net premiums received in the future and would be recognized in the liability at that time. We perform premium deficiency tests using best estimate assumptions as of the testing date without provisions for adverse deviation. If the liabilities determined based on these best estimate assumptions are greater than the net reserves (i.e., GAAP reserves net of any DAC, DSI or VOBA asset), the existing net reserves are adjusted by first reducing these assets by the amount of the deficiency or to zero through a charge to current period earnings. If the deficiency is more than these asset balances for insurance contracts, we then increase the net reserves by the excess, again through a charge to current period earnings. If a premium deficiency is recognized, the assumptions as of the premium deficiency test date are locked-in and used in subsequent valuations and the net reserves continue to be subject to premium deficiency testing. In addition, for limited-payment contracts, future policy benefit reserves also include a deferred profit liability representing gross premiums received in

excess of net premiums. The deferred profits are generally recognized in revenue in a constant relationship with insurance in force or with the amount of expected future benefit payments.

- For certain contract features, such as those related to guaranteed minimum death benefits (“GMDB”), guaranteed minimum income benefits (“GMIB”) and no-lapse guarantees, a liability is established when associated assessments (which include policy charges for administration, mortality, expense, surrender, and other, regardless of how characterized) are recognized. This liability is established using current best estimate assumptions and is based on the ratio of the present value of total expected excess payments (e.g., payments in excess of account value) over the life of the contract divided by the present value of total expected assessments (i.e., benefit ratio). The liability equals the current benefit ratio multiplied by cumulative assessments recognized to date, plus interest, less cumulative excess payments to date. The result of the benefit ratio method is that the liability at any point in time represents an accumulation of the portion of assessments received to date expected to be needed to fund future excess payments, less any excess payments already paid. The liability does not necessarily reflect the full policyholder obligation the Company expects to pay at the conclusion of the contract since a portion of that excess payment would be funded by assessments received in the future and would be recognized in the liability at that time. Similar to as described above for DAC, the reserves are subject to adjustments based on annual reviews of assumptions and quarterly adjustments for experience, including market performance. These adjustments reflect the impact on the benefit ratio of using actual historical experience from the issuance date to the balance sheet date plus updated estimates of future experience. The updated benefit ratio is then applied to all prior periods’ assessments to derive an adjustment to the reserve recognized through a benefit or charge to current period earnings.
- For certain product guarantees, primarily certain optional living benefit features of the variable annuity products in our Individual Annuities segment including guaranteed minimum accumulation benefits (“GMAB”), guaranteed minimum withdrawal benefits (“GMWB”) and guaranteed minimum income and withdrawal benefits (“GMIWB”), the benefits are accounted for as embedded derivatives using a fair value accounting framework. The fair value of these contracts is calculated as the present value of expected future benefit payments to contractholders less the present value of assessed rider fees attributable to the embedded derivative feature. Under U.S. GAAP, the fair values of these benefit features are based on assumptions a market participant would use in valuing these embedded derivatives. Changes in the fair value of the embedded derivatives are recorded quarterly through a benefit or charge to current period earnings. For additional information regarding the valuation of these embedded derivatives, see Note 6 to the Consolidated Financial Statements.
- In certain instances, the policyholder liability for a particular line of business may not be deficient in the aggregate to trigger loss recognition, but the pattern of earnings may be such that profits are expected to be recognized in earlier years followed by losses in later years. In these situations, accounting standards require that an additional liability (Profits Followed by Losses or “PFL” liability) be recognized by an amount necessary to sufficiently offset the losses that would be recognized in later years. The PFL liability is based on our current estimate of the present value of the amount necessary to offset losses anticipated in future periods. Because the liability is measured on a discounted basis, there will also be accretion into future earnings through an interest charge, and the liability will ultimately be released into earnings as an offset to future losses. Historically, the Company’s PFL liabilities have been predominantly associated with certain universal life contracts that measure net GAAP reserves using current best estimate assumptions and accordingly, have been updated each quarter using current in-force and market data and as part of the annual assumption update. At the target accrual date (i.e., date of peak deficiency), the PFL liability transitions to a premium deficiency reserve and, for universal life products, will continue to be updated each quarter using current in-force and market data and as part of the annual assumption update.

The assumptions used in establishing reserves are generally based on the Company’s experience, industry experience and/or other factors, as applicable. We update our actuarial assumptions, such as mortality, morbidity, retirement and policyholder behavior assumptions, annually, unless a material change is observed in an interim period that we feel is indicative of a long-term trend. Generally, we do not expect trends to change significantly in the short-term and, to the extent these trends may change, we expect such changes to be gradual over the long-term. In a sustained low interest rate environment, there is an increased likelihood that the reserves determined based on best estimate assumptions may be greater than the net liabilities.

The following paragraphs provide additional details about the reserves we have established:

*International Businesses.* The reserves for future policy benefits of our International Businesses, which as of December 31, 2021, represented 44% of our total future policy benefit reserves, primarily relate to non-participating whole life and term life products and endowment contracts, and are generally calculated using the net premium valuation methodology, as described above. The primary assumptions used in determining expected future benefits and expenses include mortality, lapse, morbidity, investment yield and maintenance expense assumptions. Reserves also include claims reported but not yet paid, and claims incurred but not yet reported. In addition, future policy benefit reserves for certain contracts also include amounts related to our deferred profit liability, as described above.

*Retirement.* The reserves for future policy benefits of our Retirement segment, which as of December 31, 2021, represented 24% of our total future policy benefit reserves, primarily relate to our non-participating life contingent group annuity and structured settlement products and are generally calculated using the net premium valuation methodology, as described above. The primary assumptions used in establishing these reserves include mortality, retirement, maintenance expense and investment yield assumptions. In addition, future policy benefit reserves for certain contracts also include amounts related to our deferred profit liability, as described above.

*Individual Annuities.* The reserves for future policy benefits of our Individual Annuities segment, which as of December 31, 2021, represented 4% of our total future policy benefit reserves, primarily relate to reserves for the GMDB and GMIB features of our variable annuities, and for the optional living benefit features that are accounted for as embedded derivatives. As discussed above, in establishing reserves for GMDBs and GMIBs, we utilize current best estimate assumptions. The primary assumptions used in establishing these reserves generally include annuitization, lapse, withdrawal and mortality assumptions, as well as interest rate and equity market return

assumptions. Lapse rates are adjusted at the contract level based on the in-the-moneyness of the 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 are also generally assumed to be lower for the period where surrender charges apply. For life contingent payout annuity contracts, we establish reserves using best estimate assumptions with provisions for adverse deviations as of inception or best estimate assumptions as of the most recent loss recognition date.

The reserves for certain optional living benefit features, including GMAB, GMWB and GMIWB are accounted for as embedded derivatives at fair value, as described above. This methodology could result in either a liability or contra-liability balance, given changing capital market conditions and various actuarial assumptions. Since there is no observable active market for the transfer of these obligations, the valuations are calculated using internally-developed models with option pricing techniques. The models are based on a risk neutral valuation framework and incorporate premiums for risks inherent in valuation techniques, inputs, and the general uncertainty around the timing and amount of future cash flows. The significant inputs to the valuation models for these embedded derivatives include capital market assumptions, such as interest rate levels and volatility assumptions, the Company's market-perceived risk of its own non-performance risk ("NPR"), as well as actuarially-determined assumptions, including mortality rates and contractholder behavior, such as lapse rates, benefit utilization rates and withdrawal rates. Capital market inputs and actual contractholders' account values are updated each quarter based on capital market conditions as of the end of the quarter, including interest rates, equity markets and volatility. In the risk neutral valuation, the initial swap curve drives the total returns used to grow the contractholders' account values. The Company's discount rate assumption is based on the London Inter-Bank Offered Rate ("LIBOR") swap curve adjusted for an additional spread, which includes an estimate of NPR. Actuarial assumptions, including contractholder behavior and mortality, are reviewed at least annually, and updated based upon emerging experience, future expectations and other data, including any observable market data, such as available industry studies or market transactions such as acquisitions and reinsurance transactions. For additional information regarding the valuation of these optional living benefit features, see Note 6 to the Consolidated Financial Statements.

*Individual Life.* The reserves for future policy benefits of our Individual Life segment, which as of December 31, 2021, represented 7% of our total future policy benefit reserves, primarily relate to term life, universal life and variable life products. For term life contracts, the future policy benefit reserves are generally calculated using the net premium valuation methodology, as described above. The primary assumptions used in determining expected future benefits and expenses include mortality, lapse, investment yield and maintenance expense assumptions. For variable and universal life products, which include universal life contracts that contain no-lapse guarantees, reserves for future policy benefits are primarily established using the reserving methodology for GMDB and GMIB contracts, which utilizes current best estimate assumptions, as discussed above. The primary assumptions used in establishing these reserves generally include mortality, lapse, and premium pattern, as well as interest rate and equity market return assumptions. Reserves also include claims reported but not yet paid, and claims incurred but not yet reported.

*Group Insurance.* The reserves for future policy benefits of our Group Insurance segment, which as of December 31, 2021, represented 2% of our total future policy benefit reserves, primarily relate to reserves for group life and disability benefits. For short-duration contracts, a liability is established when the claim is incurred. The reserves for group life and disability benefits also include a liability for unpaid claims and claim adjustment expenses, which relates primarily to the group long-term disability product. This liability represents our estimate of the present value of future disability claim payments and expenses as well as estimates of claims that have been incurred, but have not yet been reported, as of the balance sheet date. The primary assumptions used in determining expected future claim payments are claim termination factors, an assumed interest rate and expected Social Security offsets. The remaining reserves for future policy benefits for group life and disability benefits relate primarily to our group life business, and include reserves for waiver of premium, claims reported but not yet paid, and claims incurred but not yet reported. The waiver of premium reserve is calculated as the present value of future benefits and utilizes assumptions such as expected mortality and recovery rates. The reserve for claims reported but not yet paid is based on the inventory of claims that have been reported but not yet paid. The reserve for claims incurred but not yet reported is estimated using expected patterns of claims reporting.

*Corporate and Other.* The reserves for future policy benefits of our Corporate & Other operations, which as of December 31, 2021, represented 3% of our total future policy benefit reserves, primarily relate to our long-term care products and are generally calculated using the net premium valuation methodology, as described above. Due to the recognition of a premium deficiency in the first quarter of 2020 as a result of the decline in interest rates, the active life reserves associated with our long-term care contracts are valued with the best estimate assumptions at that time. The primary assumptions used in establishing these reserves include interest rate, morbidity, mortality, lapse, premium rate increase and maintenance expense assumptions. In addition, certain reserves for our long-term care products, including our disabled life reserves, are established each reporting period using current best estimate assumptions.

*Closed Block Division.* The future policy benefit reserves for the traditional participating life insurance products of the Closed Block division, which as of December 31, 2021, represented 16% of our total future policy benefit reserves are determined using the net premium valuation methodology, as described above. Under this method, the future policy benefit reserves are accrued as a level proportion of the premium paid by the policyholder. In applying this method, we use mortality assumptions to determine our expected future benefits and expected future premiums, and apply an interest rate to determine the present value of both of these amounts. The mortality assumptions are based on standard industry mortality tables that were used to determine the cash surrender value of the policies, and the interest rates used are the interest rates used to calculate the cash surrender value of the policies.

### ***Policyholders' Account Balances***

Policyholders' account balances liability represents the contract value that has accrued to the benefit of the policyholder as of the balance sheet date. This liability is primarily associated with the accumulated account deposits, plus interest credited, less policyholder withdrawals and other charges assessed against the account balance, as applicable. Our unearned revenue reserve also reported as a component of "Policyholders' account balances" primarily relates to the variable and universal life products within our Individual Life and



International Businesses segments and represents policy charges for services to be provided in future periods. The charges are deferred as unearned revenue and are generally amortized over the expected life of the contract in proportion to the product's estimated gross profits, similar to DAC, DSI and VOBA as discussed above. Policyholders' account balances also include amounts representing the fair value of embedded derivative instruments associated with the index-linked features of certain universal life and annuity products. For additional information regarding the valuation of these embedded derivatives, see Note 6 to the Consolidated Financial Statements.

## Sensitivities for Insurance Assets and Liabilities

The following table summarizes the aggregate impact that could result on each of the listed financial statement balances from changes in certain key assumptions. The figures below are presented in aggregate for the Company. The information below is for illustrative purposes and includes only the hypothetical direct impact on December 31, 2021 balances of changes in a single assumption and not changes in any combination of assumptions. Additionally, the illustration of the insurance assumption impacts below reflects a parallel shift in the insurance assumptions across the Company; however, these may be non-parallel in practice and only applicable to specific businesses. Changes in current assumptions could result in impacts to financial statement balances that are in excess of the amounts illustrated. A description of the estimates and assumptions used in the preparation of each of these financial statement balances is provided above. For traditional long-duration and limited-payment contracts, U.S. GAAP requires the original assumptions used when the contracts are issued to be locked-in and that those assumptions be used in all future liability calculations as long as the resulting liabilities are adequate to provide for the future benefits and expenses (i.e., there is no premium deficiency). Therefore, these products are not reflected in the sensitivity table below unless the hypothetical change in assumption would result in an adverse impact that would cause a premium deficiency. Similarly, the impact of any favorable change in assumptions for traditional long-duration and limited-payment contracts is not reflected in the table below given that the current assumption is required to remain locked-in, and instead the positive impacts would be recognized into net income over the life of the policies in force.

The impacts presented within this table exclude the following:

- The impacts of our asset liability management strategy, which seeks to offset the changes in the balances presented within this table and is primarily composed of investments and derivatives. See further below for a discussion of the estimates and assumptions involved with the application of U.S. GAAP accounting policies for these instruments and "Quantitative and Qualitative Disclosures about Market Risk" for hypothetical impacts on related balances as a result of changes in certain significant assumptions.
- The impacts of our Long-Term Care business, a component of our Divested and Run-off Businesses within our Corporate and Other operations. Long-Term Care Business sensitivities are presented separately from the immediately following table (see "—Sensitivities for the Long-Term Care business within Corporate and Other"). While the accounting for long-term care products primarily follows the locked-in assumptions model described above, as a result of the decline in interest rates in the first quarter of 2020, this business recognized a premium deficiency and unlocked and updated the previously locked-in assumptions used in the valuation model. Sensitivities are presented separately in order to provide stand-alone and supplementary information.

<u>Hypothetical change in current assumptions:</u>	December 31, 2021		
	Increase (Decrease) in		
	Deferred Policy Acquisition Costs, Deferred Sales Inducements and Value of Business Acquired(1)	Future Policy Benefits and Policyholders' Account Balances(2)	Net Impact
	(in millions)		
<b>Long-term interest rate:</b>			
Increase by 25 basis points	\$ 55	\$ (55)	\$ 110
Decrease by 25 basis points	\$ (50)	\$ 50	\$ (100)
<b>Long-term equity expected rate of return:</b>			
Increase by 50 basis points	\$ 110	\$ (85)	\$ 195
Decrease by 50 basis points	\$ (45)	\$ 65	\$ (110)
<b>NPR credit spread:</b>			
Increase by 50 basis points	\$(415)	\$(1,920)	\$ 1,505
Decrease by 50 basis points	\$ 455	\$ 2,090	\$(1,635)
<b>Mortality:</b>			
Increase by 1%	\$ (35)	\$ (125)	\$ 90
Decrease by 1%	\$ 35	\$ 125	\$ (90)
<b>Lapse:</b>			
Increase by 10%	\$(125)	\$ (715)	\$ 590
Decrease by 10%	\$ 130	\$ 740	\$ (610)

- (1) Includes the impact on deferred policy acquisition costs, deferred sales inducements and value of business acquired presented within "Assets held-for-sale" on the Consolidated Statements of Financial Position as of December 31, 2021. See Note 1 to the Consolidated Financial Statements for additional information on the pending dispositions.
- (2) Includes the impact on future policy benefits and policyholders' account balances presented within "Liabilities held-for-sale" on the Consolidated Statements of Financial Position as of December 31, 2021. See Note 1 to the Consolidated Financial Statements for additional information on the pending dispositions.

## Sensitivities for the Long-Term Care Business within Corporate and Other

The following table summarizes certain significant assumptions made in establishing best estimate reserves for long-term care products to perform premium deficiency testing, and the net impact that could result to the best estimate reserves from changes in these assumptions should they occur. Under U.S. GAAP, reserves for long-term care products are primarily calculated using the locked-in assumptions concept described above. As such, the adverse hypothetical impacts illustrated in the table below are those that would increase our best estimate reserves and, when compared to our GAAP reserves, may cause a premium deficiency that would require us to unlock and update our assumptions and record a charge to net income. The favorable hypothetical impacts in the table below would decrease our best estimate reserves but would not result in an immediate decrease to our GAAP reserves (given that we would be required to leave the current assumptions locked-in); rather, the positive impacts would be recognized into net income over the life of the policies in force.

The information below is for illustrative purposes and includes the impacts of changes in a single assumption and not changes in any combination of assumptions. As a result of emerging experience, changes in current assumptions may result in impacts to the best estimate reserve in future periods that are in excess of or lower than the amounts illustrated.

Assumption	December 31, 2021		Increase (Decrease) in Best Estimate Reserve (in millions)
	Current Best Estimate Assumption	Best Estimate Assumption Change	
Mortality Improvement	Based on "G2" industry mortality improvement scale, grossed up to apply to only healthy lives	Remove all mortality improvement	\$(350)
Claim Incidence	Based on Company and industry experience. No reflection of future claim management efficiencies	Increase / decrease in claim incidence: +5% to -5%	\$300 - \$(300)
Average Ultimate Lapse Rate	Individual: 0.7% Group: 0.7%	-10 basis points to +10 basis points	\$100 - \$(100)
Investment Rate(1)	Weighted average of 4.81%	-25 basis points to +25 basis points	\$400 - \$(400)
Expected Future Premium Rate Increase Approvals	Approximately \$0.5 billion for the rate increase program(2)	Decrease / increase unapproved rate increases by: -10% to +10%	\$50 - \$(50)

(1) Investment rate reflects the expected investment yield over the life of the block of business, and is derived from the portfolio yield, current reinvestment rates and our intermediate and long-term assumptions for investment yields.

(2) Includes expected future premium rate increases and benefit reductions in lieu of rate increases, not yet approved.

## Other Accounting Policies

### Goodwill

As of December 31, 2021, our goodwill balance of \$1,804 million is primarily reflected in the following reporting units: \$1,080 million for Assurance IQ, \$558 million for PGIM, and \$130 million for Gibraltar Life and Other.

The Full Service Retirement business has been classified as held-for-sale and as a divested business within Corporate & Other and its assets, including goodwill of \$455 million, are presented within "Assets held-for-sale" on the Consolidated Statement of Financial Position as of December 31, 2021. See Note 1 to the Consolidated Financial Statements for further information on the pending disposition of the Full Service Retirement business.

We test goodwill for impairment on an annual basis, as of December 31 and more frequently if events or circumstances indicate the potential for impairment is more likely than not. The goodwill impairment analysis is performed at the reporting unit level, which is the same as, or one level below, our operating segments. Although the accounting guidance provides for an optional qualitative assessment for testing goodwill impairment, all of our reporting units elected to perform the quantitative test, which compares each reporting unit's estimated fair value to its carrying value. The carrying value represents the capital that the business would require if operating as a standalone entity.

The annual quantitative goodwill impairment analysis for Assurance IQ utilized both market valuation techniques based on both sales and Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") forward multiples and discounted cash flow valuation techniques. The estimated fair value of Assurance IQ as of December 31, 2021 was based on weighting the results of each approach and included assumptions that a market participant would use to value the business. Based on the goodwill impairment test performed as of December 31, 2021, the Company recognized a non-cash goodwill impairment pre-tax charge of \$1,060 million, (\$837 million after-tax) for Assurance IQ driven by a decline in peer valuations combined with a reduction in the forecasted cash flows, as described further below.

The market approaches derived the value of Assurance IQ based on comparable publicly traded companies. Each comparable company was assigned a relative weight based on various factors, primarily focused on the comparability of lines of business and business mix, with additional considerations given to comparability of business lifecycle, growth, and profitability. Forward market multiples were

developed for the comparable companies using independent analysts' consensus estimates for each company's forecasted sales and EBITDA. The market multiples were then applied to Assurance IQ's forecasted results, and an implied control premium, reflective of expected synergies a market participant would realize, was added to determine a total estimated fair value for the reporting unit. The value of the comparable publicly traded companies declined in 2021, particularly during the last three months of the year, which significantly impacted the valuation of Assurance IQ as of December 31, 2021, as the market multiples are utilized in both the market approaches and in estimating the terminal value under the discounted cash flow approaches. The deterioration in the peer valuations was mainly driven by sector-wide concerns attributed to margin compression and increased customer attrition, among other factors.

The discounted cash flow approaches estimated the fair value of Assurance IQ by applying a discount rate, derived from a capital asset pricing model and reflecting a market expected rate of return for the reporting unit, to its projected future cash flows. The projected future cash flows involved significant judgement and were based on our internal forecasts including expected synergies, and a range of terminal values, which incorporated an expected long-term growth rate and market-based multiples. Revisions to the long-term forecasts, following the annual Medicare enrollment period in the fourth quarter of 2021, reflected lower growth rates in Medicare sales driven by slower agent growth, and increased operating expenses, along with other changes in business plans, including shifts in the product mix. The long-term forecasts also incorporated changes in the current and expected industry and market conditions and trends, in addition to the business specific factors. These revisions led to declines in the cash flow projections, consistent with how a market participant would assess the outlook of the business.

The \$1,060 million pre-tax impairment charge resulted in a \$1,080 million goodwill asset assigned to the Assurance IQ reporting unit as of December 31, 2021. See "Risk Factors—Strategic Risk" included in Prudential Financial's 2021 Annual Report on Form 10-K for additional information on risks that may impact the performance and fair value of Assurance IQ and may result in additional impairment charges in future periods.

Gibraltar Life and Other and PGIM completed a quantitative impairment analysis using an earnings multiple approach, which resulted in their fair value exceeding their carrying value by a weighted average of 545% as of December 31, 2021.

Estimating the fair value of reporting units is a subjective process that involves the use of significant estimates by management. For example, as of December 31, 2021, a 1% change in the discount rate applied as part of the discounted cash flow approaches would result in an approximately \$100 million change in the overall estimated fair value of Assurance IQ, while a 1% change in the growth rate in Medicare sales would change the estimated fair value of Assurance IQ by approximately \$65 million. While changes in individual factors or events impact the valuation of our reporting units, it is the magnitude of the change of all valuation inputs, considered in totality, that will ultimately determine the impact to the fair value of our businesses holding goodwill. For all reporting units tested, unanticipated changes in business performance or the regulatory environment, market declines or other events impacting the fair value of these businesses, including changes in market multiples, discount rates, interest rates and growth rate assumptions or increases in the level of equity required to support these businesses, could cause additional goodwill impairment charges in future periods. For additional information on goodwill and our reporting segments, see Note 2 and Note 10 to the Consolidated Financial Statements.

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

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

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

We present at fair value in the statements of financial position our debt security investments classified as available-for-sale, investments classified as trading such as our assets supporting experience-rated contractholder liabilities and certain fixed maturities, equity securities, and certain investments within "Other invested assets," such as derivatives. For additional information regarding the key estimates and assumptions surrounding the determination of fair value of fixed maturity and equity securities, as well as derivative instruments, embedded derivatives and other investments, see Note 6 to the Consolidated Financial Statements and "—Valuation of Assets and Liabilities—Fair Value of Assets and Liabilities."

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



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

For equity method investments, the carrying value of these investments is written down or impaired to fair value when a decline in value is considered to be other-than-temporary.

### ***Pension and Other Postretirement Benefits***

We sponsor pension and other postretirement benefit plans covering employees who meet specific eligibility requirements. Our net periodic costs for these plans consider an assumed discount (interest) rate, an expected rate of return on plan assets, expected increases in compensation levels, mortality and trends in health care costs. Of these assumptions, our expected rate of return assumptions and our discount rate assumptions have historically had the most significant effect on our net period costs associated with these plans.

We determine our expected rate of return on plan assets based upon a building block approach that considers plan asset mix, risk free rates, inflation, real return, term premium, credit spreads, equity risk premium and capital appreciation as well as expenses, the effect of active management and the effect of rebalancing for the equity, debt and real estate asset mix applied on a weighted average basis to our pension asset portfolio. See Note 18 to the Consolidated Financial Statements for our actual asset allocations by asset category and the asset allocation ranges prescribed by our investment policy guidelines for both our pension and other postretirement benefit plans. Our assumed long-term rate of return for 2021 was 6.00% for our domestic pension plans and 6.75% for our other postretirement benefit plans. Given the amount of plan assets as of December 31, 2020, the beginning of the measurement year, if we had assumed an expected rate of return for both our domestic pension and other domestic postretirement benefit plans that was 100 bps higher or 100 bps lower than the rates we assumed, the change in our net periodic costs would have been as shown in the table below. The information provided in the table below considers only changes in our assumed long-term rate of return given the level and mix of invested assets at the beginning of the measurement year, without consideration of possible changes in any of the other assumptions described above that could ultimately accompany any changes in our assumed long-term rate of return.

<b>For the year ended December 31, 2021</b>		
	<b>Increase/(Decrease) in Net Periodic Pension Cost</b>	<b>Increase/(Decrease) in Net Periodic Other Postretirement Cost</b>
	<b>(in millions)</b>	
Increase in expected rate of return by 100 bps .....	\$(141)	\$(15)
Decrease in expected rate of return by 100 bps .....	\$ 141	\$ 15

Foreign pension plans represent 4% of plan assets at the beginning of 2021. An increase in expected rate of return by 100 bps would result in a decrease in net periodic pension costs of \$6 million; conversely, a decrease in expected rate of return by 100 bps would result in an increase in net periodic pension costs of \$4 million.

We determine our discount rate, used to value the pension and postretirement benefit obligations, based upon rates commensurate with current yields on high quality corporate bonds. See Note 18 to the Consolidated Financial Statements for information regarding the December 31, 2020 methodology we employed to determine our discount rate for 2021. Our assumed discount rate for 2021 was 2.55% for our domestic pension plans and 2.40% for our other domestic postretirement benefit plans. Given the amount of pension and postretirement obligations as of December 31, 2020, the beginning of the measurement year, if we had assumed a discount rate for both our domestic pension and other postretirement benefit plans that was 100 bps higher or 100 bps lower than the rates we assumed, the change in our net periodic costs would have been as shown in the table below. The information provided in the table below considers only changes in our assumed discount rate without consideration of possible changes in any of the other assumptions described above that could ultimately accompany any changes in our assumed discount rate.

<b>For the year ended December 31, 2021</b>		
	<b>Increase/(Decrease) in Net Periodic Pension Cost</b>	<b>Increase/(Decrease) in Net Periodic Other Postretirement Cost</b>
	<b>(in millions)</b>	
Increase in discount rate by 100 bps .....	\$(142)	\$(4)
Decrease in discount rate by 100 bps .....	\$ 169	\$ 4

Foreign pension plans represent 13% of plan obligations at the beginning of 2021. An increase in discount rate by 100 bps would result in a decrease in net periodic pension costs of \$6 million; conversely, a decrease in discount rate by 100 bps would result in an increase in net periodic pension costs of \$10 million.

Given the application of the authoritative guidance for accounting for pensions, and the deferral and amortization of actuarial gains and losses arising from changes in our assumed discount rate, the change in net periodic pension cost arising from an increase in the assumed discount rate by 100 bps would not always be expected to equal the change in net periodic pension cost arising from a decrease in the assumed discount rate by 100 bps.

For a discussion of our expected rate of return on plan assets and discount rate for our qualified pension plan in 2021, see “—Results of Operations by Segment—Corporate and Other.”

For purposes of calculating pension income from our own qualified pension plan for the year ended December 31, 2022, we increased the discount rate to 2.85% from 2.55% in 2021. The expected rate of return on plan assets will increase to 6.00% in 2022 from 5.75% in 2021, and the assumed rate of increase in compensation will remain unchanged at 4.5%.

In addition to the effect of changes in our assumptions, the net periodic cost or benefit from our pension and other postretirement benefit plans may change due to factors such as actual experience being different from our assumptions, special benefits to terminated employees, or changes in benefits provided under the plans.

At December 31, 2021, the sensitivity of our domestic and foreign pension and postretirement obligations to a 100 basis point change in discount rate was as follows.

	December 31, 2021	
	Increase/(Decrease) in Pension Benefits Obligation	Increase/(Decrease) in Accumulated Postretirement Benefits Obligation
	(in millions)	
Increase in discount rate by 100 bps . . . . .	\$(1,559)	\$(140)
Decrease in discount rate by 100 bps . . . . .	\$ 1,866	\$ 165

## Taxes on Income

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

An increase or decrease in our effective tax rate by one percentage point would have resulted in a decrease or increase in our 2021 “Total income tax expense (benefit)” of \$94 million.

*The CARES Act.* On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was enacted into law. One provision of the CARES Act amends the Tax Act of 2017 and allows companies with net operating losses (“NOLs”) originating in 2018, 2019, or 2020 to carry back those losses up to five years. For 2020, the Company recorded an income tax benefit of \$51 million and \$149 million from carrying the 2018 and 2020 NOLs back to tax years that have a 35% tax rate.

## Contingencies

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

## Commission Revenue

For digital insurance brokerage placement services, the Company earns both initial and renewal commissions as compensation for the placement of insurance policies with insurance carriers. At the effective date of the policy, the Company records within “Other income” the expected lifetime revenue for the initial and renewal commissions considering estimates of the timing of future policy cancellations. These estimates are reassessed each reporting period and any changes in estimates are reflected in the current period.

## 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 controls 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. While the magnitude of impacts is still being assessed, the Company expects the standard to result in a significant decrease to “Total equity” upon adoption, primarily from remeasuring in-force contract liabilities using current upper-medium grade fixed income instrument yields through “Accumulated other comprehensive income (loss)”. The standard also requires significantly enhanced disclosures. In addition to the significant impacts to the balance sheet upon adoption, the Company also expects an impact to the pattern of earnings emergence following the transition date. See Note 2 to the Consolidated Financial Statements for a more detailed discussion of ASU 2018-12, as well as other accounting pronouncements issued but not yet adopted and newly adopted accounting pronouncements.

## Results of Operations by Segment

### PGIM

#### *Business Updates*

- In March 2021, we sold our 35% ownership stake in Pramerica SGR, an asset management joint venture in Italy, to our partner UBI Banca, (acquired in 2020 by Intesa Sanpaolo Group), resulting in a pre-tax gain of \$378 million. See Note 1 to the Consolidated Financial Statements for additional information.
- In August 2021, we completed the acquisition of Montana Capital Partners, a European-based private equity secondaries asset manager with approximately \$3 billion of assets under management.
- In December 2021, we completed the acquisition of Green Harvest Asset Management LLC, a separately managed account platform providing customized solutions for the high net worth market with approximately \$2 billion of assets under management.

#### *Operating Results*

The following table sets forth PGIM’s operating results for the periods indicated:

	Year ended December 31,		
	2021	2020	2019
	(in millions)		
<b>Operating results(1):</b>			
Revenues	\$4,493	\$4,153	\$3,589
Expenses	2,850	2,891	2,591
Adjusted operating income	1,643	1,262	998
Realized investment gains (losses), net, and related adjustments	(3)	0	(1)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	69	159	8
Other adjustments(2)	(13)	0	0
Income (loss) before income taxes and equity in earnings of operating joint ventures	<u>\$1,696</u>	<u>\$1,421</u>	<u>\$1,005</u>

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

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

#### *Adjusted Operating Income*

**2021 to 2020 Annual Comparison.** Adjusted operating income increased \$381 million, primarily reflecting an increase in service, distribution and other revenues driven by a gain from the sale of our Pramerica SGR joint venture in the current year, and higher asset management fees, net of related expenses, due to higher average assets under management as a result of market appreciation, including strong investment performance, and third-party inflows. The increases were partially offset by lower other related revenues, net of related expenses, primarily driven by more favorable seed and co-investment results in the prior year from the impact of tightening credit spreads on fixed income investments, and lower performance-based incentive fees reflecting more favorable fees earned in the prior year, as well as higher compensation expenses associated with business growth and certain long-term employee compensation plans.

## 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:

	Year ended December 31,		
	2021	2020	2019
	(in millions)		
<b>Revenues by type:</b>			
Asset management fees by source:			
Institutional customers	\$1,439	\$1,350	\$1,283
Retail customers(1)	1,275	1,003	878
General account	588	557	521
Total asset management fees	3,302	2,910	2,682
Other related revenues by source:			
Incentive fees	154	206	169
Transaction fees	27	26	22
Co- and seed investments	49	122	79
Commercial mortgage(2)	173	198	110
Total other related revenues	403	552	380
Service, distribution and other revenues(3)	788	691	527
Total revenues	\$4,493	\$4,153	\$3,589

- (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) Includes payments from Wells Fargo under an agreement dated as of July 30, 2004, implementing arrangements with respect to money market mutual funds in connection with the combination of our retail securities brokerage and clearing operations with those of Wells Fargo. The agreement extended for ten years from the Wachovia Securities joint venture termination date of December 31, 2009 to December 31, 2019. The revenue from Wells Fargo under this agreement was \$60 million for the year ended December 31, 2019.

**2021 to 2020 Annual Comparison.** Revenues increased \$340 million. Asset management fees increased primarily reflecting higher average assets under management as a result of market appreciation, including strong investment performance, and third-party inflows. Service, distribution and other revenues increased primarily reflecting a gain from the sale of our Pramerica SGR joint venture in the current year, partially offset by more favorable revenues from certain consolidated funds in the prior year (which were fully offset by higher expenses related to noncontrolling interests in these funds). Other related revenues decreased primarily driven by more favorable seed and co-investment results in the prior year from the impact of tightening credit spreads, and lower performance-based incentive fees reflecting more favorable fees earned in the prior year.

Expenses decreased \$41 million, primarily reflecting higher variable expenses in the prior year associated with higher revenues of certain consolidated funds, as discussed above. This decrease was partially offset by an increase in other variable expenses, primarily reflecting higher asset management fees, as well as higher compensation expenses primarily driven by business growth and certain long-term employee compensation plans tied to performance factors.

## Assets Under Management

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

	December 31,		
	2021	2020	2019
	(in billions)		
Assets Under Management(1) (at fair value):			
Public equity	\$ 216.2	\$ 202.4	\$ 165.7
Public fixed income	980.7	1,004.5	885.9
Real estate	132.6	121.5	117.1
Private credit and other alternatives	108.7	106.5	97.5
Multi-asset	85.6	63.7	64.8
Total PGIM assets under management	<u>\$1,523.8</u>	<u>\$1,498.6</u>	<u>\$1,331.0</u>
Assets under management within other reporting segments(2)	<u>218.5</u>	<u>222.3</u>	<u>219.9</u>
Total PFI assets under management	<u>\$1,742.3</u>	<u>\$1,720.9</u>	<u>\$1,550.9</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.

**2021 to 2020 Annual Comparison.** PGIM’s assets under management increased \$25 billion in 2021, primarily reflecting market appreciation, including strong investment performance, and third-party inflows.

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

	December 31,		
	2021	2020	2019
	(in billions)		
<b>Assets Under Management(1) (at fair value):</b>			
Institutional customers .....	\$ 629.4	\$ 614.9	\$ 552.8
Retail customers .....	401.4	372.0	305.6
General account .....	493.0	511.7	472.6
Total PGIM assets under management .....	<u>\$1,523.8</u>	<u>\$1,498.6</u>	<u>\$1,331.0</u>
Assets under management within other reporting segments(2) .....	218.5	222.3	219.9
Total PFI assets under management .....	<u>\$1,742.3</u>	<u>\$1,720.9</u>	<u>\$1,550.9</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:

	December 31,		
	2021	2020	2019
	(in billions)		
Beginning assets under management .....	\$1,498.6	\$1,331.0	\$1,181.5
Institutional third-party flows .....	10.9	3.0	(6.5)
Retail third-party flows .....	0.1	17.2	5.7
Total third-party flows .....	<u>11.0</u>	<u>20.2</u>	<u>(0.8)</u>
Affiliated flows(1) .....	(12.2)	(8.5)	(3.9)
Market appreciation (depreciation)(2) .....	35.4	146.7	148.6
Foreign exchange rate impact .....	(12.4)	6.8	0.5
Net money market activity and other increases (decreases) .....	<u>3.4</u>	<u>2.4</u>	<u>5.1</u>
Ending assets under management .....	<u>\$1,523.8</u>	<u>\$1,498.6</u>	<u>\$1,331.0</u>

- (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.

### *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 December 31, 2021, these assets increased approximately \$11 billion compared to December 31, 2020, primarily reflecting private capital deployed, partially offset by capital returned to investors.

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

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

	December 31,		
	2021	2020	2019
	(in billions)		
<b>Private capital deployed:</b>			
Real estate debt and equity .....	\$34.7	\$24.4	\$26.1
Private credit and equity .....	14.5	12.6	13.2
Total private capital deployed .....	<u>\$49.2</u>	<u>\$37.0</u>	<u>\$39.3</u>

### *Seed and Co-Investments*

As of December 31, 2021 and December 31, 2020, PGIM had approximately \$1,175 million and \$1,205 million of seed investments and \$517 million and \$685 million of co-investments at carrying value, respectively, primarily consisting of public fixed income, public equity and real estate investments.

## **U.S. Businesses**

### *Operating Results*

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

	Year ended December 31,		
	2021	2020(1)	2019(1)
	(in millions)		
Adjusted operating income before income taxes:			
U.S. Businesses:			
Retirement .....	\$ 2,178	\$ 1,385	\$ 1,238
Group Insurance .....	(455)	(16)	285
Individual Annuities .....	1,901	1,470	1,843
Individual Life .....	393	(48)	87
Assurance IQ(2) .....	(142)	(88)	(9)
Total U.S. Businesses .....	<u>3,875</u>	<u>2,703</u>	<u>3,444</u>
Reconciling Items:			
Realized investment gains (losses), net, and related adjustments .....	1,839	(2,510)	(1,922)
Charges related to realized investment gains (losses), net .....	(296)	(121)	(58)
Market experience updates(3) .....	747	(591)	(408)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests .....	7	4	2
Other adjustments(4)(5) .....	(1,099)	51	(47)
Income (loss) before income taxes and equity in earnings of operating joint ventures .....	<u>\$ 5,073</u>	<u>\$ (464)</u>	<u>\$ 1,011</u>

- (1) Effective third quarter of 2021, the results of the Full Service Retirement business are included in the Divested and Run-off Businesses in Corporate and Other. Prior period amounts have been updated to conform to current period presentation. See Note 1 to the Consolidated Financial Statements for additional information about this disposition.
- (2) Assurance IQ was acquired by the Company in October 2019. See Note 1 to the Consolidated Financial Statements for additional information.
- (3) Represents the immediate impacts in current period results from changes in current market conditions on estimates of profitability, which are excluded from adjusted operating income beginning with the second quarter of 2019. See Note 22 to the Consolidated Financial Statements for additional information.
- (4) 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. See Note 22 to the Consolidated Financial Statements for additional information.
- (5) In the fourth quarter of 2021, the Company recognized a goodwill impairment of \$1,060 million related to Assurance IQ. See Note 2 and Note 10 to the Consolidated Financial Statements for additional information.

**2021 to 2020 Annual Comparison.** Adjusted operating income for our U.S. Businesses increased by \$1,172 million primarily due to:

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



## Retirement

### Business Update

- In July 2021, the Company entered into a definitive agreement to sell its Full Service Retirement business to Great-West Life & Annuity Insurance Company (“Great-West”). The transaction involves the sale of legal entities, reinsurance, and the transfer of contracts and brokerage accounts, and is expected to close in the first half of 2022, subject to the receipt of regulatory approvals and the satisfaction of customary closing conditions. See Note 1 to the 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. All prior period amounts have been restated to conform to current period presentation. As such, the following results are now solely reflective of Retirement’s Institutional Investment Products business. See “Business—Retirement” included in Prudential Financial’s 2021 Annual Report on Form 10-K for additional information about the Institutional Investment Products business.

### Operating Results

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

	Year ended December 31,		
	2021	2020	2019
	(in millions)		
<b>Operating results:</b>			
Revenues	\$15,298	\$10,051	\$13,003
Benefits and expenses	13,120	8,666	11,765
Adjusted operating income	2,178	1,385	1,238
Realized investment gains (losses), net, and related adjustments	206	(7)	291
Charges related to realized investment gains (losses), net	(17)	(1)	4
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	6	3	2
Income (loss) before income taxes and equity in earnings of operating joint ventures	\$ 2,373	\$ 1,380	\$ 1,535

### Adjusted Operating Income

**2021 to 2020 Annual Comparison.** Adjusted operating income increased \$793 million, including a favorable comparative net impact from our annual reviews and update of assumptions and other refinements. Results for 2021 and 2020 included net charges of \$14 million and \$20 million, respectively, from these updates, primarily driven by an increase in expected benefit payments. Excluding this item, adjusted operating income increased \$787 million, primarily driven by higher net investment spread results, reflecting higher income on non-coupon investments.

### Revenues, Benefits and Expenses

**2021 to 2020 Annual Comparison.** Revenues increased \$5,247 million. This increase primarily reflected higher pension risk transfer premiums due to new sales in the current year, with corresponding offsets in policyholders’ benefits, as discussed below, and higher net investment income and other income, primarily reflecting higher income on non-coupon investments.

Benefits and expenses increased \$4,454 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, benefits and expenses increased \$4,460 million driven primarily by an increase in policyholders’ benefits, including changes in reserves related to the higher pension risk transfer premiums discussed above.

### Account Values

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



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

	Year ended December 31,		
	2021	2020	2019
	(in millions)		
Beginning total account value	\$243,387	\$227,596	\$200,759
Additions(1)	21,967	22,469	31,101
Withdrawals and benefits	(20,825)	(18,288)	(16,743)
Change in market value, interest credited and interest income	1,881	8,854	9,089
Other(2)	(690)	2,756	3,390
Ending total account value	<u>\$245,720</u>	<u>\$243,387</u>	<u>\$227,596</u>

- (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 longevity reinsurance business and changes in asset balances for externally-managed accounts. For the years ended December 31, 2021 and 2020, "Other" activity also includes \$3,079 million in receipts offset by \$3,224 million in payments and \$6,989 million in receipts offset by \$6,695 million in payments, respectively, related to funding agreements backed by commercial paper which typically have maturities of less than 90 days.

**2021 to 2020 Annual Comparison.** The increase in account values primarily reflected a favorable change in the market value of account assets, and net additions primarily driven by international longevity reinsurance activity, partially offset by investment-only stable value account withdrawals. These increases were partially offset by a decrease in other activity primarily driven by the negative impact of foreign exchange rate changes.

## Group Insurance

### Operating Results

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

	Year ended December 31,		
	2021	2020	2019
	(in millions)		
<b>Operating results:</b>			
Revenues	\$6,217	\$5,786	\$5,750
Benefits and expenses	6,672	5,802	5,465
Adjusted operating income	(455)	(16)	285
Realized investment gains (losses), net, and related adjustments	(16)	48	(20)
Income (loss) before income taxes and equity in earnings of operating joint ventures	<u>\$ (471)</u>	<u>\$ 32</u>	<u>\$ 265</u>
<b>Benefits ratio(1)(4):</b>			
Group life(2)	102.7%	93.4%	87.4%
Group disability(2)	83.8%	78.4%	75.4%
Total Group Insurance(2)	98.3%	90.2%	84.7%
<b>Administrative operating expense ratio(3)(4):</b>			
Group life	11.3%	12.4%	12.7%
Group disability	32.1%	26.1%	24.1%
Total Group Insurance	16.3%	15.4%	15.2%

- (1) Ratio of policyholder benefits to earned premiums plus policy charges and fee income.
- (2) Benefits ratios reflect the impacts of our annual reviews and update of assumptions and other refinements. Excluding these impacts, the group life, group disability and total Group Insurance benefits ratios were 102.7%, 83.8% and 98.3% for 2021, respectively, 93.6%, 78.8% and 90.4% for 2020, respectively, and 87.0%, 77.7% and 84.9% for 2019, 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

**2021 to 2020 Annual Comparison.** Adjusted operating income decreased \$439 million, including an unfavorable comparative net impact from our annual reviews and update of assumptions and other refinements. Results for 2021 and 2020 included net benefits from this update of \$1 million and \$11 million, respectively. Excluding this item, adjusted operating income decreased \$429 million, primarily reflecting lower underwriting results in our group life business driven by unfavorable claim experience primarily due to COVID-19 impacts on non-experience-rated contracts, and lower underwriting results in our group disability business driven by less favorable claims experience on long-term disability contracts. These decreases were partially offset by higher net investment spread results driven by higher income on non-coupon investments.

## Revenues, Benefits and Expenses

**2021 to 2020 Annual Comparison.** Revenues increased \$431 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, revenues increased \$453 million. The increase primarily reflected higher premiums and policy charges and fee income in our group life business primarily due to COVID-19 impacts on experience-rated contracts, with offsets in policyholders' benefits and changes in reserves, as discussed below, as well as growth in our group disability business and higher net investment income from higher income on non-coupon investments.

Benefits and expenses increased \$870 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, benefits and expenses increased \$882 million. The increase primarily reflected higher policyholders' benefits, including changes in reserves, in our group life business mostly due to COVID-19 impacts on both non-experience- and experience-rated contracts, and increases in our group disability business driven by growth, as discussed above, and a less favorable impact from claims experience on long-term disability contracts.

## Sales Results

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

	Year ended December 31,		
	2021	2020	2019
	(in millions)		
<b>Annualized new business premiums(1):</b>			
Group life .....	\$265	\$243	\$254
Group disability .....	221	163	159
Total .....	<u>\$486</u>	<u>\$406</u>	<u>\$413</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.

**2021 to 2020 Annual Comparison.** Total annualized new business premiums increased \$80 million, primarily driven by higher sales in both our group disability and group life businesses from both new and existing clients.

## Individual Annuities

Our Individual Annuities business includes both fixed and variable annuities which may include optional guaranteed living benefit riders (e.g., GMIB, GMAB, GMWB and GMIWB), and/or optional death benefit riders (e.g., GMDB). We also offer fixed annuities that provide a guarantee of principal and interest credited at rates we determine (subject to certain contractual minimums) or at rates based upon the performance of an index (subject to caps or participation rates), as well as indexed variable annuities that provide several index crediting strategies and varying levels of downside protection at predetermined levels and durations. The drivers of our business results are generally included in adjusted operating income, with exceptions related to certain guarantees, as discussed below.

The U.S. GAAP accounting and our adjusted operating income treatment for our guarantees differ depending upon the specific contractual features. Under U.S. GAAP, the reserves for GMIB and GMDB are accounted for in accordance with an insurance fulfillment accounting framework and the results are included in adjusted operating income in a manner generally consistent with U.S. GAAP.

In contrast, certain of our guaranteed living benefit riders (e.g., GMAB, GMWB and GMIWB) are accounted for under U.S. GAAP as embedded derivatives and reported using a fair value accounting framework. For purposes of measuring segment performance, adjusted operating income excludes the changes in fair value and instead reflects the performance of these riders using an insurance fulfillment accounting framework. Under this framework, adjusted operating income recognized each period reflects the rider fees earned during the period, less the portion of such fees estimated to be required to cover future benefit payments and hedging costs. Sales of traditional variable annuities with guaranteed living benefit riders have been discontinued as of December 31, 2020. See "Business—Individual Annuities" included in Prudential Financial's 2021 Annual Report on Form 10-K for more information about these products.

## Business Update

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

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

## Operating Results

The following table sets forth Individual Annuities’ operating results for the periods indicated:

	Year ended December 31,		
	2021	2020	2019
	(in millions)		
<b>Operating results:</b>			
Revenues .....	\$4,914	\$ 4,440	\$ 4,995
Benefits and expenses .....	3,013	2,970	3,152
Adjusted operating income .....	1,901	1,470	1,843
Realized investment gains (losses), net, and related adjustments .....	1,732	(2,911)	(2,551)
Charges related to realized investment gains (losses), net .....	(465)	4	59
Market experience updates(1) .....	657	(324)	(100)
Income (loss) before income taxes and equity in earnings of operating joint ventures .....	<u>\$3,825</u>	<u>\$ (1,761)</u>	<u>\$ (749)</u>

- (1) Represents the immediate impacts in current period results from changes in current market conditions on estimates of profitability, which are excluded from adjusted operating income beginning with the second quarter of 2019. See Note 22 to the Consolidated Financial Statements for additional information.

## Adjusted Operating Income

**2021 to 2020 Annual Comparison.** Adjusted operating income increased \$431 million, including a favorable comparative net impact from our annual reviews and update of assumptions and other refinements. Results for 2021 included a \$15 million net charge from these updates primarily reflecting the impact of unfavorable policyholder behavior updates. Results for 2020 included a \$136 million net charge from these updates primarily driven by unfavorable impacts related to a decrease in long-term interest rate assumptions. Excluding this item, adjusted operating income increased \$310 million. The increase was primarily driven by higher fee income, net of distribution expenses and other associated costs, resulting from higher average separate account values due to favorable equity markets, partially offset by net outflows, and favorable impacts from our living benefit guarantees. Also contributing to the increase were higher net investment spread results, driven by higher income on non-coupon investments, and lower operating expenses.

## Revenues, Benefits and Expenses

**2021 to 2020 Annual Comparison.** Revenues increased \$474 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, revenues increased \$344 million. The increase was primarily driven by higher policy charges and fee income, as well as higher asset management and service fees, reflecting higher average separate account values and favorable impacts from our living benefit guarantees. Also contributing to the increase was higher net investment income, primarily reflecting higher income on non-coupon investments.

Benefits and expenses increased \$43 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, benefits and expenses increased \$34 million primarily driven by higher general and administrative expenses, net of capitalization, driven by higher distribution and asset management expenses reflecting higher average separate account values, as discussed above, partially offset by lower operating expenses. This increase was partially offset by lower interest expense.

## Account Values

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

	Year ended December 31,		
	2021	2020	2019
	(in millions)		
<b>Total Individual Annuities(1):</b>			
Beginning total account value	\$176,280	\$169,681	\$151,080
Sales	6,599	6,815	9,720
Full surrenders and death benefits	(10,401)	(7,845)	(9,374)
Sales, net of full surrenders and death benefits	(3,802)	(1,030)	346
Partial withdrawals and other benefit payments	(5,712)	(5,191)	(5,163)
Net flows	(9,514)	(6,221)	(4,817)
Change in market value, interest credited and other activity	19,188	16,360	27,072
Policy charges	(3,649)	(3,540)	(3,654)
Ending total account value(2)	<u>\$182,305</u>	<u>\$176,280</u>	<u>\$169,681</u>

(1) Includes gross variable and fixed annuities sold as retail investment products. Investments sold through defined contribution plan products are included with such products within our Retirement business. Variable annuity account values were \$176.4 billion, \$170.5 billion and \$164.9 billion as of December 31, 2021, 2020 and 2019, respectively. Fixed annuity account values were \$5.9 billion, \$5.7 billion and \$4.8 billion as of December 31, 2021, 2020 and 2019, respectively.

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

**2021 to 2020 Annual Comparison.** The increase in account values during 2021 was primarily driven by favorable changes in the market value of contractholder funds, partially offset by net outflows and policy charges.

Sales for 2021 reflected our product pivot strategy and consisted largely of indexed variable annuities, as sales of traditional variable annuities with guaranteed living benefit riders were discontinued as of December 31, 2020. The decrease in sales, net of full surrenders and death benefits, largely reflects lower full surrenders in the prior year driven by general uncertainty around COVID-19.

## Risks and Risk Mitigants

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

**Fixed Annuity Risks and Risk Mitigants.** The primary risk exposure of our fixed annuity products relates to investment risks we bear for providing customers a minimum guaranteed interest rate or an index-linked interest rate required to be credited to the customer's account value, which include interest rate fluctuations and/or sustained periods of low interest rates, and credit risk related to the underlying investments. We manage these risk exposures primarily through our investment strategies and product design features, which include credit rate resetting subject to the minimum guaranteed interest rate as well as surrender charges applied during the early years of the contract that help to provide protection for premature withdrawals. In addition, a portion of our fixed products has a market value adjustment provision that affords protection of lapse in the case of rising interest rates. We also manage these risk exposures through external reinsurance for certain of our fixed annuity products. For information on our external reinsurance agreements, see "Business—Individual Annuities" included in Prudential Financial's 2021 Annual Report on Form 10-K and Note 14 to the Consolidated Financial Statements.

**Indexed Variable Annuity Risks and Risk Mitigants.** The primary risk exposure of our indexed variable annuity products relates to the investment risks we bear in order to credit to the customer's account balance the required crediting rate based on the performance of the elected indices at the end of each term. We manage this risk primarily through our investment strategies including derivatives and product design features, which include credit rate resetting subject to contractual minimums as well as surrender charges applied during the early years of the contract that help to provide protection for premature withdrawals. In addition, our indexed variable annuity strategies have an interim value provision that provides a certain level of 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. For information on our external reinsurance agreements, see “Business—Individual Annuities” included in Prudential Financial’s 2021 Annual Report on Form 10-K and Note 14 to the Consolidated Financial Statements. Sales of traditional variable annuities with guaranteed living benefit riders were discontinued as of December 31, 2020, and, in the third quarter of 2021, we announced that we had entered into an agreement to sell a portion of our in-force traditional variable annuity block, as described above. See “Business—Individual Annuities” included in Prudential Financial’s 2021 Annual Report on Form 10-K for more information about these products and Note 1 to the Consolidated Financial Statements for additional information regarding the disposition.

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

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

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

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in millions)</b>	
U.S. GAAP liability, including NPR, net of reinsurance recoverables	\$13,028	\$18,537
NPR adjustment, net of reinsurance recoverables	2,832	4,103
Subtotal	15,860	22,640
Adjustments including risk margins and valuation methodology differences	(3,444)	(5,080)
Economic liability managed through the ALM strategy	<u>\$12,416</u>	<u>\$17,560</u>

As of December 31, 2021, the fair value of our fixed income instruments and derivative assets exceed the economic liability within the entities in which the risks reside.

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

- *Different valuation methodologies in measuring the liability we intend to cover with fixed income instruments and derivatives versus the liability reported under U.S. GAAP.* The valuation methodology utilized in estimating the economic liability we intend to defray with fixed income instruments and derivatives is different from that required to be utilized to measure the liability under U.S. GAAP. Additionally, the valuation of the economic liability excludes certain items that are included within the U.S. GAAP liability, such as NPR in order to maximize protection irrespective of the possibility of our own default and risk margins (required by U.S. GAAP but different from our best estimate).



- *Different accounting treatment between liabilities and assets supporting those liabilities.* Under U.S. GAAP, changes in the fair value of the embedded derivative liability, derivative instruments and fixed income instruments designated as trading are immediately reflected in net income, while changes in the fair value of fixed income instruments that are designated as available-for-sale are recorded as unrealized gains (losses) in other comprehensive income.
- *General hedge results.* For the derivative portion of the ALM strategy, the net hedging impact (the extent to which the changes in value of the hedging instruments offset the change in value of the portion of the economic liability we are hedging) may be impacted by a number of factors, including: cash flow timing differences between our hedging instruments and the corresponding portion of the economic liability we are hedging, basis differences attributable to actual underlying contractholder funds to be hedged versus hedgeable indices, rebalancing costs related to dynamic rebalancing of hedging instruments as markets move, certain elements of the economic liability that may not be hedged (including certain actuarial assumptions), and implied and realized market volatility on the hedge positions relative to the portion of the economic liability we seek to hedge.

### iii. Capital Hedge Program:

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

### *Results excluded from adjusted operating income*

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

	Year ended December 31,		
	2021	2020	2019
Results excluded from adjusted operating income	(in millions)(1)		
Change in value of U.S. GAAP liability, pre-NPR(2)	\$ 7,417	\$(4,979)	\$(1,510)
Change in the NPR adjustment	(1,272)	581	(1,103)
Change in fair value of hedge assets, excluding capital hedges(3)	(4,270)	2,251	695
Change in fair value of capital hedges(4)	(1,268)	(900)	(1,024)
Other	1,125	136	391
Realized investment gains (losses), net, and related adjustments	1,732	(2,911)	(2,551)
Market experience updates(5)	657	(324)	(100)
Charges related to realized investment gains (losses), net	(465)	4	59
Total results excluded from adjusted operating income(6)	<u>\$ 1,924</u>	<u>\$(3,231)</u>	<u>\$(2,592)</u>

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

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

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

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

(5) Represents the immediate impacts in current period results from changes in current market conditions on estimates of profitability, which are excluded from adjusted operating income beginning with the second quarter of 2019.

(6) Excludes amounts from the changes in fair value of fixed income instruments recorded in OCI (versus net income) of (\$1,727) million, \$1,384 million and \$845 million as of December 31, 2021, 2020 and 2019, respectively.

For 2021, the gain of \$1,924 million was driven by a favorable impact related to the U.S. GAAP liability before NPR, net of the change in fair value of hedge assets (excluding capital hedges) as well as favorable market experience updates largely due to favorable equity markets and rising interest rates. These impacts were partially offset by an unfavorable NPR adjustment, losses associated with our capital hedge program and charges related to the amortization of DAC and other costs.

### *Product Specific Risks and Risk Mitigants*

For certain living benefit guarantees, claims will primarily represent the funding of contractholder lifetime withdrawals after the cumulative withdrawals have first exhausted the contractholder account value. Due to the age of the in-force block, limited claim payments have occurred to date, and they are not expected to increase significantly within the next five years, based upon current assumptions. The timing and amount of future claims will depend on actual returns on contractholder account value and actual contractholder behavior relative to our assumptions. The majority of our current living benefit guarantees provide for guaranteed lifetime contractholder withdrawal payments inclusive of a “highest daily” contract value guarantee. Our Prudential Defined Income variable annuity complements our variable annuity products with the highest daily benefit and provides for guaranteed lifetime contractholder withdrawal payments, but restricts contractholder asset allocation to a single bond fund sub-account within the separate accounts.

The majority of our traditional variable annuity contracts with living benefit guarantees, and contracts sold with our highest daily living benefit features, include risk mitigants in the form of an automatic rebalancing feature and/or inclusion in our ALM strategy. We may also utilize external reinsurance as a form of additional risk mitigation. The risks associated with the guaranteed benefits of certain legacy products that were sold prior to our development of the automatic rebalancing feature are also managed through our ALM strategy. Certain legacy products with GMAB rider options include the automatic rebalancing feature but are not included in the ALM strategy. As discussed above, sales of traditional variable annuities with living benefit guarantees and automatic rebalancing features have been discontinued as of December 31, 2020, and in the third quarter of 2021, we announced that we had entered into an agreement to sell a portion of our in-force traditional variable annuity block. See “Business—Individual Annuities” included in Prudential Financial’s 2021 Annual Report on Form 10-K for more information about these products and Note 1 to the Consolidated Financial Statements for additional information regarding the disposition.

For our GMDBs, we provide a benefit payable in the event of death. Our base GMDB is generally equal to a return of cumulative deposits adjusted for any partial withdrawals. Certain products include an optional enhanced GMDB based on the greater of a minimum return on the contract value or an enhanced value. We have retained the risk that the total amount of death benefit payable may be greater than the contractholder account value; however, a substantial portion of the account values associated with GMDBs are subject to an automatic rebalancing feature because the contractholder also selected a living benefit guarantee which includes an automatic rebalancing feature. All of the variable annuity account values with living benefit guarantees also contain GMDBs. The living and death benefit features for these contracts cover the same insured life and, consequently, we have insured both the longevity and mortality risk on these contracts.

The following table sets forth the risk management profile of our living benefit guarantees and GMDB features as of the periods indicated:

	December 31,					
	2021		2020		2019	
	Account Value	% of Total	Account Value	% of Total	Account Value	% of Total
(in millions)						
<b>Living benefit/GMDB features(1):</b>						
Both ALM strategy and automatic rebalancing(2)(3)	\$112,543	64%	\$112,177	66%	\$111,535	68%
ALM strategy only(3)	7,278	4%	7,410	4%	7,703	5%
Automatic rebalancing only	567	0%	634	1%	732	1%
External reinsurance(4)	3,303	2%	3,173	2%	3,150	2%
PDI	16,909	10%	18,540	11%	16,296	9%
Other products	2,444	1%	2,492	1%	2,457	1%
Total living benefit/GMDB features	\$143,044		\$144,426		\$141,873	
GMDB features and other(5)	33,395	19%	26,120	15%	23,055	14%
Total variable annuity account value(6)	\$176,439		\$170,546		\$164,928	

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

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

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

(4) Represents contracts subject to a reinsurance transaction with an external counterparty covering certain Highest Daily Lifetime Income (“HDI”) v.3.0 business for the period April 1, 2015 through December 31, 2016. These contracts with living benefits also have an automatic rebalancing feature. See Note 14 to the Consolidated Financial Statements for additional information.

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

(6) Includes approximately \$30 billion of account values that are classified as “held-for-sale” as of December 31, 2021 in relation to the planned PALAC sale, as discussed above.

## Individual Life

### Operating Results

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

	Year ended December 31,		
	2021	2020	2019
	(in millions)		
<b>Operating results:</b>			
Revenues	\$6,897	\$6,398	\$6,115
Benefits and expenses	6,504	6,446	6,028
Adjusted operating income	393	(48)	87
Realized investment gains (losses), net, and related adjustments	(83)	359	358
Charges related to realized investment gains (losses), net	186	(124)	(121)
Market experience updates(1)	90	(267)	(308)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	1	1	0
Income (loss) before income taxes and equity in earnings of operating joint ventures	\$ 587	\$ (79)	\$ 16

(1) Represents the immediate impacts in current period results from changes in current market conditions on estimates of profitability, which are excluded from adjusted operating income beginning with the second quarter of 2019. See Note 22 to the Consolidated Financial Statements for additional information.

### Adjusted Operating Income

**2021 to 2020 Annual Comparison.** Adjusted operating income increased \$441 million, including a favorable comparative net impact from our annual reviews and update of assumptions and other refinements. Results for 2021 included a \$7 million net benefit from these updates, mainly driven by favorable impacts related to assumptions for investment returns, partially offset by updates to reinsurance premiums. Results for 2020 included a \$92 million net charge from these updates, mainly driven by unfavorable impacts related to a decrease in long-term interest rate assumptions. Excluding this item, adjusted operating income increased \$342 million, primarily reflecting higher net investment spread results driven by higher income on non-coupon investments, and higher underwriting results. The increase in underwriting results was driven by the absence of an unfavorable impact from a change in business practice related to the level of premiums collected on certain policies that resulted in reserve refinements in the prior year, and business growth, partially offset by an unfavorable impact from mortality experience, net of reinsurance, primarily attributable to COVID-19 related claims.

### Revenues, Benefits and Expenses

**2021 to 2020 Annual Comparison.** Revenues increased \$499 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, revenues increased \$606 million. This increase was primarily driven by higher net investment income from higher income on non-coupon investments and higher average invested assets, partially offset by lower investment yields. The increase also reflected higher policy charges and fee income driven by lower ceded reinsurance, which were mostly offset by reserve changes in policyholders' benefits, as discussed below, and business growth.

Benefits and expenses increased \$58 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, benefits and expenses increased \$264 million. This increase reflected higher policyholders' benefits, including changes in reserves, primarily driven by an unfavorable impact from mortality experience, net of reinsurance, primarily attributable to COVID-19 related claims, as well as reserve changes from lower ceded reinsurance, partially offset by the absence of an unfavorable impact from a change in business practice related to the level of premiums collected on certain policies that resulted in reserve refinements in the prior year.

## 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:

	2021			2020			2019		
	Prudential Advisors	Third Party	Total	Prudential Advisors	Third Party	Total	Prudential Advisors	Third Party	Total
	(in millions)								
Term Life .....	\$ 20	\$ 95	\$115	\$ 26	\$122	\$148	\$ 27	\$173	\$200
Guaranteed Universal Life(1) .....	0	45	45	3	91	94	8	87	95
Other Universal Life(1) .....	8	49	57	17	74	91	38	117	155
Variable Life .....	121	417	538	100	349	449	78	200	278
Total .....	<u>\$149</u>	<u>\$606</u>	<u>\$755</u>	<u>\$146</u>	<u>\$636</u>	<u>\$782</u>	<u>\$151</u>	<u>\$577</u>	<u>\$728</u>

- (1) Single pay life premiums and excess (unscheduled) premiums are included in annualized new business premiums based on a 10% credit and represented approximately 1%, 7% and 9% of Guaranteed Universal Life and 2%, 7% and 14% of Other Universal Life annualized new business premiums for the years ended December 31, 2021, 2020 and 2019, respectively.

**2021 to 2020 Annual Comparison.** Total annualized new business premiums decreased \$27 million, primarily driven by lower sales of guaranteed universal life, other universal life and term life products due to pricing and product actions, partially offset by higher sales of variable universal life products.

## Assurance IQ

### Operating Results

The following table sets forth Assurance IQ's operating results for the periods indicated. Results for 2019 only reflect activity from October 10, 2019 ("acquisition date") through December 31, 2019.

	2021	2020	2019(1)
	(in millions)		
<b>Operating results:</b>			
Revenues .....	\$ 558	\$391	\$101
Expenses .....	700	479	110
Adjusted operating income .....	(142)	(88)	(9)
Realized investment gains (losses), net, and related adjustments .....	0	1	0
Other adjustments(2)(3) .....	(1,099)	51	(47)
Income (loss) before income taxes and equity in earnings of operating joint ventures .....	<u>\$ (1,241)</u>	<u>\$ (36)</u>	<u>\$ (56)</u>

- (1) Represents activity from the acquisition date through December 31, 2019. See Note 1 to the Consolidated Financial Statements for additional information.
- (2) All periods include certain components of the consideration for the Assurance IQ acquisition, which are recognized as compensation expense over the requisite service periods, as well as changes in the fair value of associated contingent consideration. See Note 1 to the Consolidated Financial Statements for additional information.
- (3) In the fourth quarter of 2021, the Company recognized a goodwill impairment of \$1,060 million. See Note 2 and Note 10 to the Consolidated Financial Statements for additional information.

### Adjusted Operating Income

**2021 to 2020 Annual Comparison.** Adjusted operating income decreased \$54 million, reflecting higher operating and variable expenses, including those supporting business growth, partially offset by increased revenues primarily related to growth in the Medicare and Personal Finance lines.

### Revenues and Expenses

**2021 to 2020 Annual Comparison.** Revenues increased \$167 million, primarily due to commissions and case referral revenues from the Medicare line, driven by business growth and from a strategic shift by the business to emphasize Medicare products, as well as from higher case referral sales of Personal Finance products. Expenses increased \$221 million, driven by higher marketing and distribution costs primarily related to the Medicare and Personal Finance lines, and higher general and administrative operating expenses supporting business growth.

## International Businesses

### Business Updates

- In the second quarter of 2021, the Company completed the sale of The Prudential Life Insurance Company of Taiwan Inc. (“POT”) to Taishin Financial Holding Co, Ltd. for cash consideration of approximately NT 5.5 billion, equal to approximately \$200 million at then current exchange rates, and contingent consideration with a fair value of approximately \$80 million as of December 31, 2021. See Note 1 to the Consolidated Financial Statements for additional information. Effective in the third quarter of 2020, the results of this business and the impact of its sale were reflected in Divested and Run-off Businesses that are included in Corporate and Other, and all prior period amounts have been updated to conform to the current period presentation. See “—Divested and Run-off Businesses.”
- In the first quarter of 2021, the Company acquired a 24% interest (through a private equity limited partnership managed by LeapFrog Investments) in ICEA LION, a Kenya-based insurer and asset manager, for approximately \$100 million. This investment is consistent with the Company’s strategic focus internationally on higher-growth emerging markets, and furthers the partnership’s specific objective to identify and make strategic investments in high quality financial services companies in selected African geographies.

### Operating Results

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

The following table sets forth the International Businesses’ operating results for the periods indicated:

	Year ended December 31,		
	2021	2020	2019
	(in millions)		
<b>Operating results:</b>			
Revenues:			
Life Planner	\$10,643	\$10,122	\$ 9,605
Gibraltar Life and Other	11,272	11,454	11,331
Total revenues	21,915	21,576	20,936
Benefits and expenses:			
Life Planner	8,869	8,618	8,172
Gibraltar Life and Other	9,656	10,006	9,652
Total benefits and expenses	18,525	18,624	17,824
Adjusted operating income:			
Life Planner	1,774	1,504	1,433
Gibraltar Life and Other	1,616	1,448	1,679
Total adjusted operating income	3,390	2,952	3,112
Realized investment gains (losses), net, and related adjustments	17	727	1,240
Charges related to realized investment gains (losses), net	(32)	(42)	(12)
Market experience updates(1)	0	(39)	(31)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(79)	(48)	(107)
Income (loss) before income taxes and equity in earnings of operating joint ventures	\$ 3,296	\$ 3,550	\$ 4,202

- (1) Represents the immediate impacts in current period results from changes in current market conditions on estimates of profitability, which are excluded from adjusted operating income beginning with the second quarter of 2019. See Note 22 to the Consolidated Financial Statements for additional information.

### Adjusted Operating Income

**2021 to 2020 Annual Comparison.** Adjusted operating income from our Life Planner operations increased \$270 million including a net unfavorable 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 \$2 million net benefit in 2021 compared to a \$42 million net charge in 2020. The net charge in 2020 was primarily driven by unfavorable impacts related to a decrease in long-term interest rate assumptions.

Excluding the impact of currency fluctuations, as well as the impact from our annual reviews and update of assumptions and other refinements as discussed above, adjusted operating income from our Life Planner operations increased \$233 million, primarily reflecting higher net investment spread results driven by higher income on non-coupon investments, partially offset by lower reinvestment yields. Also contributing to the increase were more favorable underwriting results primarily due to the growth of business in force in our Japan and Brazil operations, partially offset by unfavorable impacts from mortality experience due to COVID-19 related claims, primarily in Brazil and Japan.

Adjusted operating income from our Gibraltar Life and Other operations increased \$168 million including a net unfavorable impact of \$21 million from currency fluctuations, inclusive of the currency hedging program discussed above. Both periods also include the impact of our annual reviews and update of assumptions and other refinements, which resulted in a \$16 million net charge in 2021 compared to a \$52 million net charge in 2020. The net charge in 2021 reflected unfavorable impacts primarily related to lapse assumption updates. The net charge in 2020 was primarily driven by updates of reserves reflecting the impact of a decrease in long-term interest rate assumptions, as well as other refinements.

Excluding the impact of currency fluctuations, as well as the impact from our annual reviews and update of assumptions and other refinements as discussed above, adjusted operating income from our Gibraltar Life and Other operations increased \$153 million, primarily reflecting lower expenses, including the absence of certain costs associated with COVID-19 incurred in the prior year, and higher earnings from our joint venture investments. Also contributing to the increase were higher net investment spread results driven by higher income on non-coupon investments, partially offset by lower reinvestment yields.

### *Revenues, Benefits and Expenses*

**2021 to 2020 Annual Comparison.** Revenues from our Life Planner operations increased \$521 million including a net unfavorable impact of \$150 million from currency fluctuations and a net charge of \$34 million from our annual reviews and update of assumptions and other refinements. Excluding these items, revenues increased \$705 million, primarily reflecting higher net investment income driven by higher income on non-coupon investments, partially offset by lower reinvestment yields. Also contributing to the increase were higher premiums and policy charges and fee income attributable to the growth of business in force.

Benefits and expenses from our Life Planner operations increased \$251 million including a net favorable impact of \$143 million from currency fluctuations and a net benefit of \$78 million from our annual reviews and update of assumptions and other refinements. Excluding these items, benefits and expenses increased \$472 million, primarily reflecting higher policyholders' benefits, including changes in reserves, driven by the growth of business in force.

Revenues from our Gibraltar Life and Other operations decreased \$182 million, including a net unfavorable impact of \$80 million from currency fluctuations and a net benefit of \$9 million from our annual reviews and update of assumptions and other refinements. Excluding these items, revenues decreased \$111 million primarily reflecting lower premiums and policy charges and fee income. The decrease was partially offset by higher net investment income driven by higher income on non-coupon investments, partially offset by lower reinvestment yields.

Benefits and expenses from our Gibraltar Life and Other operations decreased \$350 million including a net favorable impact of \$59 million from currency fluctuations and a net benefit of \$27 million from our annual reviews and update of assumptions and other refinements. Excluding these items, benefits and expenses decreased \$264 million, primarily driven by lower policyholders' benefits, including changes in reserves, and lower expenses, including the absence of certain costs associated with COVID-19 incurred in the prior year.

### *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:

	Year ended December 31,		
	2021	2020	2019
	(in millions)		
<b>Annualized new business premiums:</b>			
On an actual exchange rate basis:			
Life Planner	\$ 940	\$1,041	\$1,097
Gibraltar Life and Other	1,000	1,149	1,213
Total	<u>\$1,940</u>	<u>\$2,190</u>	<u>\$2,310</u>
On a constant exchange rate basis:			
Life Planner	996	1,075	1,096
Gibraltar Life and Other	1,006	1,153	1,220
Total	<u>\$2,002</u>	<u>\$2,228</u>	<u>\$2,316</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.

**2021 to 2020 Annual Comparison.** The table below presents annualized new business premiums on a constant exchange rate basis, by product category and distribution channel, for the periods indicated:

	Year Ended December 31, 2021					Year Ended December 31, 2020				
	Life	Accident & Health	Retirement (1)	Annuity	Total	Life	Accident & Health	Retirement (1)	Annuity	Total
	(in millions)									
Life Planner .....	\$ 552	\$ 72	\$368	\$ 4	\$ 996	\$ 567	\$ 69	\$439	\$ 0	\$1,075
Gibraltar Life and Other:										
Life Consultants .....	261	27	39	161	488	341	33	59	62	495
Banks(2) .....	252	0	12	54	318	418	0	23	18	459
Independent Agency .....	73	22	97	8	200	100	5	89	5	199
Subtotal .....	586	49	148	223	1,006	859	38	171	85	1,153
Total .....	\$1,138	\$121	\$516	\$227	\$2,002	\$1,426	\$107	\$610	\$85	\$2,228

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

(2) 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 3% and 66%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the year ended December 31, 2021, and 3% and 71%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the year ended December 31, 2020.

Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations decreased \$79 million, reflecting the absence of higher sales of USD-denominated products ahead of pricing increases in the third quarter of 2020, as well as lower sales in the current year as a result of those pricing increases, partially offset by higher sales resulting from an easing of COVID-19 restrictions in the current year.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life and Other operations decreased \$147 million. Bank channel and Life Consultants sales decreased \$141 million and \$7 million, respectively, reflecting the absence of higher sales of USD-denominated products ahead of pricing increases in the third quarter of 2020, as well as lower sales in the current year as a result of those pricing increases. The decrease in Life Consultants sales was partially offset by an easing of COVID-19 restrictions in the current year, and higher sales of USD-denominated fixed annuity products driven by higher crediting rates reflecting rising interest rates. Independent Agency sales increased \$1 million reflecting higher sales of accident and health products to a single large client in the current year, which were largely offset by the impacts of price increases on USD-denominated products described above.

### Sales Force

The following table sets forth the number of Life Planners and Life Consultants for the periods indicated:

	Year Ended December 31,		
	2021	2020	2019
Life Planners:			
Japan .....	4,566	4,555	4,356
All other countries .....	1,458	1,511	1,833
Gibraltar Life Consultants .....	7,100	7,254	7,403
Total .....	13,124	13,320	13,592

**2021 to 2020 Comparison.** The number of Life Planners decreased by 42, driven by a decrease of 53 in other operations, primarily attributable to Argentina, and to a lesser degree Brazil. Life Planners in Japan increased by 11 as a result of recruiting efforts and fewer terminations. The number of Gibraltar Life Consultants decreased by 154, primarily reflecting recruiting challenges due to COVID-19.

## 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.

	Year ended December 31,		
	2021	2020(1)	2019(1)
	(in millions)		
<b>Operating results:</b>			
Interest expense on debt	\$ (827)	\$ (894)	\$ (866)
Investment income	174	134	250
Pension and employee benefits	284	191	149
Other corporate activities	(1,238)	(1,398)	(1,432)
Adjusted operating income	(1,607)	(1,967)	(1,899)
Realized investment gains (losses), net, and related adjustments	94	(2,357)	(193)
Charges related to realized investment gains (losses), net	8	3	(53)
Market experience updates(2)	3	(10)	(10)
Divested and Run-off Businesses	716	(450)	992
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(38)	(25)	(6)
Income (loss) before income taxes and equity in earnings of operating joint ventures	\$ (824)	\$ (4,806)	\$ (1,169)

- (1) Effective third quarter of 2021, the results of the Full Service Retirement business are excluded from the Retirement segment and are included in Divested and Run-off Businesses. Prior period amounts have been updated to conform to current period presentation. See Note 1 to the Consolidated Financial Statements for additional information about these divestitures.
- (2) Represents the immediate impacts in current period results from changes in current market conditions on estimates of profitability, which are excluded from adjusted operating income beginning with the second quarter of 2019. See Note 22 to the Consolidated Financial Statements for additional information.

**2021 to 2020 Annual Comparison.** The loss from Corporate and Other operations, on an adjusted operating income basis, decreased \$360 million. Net charges from other corporate activities decreased \$160 million, primarily reflecting the absence of a significant charge to legal reserves incurred in the prior year, partially offset by increased costs related to the early extinguishment of debt in the current year. Also contributing to the decrease were favorable results of \$93 million from pension and employee benefits, primarily driven by lower interest costs on our qualified pension plan obligation, \$67 million of lower interest expense on debt, reflecting lower average debt balances and interest rates, and \$40 million of higher investment income, primarily driven by favorable results on non-coupon investments.

For purposes of calculating pension income from our qualified pension plan for the year ended December 31, 2022, we increased the discount rate from 2.55% to 2.80% as of December 31, 2021. The expected rate of return on plan assets will increase from 5.75% in 2021 to 6.00% in 2022. The assumed rate of increase in compensation will remain unchanged at 4.50%. Giving effect to the foregoing changes and other factors, we expect income from our qualified pension plan in 2022 to be approximately \$40 million to \$50 million higher than 2021 levels. This increase is primarily driven by higher earnings from an increase in the expected rate of return and lower loss amortization, partially offset by higher interest costs on the plan obligation due to a higher discount rate.

For purposes of calculating postretirement benefit expenses for the year ended December 31, 2022, we increased the discount rate from 2.40% to 2.75% as of December 31, 2021. The expected rate of return on plan assets will increase from 6.75% in 2021 to 7.00% in 2022. In addition, the Company has amended certain provisions of its Retiree Medical Savings Account plan. Giving effect to the foregoing changes and other factors, we expect postretirement income in 2022 to be approximately \$25 million to \$35 million higher than 2021 levels. This increase is primarily driven by the changes to the Company’s Retiree Medical Savings Account plan and lower loss amortization.

In 2022, pension and other postretirement benefit service costs related to active employees will continue to be allocated to our business segments. For further information regarding our pension and postretirement plans, including the changes to the Company’s Retiree Medical Savings Account plan, see Note 18 to the Consolidated Financial Statements.

## 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:

	Year ended December 31,		
	2021	2020	2019
	(in millions)		
Long-Term Care .....	\$458	\$ 351	\$469
Other(1) .....	258	(801)	523
Total Divested and Run-off Businesses income (loss) excluded from adjusted operating income .....	<u>\$716</u>	<u>\$(450)</u>	<u>\$992</u>

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

**Long-Term Care.** Results for the year ended December 31, 2021 increased \$107 million compared to 2020, including a favorable comparative net impact from our annual reviews and update of assumptions and other refinements. Results for 2021 included a \$62 million net benefit from these updates, while results for 2020 included a \$33 million net charge. Excluding this impact, results increased \$12 million primarily reflecting a favorable impact from changes in the market value of equity securities, higher underwriting results driven by favorable comparative policy and claim experience, and higher investment results, including higher income on non-coupon investments. These increases were partially offset by an unfavorable impact from changes in the market value of derivatives used for duration management.

**Other Divested and Run-off Businesses.** Results for the year ended December 31, 2021 increased \$1,059 million compared to 2020, primarily driven by the absence of losses incurred in 2020 related to the sales of POK and POT. See Note 1 to the Consolidated Financial Statements for additional information.

### 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 15 to the Consolidated Financial Statements for additional information.

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

As of December 31, 2021, the excess of actual cumulative earnings over the expected cumulative earnings was \$4,387 million, which was recorded as a policyholder dividend obligation. Actual cumulative earnings, as required by U.S. GAAP, reflect the recognition of realized investment gains and losses in the current year, as well as changes in assets and related liabilities that support the Closed Block policies. Additionally, the accumulation of net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block has been reflected as a policyholder dividend obligation of \$3,640 million at December 31, 2021, to be paid to Closed Block policyholders unless offset by future experience, with a corresponding amount reported in AOCI.

### Operating Results

The following table sets forth the Closed Block division’s results for the periods indicated:

	Year ended December 31,		
	2021	2020	2019
	(in millions)		
<b>U.S. GAAP results:</b>			
Revenues .....	\$5,947	\$4,766	\$5,642
Benefits and expenses .....	5,807	4,790	5,606
Income (loss) before income taxes and equity in earnings of operating joint ventures .....	<u>\$ 140</u>	<u>\$ (24)</u>	<u>\$ 36</u>

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

**2021 to 2020 Annual Comparison.** Income (loss) before income taxes and equity in earnings of operating joint ventures increased \$164 million. Net investment activity results increased primarily reflecting higher realized investment gains driven by favorable changes in the value of derivatives used in risk management activities, an increase in other income driven by favorable changes in the value of equity securities, and an increase in net investment income driven by higher income on non-coupon investments. Net insurance activity results reflected a favorable comparative change driven by a decrease in the 2021 dividend scale and run off of the business in force. As a result of the above and other variances, a \$1,469 million increase in the policyholder dividend obligation was recorded in 2021, compared to a \$117 million increase in 2020. If actual cumulative earnings fall below expected cumulative earnings in future periods, earnings volatility in the Closed Block division, which is primarily due to changes in investment results, may not be offset by changes in the cumulative earnings policyholder dividend obligation. For a discussion of the Closed Block division's realized investment gains (losses), net, see "—General Account Investments."

## *Revenues, Benefits and Expenses*

**2021 to 2020 Annual Comparison.** Revenues increased \$1,181 million primarily driven by an increase in net realized investment gains, other income and net investment income, partially offset by lower premiums due to runoff of policies in force, as discussed above.

Benefits and expenses increased \$1,017 million primarily driven by an increase in dividends to policyholders, reflecting an increase in the policyholder dividend obligation expense due to changes in cumulative earnings, as discussed above.

## **Income Taxes**

The differences between income taxes expected at the U.S. federal statutory income tax rate of 21% applicable for 2021, 2020 and 2019, and the reported income tax (benefit) expense are provided in the following table:

	<b>Year Ended December 31,</b>		
	<b>2021</b>	<b>2020(1)</b>	<b>2019</b>
	<b>(in millions)</b>		
Expected federal income tax expense (benefit) at federal statutory rate . . . . .	\$1,970	\$ (68)	\$1,068
Non-taxable investment income . . . . .	(292)	(228)	(270)
Foreign taxes at other than U.S. rate . . . . .	149	250	234
Low-income housing and other tax credits . . . . .	(126)	(112)	(118)
Changes in tax law . . . . .	10	(192)	(2)
Sale of subsidiary . . . . .	(26)	277	4
Non-controlling interest . . . . .	(14)	(48)	(11)
Non-deductible expenses . . . . .	11	14	23
Change in valuation allowance . . . . .	13	17	(1)
State taxes . . . . .	18	10	1
Other . . . . .	(39)	(1)	19
Reported income tax expense (benefit) . . . . .	<u>\$1,674</u>	<u>\$ (81)</u>	<u>\$ 947</u>
Effective tax rate . . . . .	<u>17.8%</u>	<u>25.1%</u>	<u>18.6%</u>

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

## **Effective Tax Rate**

The effective tax rate is the ratio of "Total income tax expense (benefit)" divided by "Income before income taxes and equity in earnings of operating joint ventures." Our effective tax rate for fiscal years 2021, 2020 and 2019 was 17.8%, 25.1%, and 18.6%, respectively. For a detailed description of the nature of each significant reconciling item, see Note 16 to the Consolidated Financial Statements. The change in the effective tax rate from 25.1% in 2020 to 17.8% in 2021 was primarily driven by an increase in pre-tax net income, the sale of POK and the impact of the CARES Act in 2020. The increase in the effective tax rate from 18.6% in 2019 to 25.1% in 2020 was primarily driven by a decrease in pre-tax net income, the sale of POK and the impact of the CARES Act in 2020.

## **Unrecognized Tax Benefits**

The Company's liability for income taxes includes the liability for unrecognized tax benefits and interest that relate to tax years still subject to review by the Internal Revenue Service or other taxing authorities. The completion of review or the expiration of the Federal statute of limitations for a given audit period could result in an adjustment to the liability for income taxes. The total unrecognized benefit as of December 31, 2021, 2020 and 2019 was \$12 million, \$17 million and \$18 million, respectively. We do not anticipate any significant changes within the next twelve months to our total unrecognized tax benefits related to tax years for which the statute of limitations has not expired.



## Income Tax Expense vs. Income Tax Paid in Cash

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

For additional information on income tax related items, see “Business—Regulation” included in Prudential Financial’s 2021 Annual Report on Form 10-K and Note 16 to the Consolidated Financial Statements.

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

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

*International Businesses.* In our International Businesses, these investments are reflected on the Consolidated Statements of Financial Position as “Assets supporting experience-rated contractholder liabilities, at fair value.” Realized and unrealized gains (losses) for these investments are reported in “Other income (loss)” while interest and dividend income are reported in “Net investment income.” As these experience-rated products are fully participating, the entire return on the underlying investments is passed back to policyholders through a corresponding adjustment to the related liability, primarily classified in the Consolidated Statements of Financial Position as “Policyholders’ account balances.”

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

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 from the Retirement segment to the Divested and Run-off Businesses within Corporate & Other operations, which are excluded from adjusted operating income. See Note 1 to the Consolidated Financial Statements for additional information.

As a result of this recent “held-for-sale” classification, the assets and liabilities associated with these products for the current reporting period are included in the Consolidated Statements of Financial Position as “Assets held-for-sale” and “Liabilities held-for-sale,” respectively; however, for prior periods, the assets and liabilities associated with these products are presented similar to how they are described in “*International Businesses*” above.

The following table sets forth the impact on results for the periods indicated of these items that are excluded from adjusted operating income:

	Year ended December 31,		
	2021	2020	2019
	(in millions)		
<b>International Businesses:</b>			
Investment gains (losses) on assets supporting experience-rated contractholder liabilities, net	\$ 369	\$ 68	\$ 267
Change in experience-rated contractholder liabilities due to asset value changes	(369)	(68)	(267)
Gains (losses), net, on experienced rated contracts	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>Divested and Run-off Businesses:</b>			
Investment gains (losses) on assets supporting experience-rated contractholder liabilities, net	\$(616)	\$ 602	\$ 699
Change in experience-rated contractholder liabilities due to asset value changes	657	(625)	(682)
Gains (losses), net, on experienced rated contracts(1)(2)	<u>\$ 41</u>	<u>\$ (23)</u>	<u>\$ 17</u>
<b>Total:</b>			
Investment gains (losses) on assets supporting experience-rated contractholder liabilities, net(1)	\$(247)	\$ 670	\$ 966
Change in experience-rated contractholder liabilities due to asset value changes	288	(693)	(949)
Gains (losses), net, on experienced rated contracts(1)(2)	<u>\$ 41</u>	<u>\$ (23)</u>	<u>\$ 17</u>

- (1) Decreases to contractholder liabilities due to asset value changes are limited by certain floors and therefore do not reflect cumulative declines in recorded asset values of \$3 million, \$3 million and \$7 million as of December 31, 2021, 2020 and 2019, respectively. We have recovered, and expect to recover in future periods, these declines in recorded asset values through subsequent increases in recorded asset values or reductions in crediting rates on contractholder liabilities.
- (2) Included in the amounts above related to the change in the liability to contractholders as a result of commercial mortgage and other loans are increases of \$12 million, \$6 million and \$57 million for the years ended December 31, 2021, 2020 and 2019, respectively. As prescribed by U.S. GAAP, changes in the fair value of commercial mortgage and other loans held for investment in our general account, other than when associated with impairments, are not recognized in income in the current period, while the impact of these changes in fair value are reflected as a change in the liability to fully participating contractholders in the current period.

For our divested Retirement Full Service business, the net impact of changes in experience-rated contractholder liabilities and investment gains (losses) on assets supporting experience-rated contractholder liabilities and other related investments reflects timing differences between the recognition of the mark-to-market adjustments and the recognition of the recovery of these adjustments in future periods through subsequent increases in asset values or reductions in crediting rates on contractholder liabilities for partially participating products. This includes certain assets that are designated as available-for-sale where mark-to-market adjustments are recorded as unrealized gains (losses) in "Other comprehensive income". These impacts also reflect the difference between the fair value of underlying commercial mortgages and other loans and the amortized cost, less any valuation allowance, of these loans.

## Valuation of Assets and Liabilities

### Fair Value of Assets and Liabilities

The authoritative guidance related to fair value measurement establishes a framework that includes a three-level hierarchy used to classify the inputs used in measuring fair value. The level in the hierarchy within which the fair value falls is determined based on the lowest level input that is significant to the measurement. The fair values of assets and liabilities classified as Level 3 include at least one significant unobservable input in the measurement. See Note 6 to the 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 15 to the Consolidated Financial Statements for further information on the Closed Block.

	As of December 31, 2021(1)				As of December 31, 2020			
	PFI excluding Closed Block Division		Closed Block Division		PFI excluding Closed Block Division		Closed Block Division	
	Total at Fair Value	Total Level 3(2)	Total at Fair Value	Total Level 3(2)	Total at Fair Value	Total Level 3(2)	Total at Fair Value	Total Level 3(2)
	(in millions)							
Fixed maturities, available-for-sale . . . . .	\$334,006	\$ 5,810	\$38,404	\$1,510	\$370,681	\$ 5,005	\$42,224	\$ 1,038
Assets supporting experience-rated contractholder liabilities:								
Fixed maturities . . . . .	1,057	0	0	0	21,414	615	0	0
Equity securities . . . . .	2,271	0	0	0	2,043	0	0	0
All other(3) . . . . .	20	0	0	0	619	20	0	0
Subtotal . . . . .	3,348	0	0	0	24,076	635	0	0
Fixed maturities, trading . . . . .	7,686	403	1,137	18	3,636	230	278	13
Equity securities . . . . .	6,089	699	2,288	100	5,653	576	2,345	84
Commercial mortgage and other loans . . . . .	1,263	0	0	0	1,092	0	0	0
Other invested assets(4) . . . . .	3,749	489	7	4	2,268	366	3	0
Short-term investments . . . . .	5,186	268	457	62	6,222	146	88	31
Cash equivalents . . . . .	4,857	48	402	22	5,241	1	241	0
Other assets . . . . .	164	164	0	0	268	268	0	0
Separate account assets . . . . .	219,971	1,283	0	0	304,270	1,821	0	0
Total assets . . . . .	<u>\$586,319</u>	<u>\$ 9,164</u>	<u>\$42,695</u>	<u>\$1,716</u>	<u>\$723,407</u>	<u>\$ 9,048</u>	<u>\$45,179</u>	<u>\$ 1,166</u>
Future policy benefits . . . . .	\$ 9,068	\$ 9,068	\$ 0	\$ 0	\$ 18,879	\$18,879	\$ 0	\$ 0
Policyholders' account balances . . . . .	1,436	1,436	0	0	1,914	1,914	0	0
Other liabilities(4) . . . . .	1,860	0	0	0	385	0	0	0
Total liabilities . . . . .	<u>\$ 12,364</u>	<u>\$10,504</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 21,178</u>	<u>\$20,793</u>	<u>\$ 0</u>	<u>\$ 0</u>

- (1) Excludes amounts for financial instruments reclassified to "Assets held-for-sale" of \$129,579 million and "Liabilities held-for-sale" of \$6,214 million. Assets held-for-sale and liabilities held-for-sale are valued on a basis consistent with similar instruments described herein. See Note 1 for additional information on the pending dispositions.
- (2) Level 3 assets expressed as a percentage of total assets measured at fair value on a recurring basis for PFI excluding the Closed Block division and for the Closed Block division totaled 1.6% and 4.0%, respectively, as of December 31, 2021 and 1.3% and 2.6%, respectively, as of December 31, 2020.
- (3) "All other" represents cash equivalents and short-term investments.
- (4) "Other invested assets" and "Other liabilities" primarily include derivatives. The amounts include the impact of netting subject to master netting agreements.

The determination of fair value, which for certain assets and liabilities is dependent on the application of estimates and assumptions, can have a significant impact on our results of operations and may require the application of a greater degree of judgment depending on market conditions, as the ability to value assets and liabilities can be significantly impacted by a decrease in market activity or a lack of transactions executed in an orderly manner.

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 \$2.2 billion of public fixed maturities as of December 31, 2021 with values primarily based on indicative broker quotes, and approximately \$4.7 billion of private fixed maturities, with values primarily based on internally-developed models. Significant unobservable inputs used in their valuation included: issue specific spread adjustments, material non-public financial information, management judgment, estimation of future earnings and cash flows, default rate assumptions, liquidity assumptions and indicative quotes from market makers. Separate account assets included in Level 3 in our fair value hierarchy primarily include corporate securities and commercial mortgage loans.

Embedded derivatives reported in "Future policy benefits" and "Policyholders' account balances" that are included in level 3 of our fair value hierarchy represent general account liabilities pertaining to living benefit features of the Company's variable annuity contracts and the index-linked interest credited features on certain life and annuity products. These are carried at fair value with changes in fair value included in "Realized investment gains (losses), net." These embedded derivatives are valued using internally-developed models that require significant estimates and assumptions developed by management. Changes in these estimates and assumptions can have a significant impact on the results of our operations.

For additional information about the valuation techniques and the key estimates and assumptions used in our determination of fair value, see Note 6 to the Consolidated Financial Statements.

## General Account Investments

We maintain diversified investment portfolios in our general account to support our liabilities to customers as well as our other general liabilities. Investments and other assets that do not support general account liabilities, and are therefore excluded from our general account, are as follows:

- assets of our derivative operations;
- assets of our investment management operations, including investments managed for third-parties; and
- those assets classified as “Separate account assets” on our balance sheet.

The general account portfolios are managed pursuant to the distinct objectives and investment policy statements of PFI excluding the Closed Block division and of the Closed Block division. The primary investment objectives of PFI excluding the Closed Block division include:

- hedging and otherwise managing the market risk characteristics of the major product liabilities and other obligations of the Company;
- optimizing investment income yield within risk constraints over time; and
- for certain portfolios, optimizing total return, including both investment income yield and capital appreciation, within risk constraints over time, while managing the market risk exposures associated with the corresponding product liabilities.

We pursue our objective to optimize investment income yield for PFI excluding the Closed Block division over time through:

- the investment of net operating cash flows, including new product premium inflows, and proceeds from investment sales, repayments and prepayments into investments with attractive risk-adjusted yields; and
- the sale of investments, where appropriate, either to meet various cash flow needs or to manage the portfolio’s risk exposure profile with respect to duration, credit, currency and other risk factors, while considering the impact on taxes and capital.

The primary investment objectives of the Closed Block division include:

- providing for the reasonable dividend expectations of the participating policyholders within the Closed Block division; and
- optimizing total return, including both investment income yield and capital appreciation, within risk constraints, while managing the market risk exposures associated with the major products in the Closed Block division.

Our portfolio management approach, while emphasizing our investment income yield and asset/liability risk management objectives, also takes into account the capital and tax implications of portfolio activity and our assertions regarding our ability and intent to hold debt securities to recovery. For a further discussion of our allowance for credit losses, including our assertions regarding any intention or requirement to sell debt securities before anticipated recovery, see “—Realized Investment Gains and Losses—Credit Losses” below.

### *Management of Investments*

The Investment Committee of our Board of Directors (“Board”) oversees our proprietary investments, including our general account portfolios, and regularly reviews performance and risk positions. Our Chief Investment Officer Organization (“CIO Organization”) develops investment policies subject to risk limits proposed by our Enterprise Risk Management (“ERM”) group for the general account portfolios of our domestic and international insurance subsidiaries and directs and oversees management of the general account portfolios within risk limits and exposure ranges approved annually by the Investment Committee.

The CIO Organization, including related functions within our insurance subsidiaries, works closely with product actuaries and ERM to understand the characteristics of our products and their associated market risk exposures. This information is incorporated into the development of target asset portfolios that manage market risk exposures associated with the liability characteristics and establish investment risk exposures, within tolerances prescribed by Prudential’s investment risk limits, on which we expect to earn an attractive risk-adjusted return. We develop asset strategies for specific classes of product liabilities and attributed or accumulated surplus, each with distinct risk characteristics. Market risk exposures associated with the liabilities include interest rate risk, which is addressed through the duration characteristics of the target asset mix, and currency risk, which is addressed by the currency profile of the target asset mix. In certain of our smaller markets outside of the U.S. and Japan, capital markets limitations hinder our ability to hedge interest rate exposure to the same extent we do for our U.S. and Japan businesses and lead us to accept a higher degree of interest rate risk in these smaller portfolios. General account portfolios typically include allocations to credit and other investment risks as a means to enhance investment yields and returns over time.

Most of our products can be categorized into the following three classes:

- interest-crediting products for which the rates credited to customers are periodically adjusted to reflect market and competitive forces and actual investment experience, such as fixed annuities and universal life insurance;
- participating individual and experience-rated group products in which customers participate in actual investment and business results through annual dividends, interest or return of premium; and

- products with fixed or guaranteed terms, such as traditional whole life and endowment products, guaranteed investment contracts (“GICs”), funding agreements and payout annuities.

Our total investment portfolio is composed of a number of operating portfolios. Each operating portfolio backs a specific set of liabilities, and the portfolios have a target asset mix that supports the liability characteristics, including duration, cash flow, liquidity needs and other criteria. As of December 31, 2021, the average duration of our domestic general account investment portfolios attributable to PFI excluding the Closed Block division, including the impact of derivatives, was between 8 and 9 years. As of December 31, 2021, the average duration of our international general account portfolios attributable to our Japanese insurance operations, including the impact of derivatives, was between 12 and 13 years and represented a blend of yen-denominated and U.S. dollar and Australian dollar-denominated investments, which have distinct average durations supporting the insurance liabilities we have issued in those currencies. Our asset/liability management process has enabled us to manage our portfolios through several market cycles.

We implement our portfolio strategies primarily through investment in a broad range of fixed income assets, including government and agency securities, public and private corporate bonds and structured securities and commercial mortgage loans. In addition, we hold allocations of non-coupon investments, which include equity securities and other invested assets such as LPs/LLCs, real estate held through direct ownership, derivative instruments, and seed money investments in separate accounts.

We manage our public fixed maturity portfolio to a risk profile directed or overseen by the CIO Organization and ERM groups and to a profile that also reflects the market environments impacting both our domestic and international insurance portfolios. The return that we earn on the portfolio will be reflected in investment income and in realized gains or losses on investments.

We use privately-placed corporate debt securities and commercial mortgage loans, which consist of mortgages on diversified properties in terms of geography, property type and borrowers, to enhance the yield on our portfolio and to improve the overall diversification of the portfolios. Private placements typically offer enhanced yields due to an illiquidity premium and generally offer enhanced credit protection in the form of covenants. Our origination capability offers the opportunity to lead transactions and gives us the opportunity for better terms, including covenants and call protection, and to take advantage of innovative deal structures.

Derivative strategies are employed in the context of our risk management framework to enhance our ability to manage interest rate and currency risk exposures of the asset portfolio relative to the liabilities and to manage credit and equity positions in the investment portfolios. For a discussion of our risk management process, see “Quantitative and Qualitative Disclosures About Market Risk” below.

Our portfolio asset allocation reflects our emphasis on diversification across asset classes, sectors and issuers. The CIO Organization, directly and through related functions within the insurance subsidiaries, implements portfolio strategies primarily through various investment management units within Prudential’s PGIM segment. Activities of the PGIM segment on behalf of the general account portfolios are directed and overseen by the CIO Organization and monitored by ERM for compliance with investment risk limits.

In executing the activities on behalf of the general account portfolio, Prudential investment management units are incorporating environmental, social and governance factors into their respective investment processes as appropriate. These factors include investing in opportunities to support diversity and inclusion and to help mitigate climate change by pursuing relevant investments across asset classes.

### ***Portfolio Composition***

Our investment portfolio consists of public and private fixed maturity securities, commercial mortgage and other loans, policy loans and non-coupon investments as defined above. 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:

December 31, 2021				
	PFI Excluding Closed Block Division(1)		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(2)	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(3)	7,694		0	7,694
Total investments	\$433,399		\$58,800	\$492,199

December 31, 2020				
	PFI Excluding Closed Block Division		Closed Block Division	Total
	(\$ in millions)			
Fixed maturities:				
Public, available-for-sale, at fair value	\$309,813	63.7%	\$29,475	\$339,288
Public, held-to-maturity, at amortized cost, net of allowance	1,719	0.4	0	1,719
Private, available-for-sale, at fair value	60,224	12.4	12,749	72,973
Private, held-to-maturity, at amortized cost, net of allowance	211	0.1	0	211
Fixed maturities, trading, at fair value	3,425	0.7	277	3,702
Assets supporting experience-rated contractholder liabilities, at fair value	24,115	5.0	0	24,115
Equity securities, at fair value	5,108	1.1	2,345	7,453
Commercial mortgage and other loans, at book value, net of allowance	55,892	11.5	8,421	64,313
Policy loans, at outstanding balance	7,207	1.5	4,064	11,271
Other invested assets, net of allowance (2)	10,716	2.1	3,610	14,326
Short-term investments, net of allowance	7,640	1.5	124	7,764
Total general account investments	486,070	100.0%	61,065	547,135
Invested assets of other entities and operations(3)	6,485		0	6,485
Total investments	\$492,555		\$61,065	\$553,620

- (1) Excludes "Assets held-for-sale" of \$40,669 million as of December 31, 2021. See Note 1 to the Consolidated Financial Statements for additional information on the pending dispositions.
- (2) Other invested assets consist of investments in LPs/LLCs, investment real estate held through direct ownership, derivative instruments and other miscellaneous investments. For additional information regarding these investments, see "—Other Invested Assets" below.
- (3) Includes invested assets of our investment management and derivative operations. Excludes assets of our investment management operations that are managed for third-parties and those assets classified as "Separate account assets" on our balance sheet. For additional information regarding these investments, see "—Invested Assets of Other Entities and Operations" below.

The decrease in general account investments attributable to PFI excluding the Closed Block division in 2021 was primarily due to an increase in U.S. interest rates and the translation impact of the U.S. dollar strengthening against the yen, partially offset by the reinvestment of net investment income and net business inflows. Also contributing to the decrease are balances that were reclassified to "Assets held-for-sale". For information regarding the methodology used in determining the fair value of our fixed maturities, see Note 6 to the Consolidated Financial Statements.



As of December 31, 2021 and 2020, 48% and 43%, respectively, of our general account investments attributable to PFI excluding the Closed Block division related to our Japanese insurance operations. The following table sets forth the composition of the investments of our Japanese insurance operations' general account, as of the dates indicated:

	December 31,	
	2021	2020
	(in millions)	
Fixed maturities:		
Public, available-for-sale, at fair value	\$146,600	\$154,261
Public, held-to-maturity, at amortized cost, net of allowance	1,413	1,719
Private, available-for-sale, at fair value	21,079	21,748
Private, held-to-maturity, at amortized cost, net of allowance	101	211
Fixed maturities, trading, at fair value	839	550
Assets supporting experience-rated contractholder liabilities, at fair value	3,328	3,149
Equity securities, at fair value	2,187	2,134
Commercial mortgage and other loans, at book value, net of allowance	19,969	19,915
Policy loans, at outstanding balance	2,726	3,078
Other invested assets(1)	4,203	3,045
Short-term investments, net of allowance	692	438
Total Japanese general account investments	<u>\$203,137</u>	<u>\$210,248</u>

(1) Other invested assets consist of investments in LPs/LLCs, investment real estate held through direct ownership, derivative instruments and other miscellaneous investments.

The decrease in general account investments related to our Japanese insurance operations in 2021 was primarily attributable to an increase in U.S. interest rates and the translation impact of the U.S. dollar strengthening against the yen, partially offset by portfolio growth as a result of net business inflows and the reinvestment of net investment income.

As of 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 to U.S. dollar-equivalent equity. As of December 31, 2020, our Japanese insurance operations had \$89.2 billion, at carrying value, of investments denominated in U.S. dollars, including \$1.8 billion that were hedged to yen through third-party derivative contracts and \$74.8 billion that support liabilities denominated in U.S. dollars, with the remainder constituting part of the hedging of foreign currency exchange rate exposure of U.S. dollar-equivalent equity. The \$3.3 billion increase in the carrying value of U.S. dollar-denominated investments from December 31, 2020 was primarily attributable to the reinvestment of net investment income and portfolio growth as a result of net business inflows, partially offset by an increase in U.S. interest rates.

Our Japanese insurance operations had \$8.0 billion and \$10.2 billion, at carrying value, of investments denominated in Australian dollars that support liabilities denominated in Australian dollars as of December 31, 2021 and 2020, respectively. The \$2.2 billion decrease in the carrying value of Australian dollar-denominated investments from December 31, 2020 was primarily attributable to run-off of the portfolio and an increase in Australian government bond rates. For additional information regarding U.S. and Australian dollar investments held in our Japanese insurance operations and a discussion of our yen hedging strategy, see "Results of Operations by Segment—Impact of Foreign Currency Exchange Rates" above.

## Investment Results

The following tables set forth the investment results of our general account apportioned between PFI excluding the Closed Block division, and the Closed Block division, for the periods indicated. The yields are based on net investment income as reported under U.S. GAAP and as such do not include certain interest-related items, such as settlements of duration management swaps which are included in “Realized investment gains (losses), net.”

Year Ended December 31, 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)	4.68%	\$ 7,084	2.72%	\$3,921	3.72%	\$11,005	\$1,461	\$12,466
Assets supporting experience-rated contractholder liabilities	3.48	561	0.93	30	3.05	591	0	591
Equity securities	1.44	42	3.52	76	2.32	118	44	162
Commercial mortgage and other loans	4.16	1,401	3.92	768	4.07	2,169	367	2,536
Policy loans	5.09	196	4.05	114	4.65	310	222	532
Short-term investments and cash equivalents	0.48	55	0.48	4	0.48	59	3	62
Gross investment income	4.26	9,339	2.85	4,913	3.63	14,252	2,097	16,349
Investment expenses	(0.14)	(254)	(0.14)	(241)	(0.14)	(495)	(124)	(619)
Investment income after investment expenses	4.12%	9,085	2.71%	4,672	3.49%	13,757	1,973	15,730
Other invested assets(3)		1,413		457		1,870	527	2,397
Investment results of other entities and operations(4)		160		0		160	0	160
Total investment income		\$10,658		\$5,129		\$15,787	\$2,500	\$18,287

Year Ended December 31, 2020								
	PFI Excluding Closed Block Division and Japanese Operations		Japanese Insurance Operations		PFI Excluding Closed Block Division		Closed Block Division	Total(5)
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount	Amount	Amount
(\$ in millions)								
Fixed maturities(2)	4.59%	\$ 7,416	2.78%	\$3,875	3.75%	\$11,291	\$1,566	\$12,857
Assets supporting experience-rated contractholder liabilities	3.22	637	1.88	52	3.06	689	0	689
Equity securities	2.01	48	3.62	72	2.74	120	42	162
Commercial mortgage and other loans	3.95	1,377	2.89	731	3.91	2,108	358	2,466
Policy loans	5.31	238	3.23	98	4.47	336	247	583
Short-term investments and cash equivalents	0.83	171	0.86	14	0.83	185	6	191
Gross investment income	4.06	9,887	2.89	4,842	3.58	14,729	2,219	16,948
Investment expenses	(0.12)	(272)	(0.14)	(245)	(0.13)	(517)	(136)	(653)
Investment income after investment expenses	3.94%	9,615	2.75%	4,597	3.45%	14,212	2,083	16,295
Other invested assets(3)		413		245		658	157	815
Investment results of other entities and operations(4)		300		0		300	0	300
Total investment income		\$10,328		\$4,842		\$15,170	\$2,240	\$17,410

Year Ended December 31, 2019

	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) .....	4.71%	\$ 7,567	2.87%	\$3,842	3.87%	\$11,409	\$1,713	\$13,122
Assets supporting experience-rated contractholder liabilities .....	3.61	678	1.99	52	3.42	730	0	730
Equity securities .....	2.30	49	3.27	66	2.77	115	45	160
Commercial mortgage and other loans .....	4.21	1,406	4.29	767	4.24	2,173	388	2,561
Policy loans .....	5.36	256	3.92	107	4.84	363	255	618
Short-term investments and cash equivalents .....	2.58	373	3.40	27	2.62	400	32	432
Gross investment income .....	4.41	10,329	3.04	4,861	3.86	15,190	2,433	17,623
Investment expenses .....	(0.13)	(400)	(0.14)	(280)	(0.13)	(680)	(209)	(889)
Investment income after investment expenses .....	<u>4.28%</u>	<u>9,929</u>	<u>2.90%</u>	<u>4,581</u>	<u>3.73%</u>	<u>14,510</u>	<u>2,224</u>	<u>16,734</u>
Other invested assets(3) .....		378		184		562	99	661
Investment results of other entities and operations(4) .....		190		0		190	0	190
Total investment income .....		<u>\$10,497</u>		<u>\$4,765</u>		<u>\$15,262</u>	<u>\$2,323</u>	<u>\$17,585</u>

- (1) 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 (2019) and amortized cost, net of allowance (2020 and 2021). 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 3.57%, 3.54% and 3.81% for the years ended December 31, 2021, 2020 and 2019, respectively.
- (6) The denominator in the yield percentage includes "Assets held-for-sale". See Note 1 to the Consolidated Financial Statements for additional information on the pending dispositions.

The increase in investment income after investment expenses yield attributable to our general account investments, excluding both the Closed Block division and the Japanese insurance operations' portfolio, for 2021 compared to 2020 was primarily the result of the absence of lower yielding fixed income securities previously held within businesses divested over the last twelve months.

The decrease in investment income after investment expenses yield attributable to the Japanese insurance operations' portfolio for 2021 compared to 2020 was primarily the result of lower fixed income reinvestment rates.

Both the U.S. dollar-denominated and Australian dollar-denominated fixed maturities that are not hedged to yen through third-party derivative contracts provide a yield that is substantially higher than the yield on comparable yen-denominated fixed maturities. The average amortized cost of U.S. dollar-denominated fixed maturities that are not hedged to yen through third-party derivative contracts was approximately \$60.5 billion and \$54.2 billion, for the years ended December 31, 2021 and 2020, respectively. The majority of U.S. dollar-denominated fixed maturities support liabilities that are denominated in U.S. dollars. The average amortized cost of Australian dollar-denominated fixed maturities that are not hedged to yen through third-party derivative contracts was approximately \$7.9 billion and \$8.2 billion, for the years ended December 31, 2021 and 2020, respectively. The majority of Australian dollar-denominated fixed maturities support liabilities that are denominated in Australian dollars. For additional information regarding U.S. and Australian dollar investments held in our Japanese insurance operations, see "—Results of Operations by Segment—Impact of Foreign Currency Exchange Rates" above.

## Realized Investment Gains and Losses

The following table sets forth “Realized investment gains (losses), net” of our general account apportioned between PFI excluding Closed Block division, and the Closed Block division, by investment type as well as “Related adjustments” and “Charges related to realized investment gains (losses), net” for the periods indicated:

	Years Ended December 31,		
	2021	2020	2019
	(in millions)		
<b>PFI excluding Closed Block Division:</b>			
Realized investment gains (losses), net:			
(Addition to) release of allowance for credit losses on fixed maturities(5)	\$ 16	\$ (105)	\$ N/A
Write-downs on fixed maturities(1)	(1)	(220)	(232)
Net gains (losses) on sales and maturities	1,445	777	867
Fixed maturity securities(2)	1,460	452	635
(Addition to) release of allowance for credit losses on loans	87	0	4
Net gains (losses) on sales and maturities	1	10	(10)
Commercial mortgage and other loans	88	10	(6)
Derivatives	1,463	(4,571)	(1,623)
OTTI losses on other invested assets recognized in earnings	(52)	(33)	(18)
(Addition to) release of allowance for credit losses on other invested assets(5)	0	(1)	N/A
Other net gains (losses)	162	17	70
Other	110	(17)	52
Subtotal	3,121	(4,126)	(942)
Investment results of other entities and operations(3)	96	57	(38)
<b>Total—PFI excluding Closed Block Division</b>	<b>3,217</b>	<b>(4,069)</b>	<b>(980)</b>
Related adjustments(4)	(1,270)	(71)	104
Realized investment gains (losses), net, and related adjustments	1,947	(4,140)	(876)
Charges related to realized investment gains (losses), net(4)	(320)	(160)	(123)
Realized investment gains (losses), net, and charges related to realized investment gains (losses), net and adjustments	<u>\$ 1,627</u>	<u>\$ (4,300)</u>	<u>\$ (999)</u>
<b>Closed Block Division:</b>			
Realized investment gains (losses), net:			
(Addition to) release of allowance for credit losses on fixed maturities(5)	\$ 8	\$ (27)	\$ N/A
Write-downs on fixed maturities(1)	0	(84)	(83)
Net gains (losses) on sales and maturities	466	388	417
Fixed maturity securities(2)	474	277	334
(Addition to) release of allowance for credit losses on loans	11	3	3
Net gains (losses) on sales and maturities	0	(3)	0
Commercial mortgage and other loans	11	0	3
Derivatives	318	(87)	193
OTTI losses on other invested assets recognized in earnings	0	0	0
(Addition to) release of allowance for credit losses on other invested assets(5)	0	0	N/A
Other net gains (losses)	4	(8)	(9)
Other	4	(8)	(9)
<b>Subtotal—Closed Block Division</b>	<b>807</b>	<b>182</b>	<b>521</b>
<b>Consolidated PFI realized investment gains (losses), net</b>	<b>\$ 4,024</b>	<b>\$ (3,887)</b>	<b>\$ (459)</b>

(1) Amounts represent write-downs of credit adverse securities and securities actively marketed for sale. In addition, for the years ended December 31, 2020 and 2019, amounts also include write-downs on securities approaching maturities related to foreign exchange movements.

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

(3) Includes “realized investment gains (losses), net” of our investment management operations.

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

(5) Prior to January 1, 2020, write-offs of credit adverse securities were reported as OTTI.

## 2021 to 2020 Annual Comparison

Net gains on sales and maturities of fixed maturity securities were \$1,445 million for the year ended December 31, 2021 primarily driven by sales of U.S. treasuries acquired in a higher interest-rate environment within our domestic segments and the impact of foreign currency exchange rate movements on U.S. and Australian dollar-denominated securities that matured or were sold within our International Businesses segment. Net gains on sales and maturities of fixed maturity securities were \$777 million for the year ended December 31, 2020 primarily driven by the impact of foreign currency exchange rate movements of U.S. and Australian dollar-denominated securities that matured or were sold within our International Businesses segment and other sales of fixed maturity securities within our domestic segments driven by interest rate declines during the investment holding period.

Net realized gains on derivative instruments of \$1,463 million, for the year ended December 31, 2021, primarily included:

- \$2,471 million of gains on product-related embedded derivatives and related hedge positions associated with certain variable annuity contracts; and
- \$371 million of gains on foreign currency hedges due to U.S. dollar appreciation versus the Euro.

Partially offsetting these gains were:

- \$1,248 million of losses on capital hedges due to increases in equity indices; and
- \$318 million of losses on interest rate derivatives due to increases in swap and U.S. Treasury rates.

Net realized losses on derivative instruments of \$4,571 million, for the year ended December 31, 2020, primarily included:

- \$3,957 million of losses on product-related embedded derivatives and related hedge positions associated with certain variable annuity contracts; and
- \$2,362 million of losses on capital hedges due to increases in equity indices.

Partially offsetting these losses were:

- \$1,483 million of gains on interest rate derivatives due to decreases in swap and U.S. Treasury rates;
- \$139 million of gains for fees earned on fee-based synthetic GICs; and
- \$61 million of gains on foreign currency hedges due to Japanese yen strengthening against the U.S. dollar.

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

Included in the table above are “Related adjustments,” which include the portions of “Realized investment gains (losses), net” that are either (1) included in adjusted operating income or (2) included in other reconciling line items to adjusted operating income, such as “Market experience updates” and “Divested and Run-off Businesses.” “Related adjustments” also includes the portions of “Other income (loss)” and “Net investment income” that are excluded from adjusted operating income. These adjustments are made to arrive at “Realized investment gains (losses), net, and related adjustments” which is excluded from adjusted operating income. See Note 22 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 years ended December 31, 2021 and 2020 reflect net related adjustments of \$(1,270) million and \$(71) 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. Additionally, the results for 2020 included the impact of foreign currency exchange rate movements on certain non-local currency denominated assets and liabilities, for which the majority of the foreign currency exposure is hedged and offset in “Realized investment gains (losses), net.”

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 years ended December 31, 2021 and 2020 reflect net charges of \$320 million and \$160 million, respectively, and were primarily driven by the impact of derivative activity on the amortization of DAC and other costs, and certain policyholder reserves.

### *Credit Losses*

The level of credit losses generally reflects current and expected economic conditions and is expected to increase when economic conditions worsen and to decrease when economic conditions improve. Historically, the causes of credit losses have been specific to each individual issuer and have not directly resulted in credit losses to other securities within the same industry or geographic region. We may also realize additional credit and interest rate-related losses through sales of investments pursuant to our credit risk and portfolio management objectives.

We maintain separate monitoring processes for public and private fixed maturities and create watch lists to highlight securities that require special scrutiny and management. For private placements, our credit and portfolio management processes help ensure prudent controls over valuation and management. We have separate pricing and authorization processes to establish “checks and balances” for new investments. We apply consistent standards of credit analysis and due diligence for all transactions, whether they originate through our own

in-house staff or through agents. Our regional offices closely monitor the portfolios in their regions. We set all valuation standards centrally, and we assess the fair value of all investments quarterly. Our public and private fixed maturity investment managers formally review all public and private fixed maturity holdings on a quarterly basis and more frequently when necessary to identify potential credit deterioration whether due to ratings downgrades, unexpected price variances and/or company or industry-specific concerns.

For LPs/LLCs accounted for using the equity method and for wholly-owned investment real estate, the carrying value of these investments is written down or impaired to fair value when a decline in value is considered to be other-than-temporary. For additional information regarding our OTTI policies, See Note 2 to the Consolidated Financial Statements.

## COVID-19

We believe our investment portfolio has been diligently constructed with a strong focus on ALM discipline, risk management, and capital preservation. Throughout the COVID-19 pandemic, our portfolio has remained resilient, bolstered by our portfolio construction, investment strategy and our experience in managing highly specialized asset classes throughout credit cycles. The economy continues to recover and remains on a path to re-opening. Credit migration and defaults were low in 2021 and are expected to remain limited in 2022. The sectors most impacted from COVID-19 have started to recover but could be influenced by periods of volatility due to variants emerging. We continue to monitor our portfolio for potential credit issues and opportunities as part of our overall portfolio and risk management process.

## General Account Investments of PFI excluding Closed Block Division

In the following sections, we provide details about our investment portfolio, excluding investments held in the Closed Block division. We believe the details of the composition of our investment portfolio excluding the Closed Block division are most relevant to an understanding of our operations that are pertinent to investors in Prudential Financial because substantially all Closed Block division assets support obligations and liabilities relating to the Closed Block policies only. See Note 15 to the Consolidated Financial Statements for further 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 experienced-rated contractholder liabilities and classified as trading.

### Fixed Maturity Securities by Contractual Maturity Date

The following table sets forth the breakdown of the amortized cost of our fixed maturity securities portfolio by contractual maturity, as of the date indicated:

	December 31, 2021	
	Amortized Cost	% of Total
	(\$ in millions)	
Corporate & government securities:		
Maturing in 2022	\$ 7,232	2.4%
Maturing in 2023	9,578	3.2
Maturing in 2024	11,175	3.7
Maturing in 2025	10,981	3.7
Maturing in 2026	12,508	4.2
Maturing in 2027	13,782	4.6
Maturing in 2028	11,923	4.0
Maturing in 2029	12,873	4.3
Maturing in 2030	10,695	3.6
Maturing in 2031	12,923	4.3
Maturing in 2032	7,505	2.5
Maturing in 2033 and beyond	158,530	52.9
Total corporate & government securities	279,705	93.4
Asset-backed securities	8,678	2.9
Commercial mortgage-backed securities	8,434	2.8
Residential mortgage-backed securities	2,642	0.9
Total fixed maturities(1)	\$299,459	100.0%

(1) Excludes "Assets held-for-sale" with amortized cost of \$13,145 million. See Note 1 to the Consolidated Financial Statements for additional information on the pending dispositions.



## 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)	December 31, 2021					December 31, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	ACL	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	ACL	Fair Value
(in millions)										
Corporate securities:										
Finance	\$ 37,669	\$ 3,362	\$ 175	\$ 1	\$ 40,855	\$ 37,577	\$ 5,240	\$ 70	\$ 0	\$ 42,747
Consumer non-cyclical	30,345	3,675	182	0	33,838	28,891	5,085	52	0	33,924
Utility	23,617	3,076	114	21	26,558	24,235	4,504	60	11	28,668
Capital goods	14,556	1,352	85	9	15,814	13,711	1,947	49	2	15,607
Consumer cyclical	10,504	1,049	52	0	11,501	11,196	1,536	52	13	12,667
Foreign agencies	5,204	603	21	0	5,786	5,323	903	11	0	6,215
Energy	11,487	1,336	60	0	12,763	12,257	1,583	118	58	13,664
Communications	6,524	1,041	53	39	7,473	6,013	1,343	35	22	7,299
Basic industry	6,385	662	41	1	7,005	5,895	914	17	0	6,792
Transportation	9,532	997	69	19	10,441	10,067	1,568	40	0	11,595
Technology	4,723	274	41	3	4,953	3,717	381	14	0	4,084
Industrial other	4,340	540	35	0	4,845	4,485	778	21	0	5,242
Total corporate securities	164,886	17,967	928	93	181,832	163,367	25,782	539	106	188,504
Foreign government(2)	82,752	11,741	521	1	93,971	93,521	16,229	236	0	109,514
Residential mortgage-backed(3)	2,451	117	13	0	2,555	2,572	198	0	0	2,770
Asset-backed	8,678	114	10	0	8,782	11,584	137	67	0	11,654
Commercial mortgage-backed	8,434	459	15	0	8,878	10,296	883	8	0	11,171
U.S. Government	20,747	5,133	21	0	25,859	25,959	8,348	15	0	34,292
State & Municipal	9,992	1,667	8	0	11,651	10,142	1,991	1	0	12,132
Total fixed maturities, available-for-sale(4)	\$297,940	\$37,198	\$1,516	\$94	\$333,528	\$317,441	\$53,568	\$866	\$106	\$370,037

- (1) Investment data has been classified based on standard industry categorizations for domestic public holdings and similar classifications by industry for all other holdings.
- (2) As of December 31, 2021 and 2020, based on amortized cost, 89% and 86%, respectively, represent Japanese government bonds held by our Japanese insurance operations with no other individual country representing more than 4% of the balance, respectively.
- (3) As of both December 31, 2021 and 2020, based on amortized cost, 97% were rated A or higher.
- (4) Excluded from the table above are securities held outside the general account in other entities and operations. For additional information regarding investments held outside the general account, see "—Invested Assets of Other Entities and Operations" below. Also excludes "Assets held-for-sale" of \$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 related to these held for sale assets are also excluded from the presentation. See Note 1 to the Consolidated Financial Statements for additional information on the pending dispositions.

The decrease in net unrealized gains from December 31, 2020 to December 31, 2021 was primarily due to an increase in U.S. interest rates.

The following table sets forth the composition of the portion of our fixed maturity, held-to-maturity portfolio by industry category attributable to PFI excluding the Closed Block division and the associated gross unrealized gains and losses, as well as the allowance for credit losses, as of the dates indicated:

Industry(1)	December 31, 2021					December 31, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	ACL	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	ACL
	(in millions)									
Corporate securities:										
Finance .....	\$ 486	\$ 49	\$0	\$ 535	\$5	\$ 651	\$ 67	\$0	\$ 718	\$9
Basic industry .....	9	0	0	9	0	87	2	0	89	0
Total corporate securities .....	495	49	0	544	5	738	69	0	807	9
Foreign government(2) .....	833	221	0	1,054	0	935	270	0	1,205	0
Residential mortgage-backed(3) .....	191	14	0	205	0	266	20	0	286	0
Total fixed maturities, held-to-maturity .....	<u>\$1,519</u>	<u>\$284</u>	<u>\$0</u>	<u>\$1,803</u>	<u>\$5</u>	<u>\$1,939</u>	<u>\$359</u>	<u>\$0</u>	<u>\$2,298</u>	<u>\$9</u>

- (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 December 31, 2021 and 2020, based on amortized cost, 97% and 98%, respectively, represent Japanese government bonds held by our Japanese insurance operations.
- (3) As of both December 31, 2021 and 2020, based on amortized cost, all were rated A or higher.

### *Fixed Maturity Securities Credit Quality*

The Securities Valuation Office (“SVO”) of the National Association of Insurance Commissioners (“NAIC”) evaluates the investments of insurers for statutory reporting purposes and assigns fixed maturity securities to one of six categories called “NAIC Designations.” In general, NAIC Designations of “1” highest quality, or “2” high quality, include fixed maturities considered investment grade, which include securities rated Baa3 or higher by Moody’s Investor Service, Inc. (“Moody’s”) or BBB- or higher by Standard & Poor’s Rating Services (“S&P”). NAIC Designations of “3” through “6” generally include fixed maturities referred to as below investment grade, which include securities rated Ba1 or lower by Moody’s and BB+ or lower by S&P. The NAIC Designations for commercial mortgage-backed securities and non-agency residential mortgage-backed securities, including our asset-backed securities collateralized by sub-prime mortgages, are based on security level expected losses as modeled by an independent third-party (engaged by the NAIC) and the statutory carrying value of the security, including any purchase discounts or impairment charges previously recognized.

As a result of time lags between the funding of investments, the finalization of legal documents, and the completion of the SVO filing process, the fixed maturity portfolio includes certain securities that have not yet been designated by the SVO as of each balance sheet date. Pending receipt of SVO designations, the categorization of these securities by NAIC Designation is based on the expected ratings indicated by internal analysis.

Investments of our international insurance companies are not subject to NAIC guidelines. Investments of our Japanese insurance operations are regulated locally by the Financial Services Agency (“FSA”), an agency of the Japanese government. The FSA has its own investment quality criteria and risk control standards. Our Japanese insurance companies comply with the FSA’s credit quality review and risk monitoring guidelines. The credit quality ratings of the investments of our Japanese insurance companies are based on ratings assigned by nationally recognized credit rating agencies, including Moody’s and S&P, or rating equivalents based on ratings assigned by Japanese credit ratings agencies.

The following table sets forth our fixed maturity, available-for-sale portfolio by NAIC Designation or equivalent rating attributable to PFI excluding the Closed Block division, as of the dates indicated:

NAIC Designation(1)(2)	December 31, 2021					December 31, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses(3)	ACL	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses(3)	ACL	Fair Value
	(in millions)									
1	\$207,926	\$28,904	\$ 666	\$ 0	\$236,164	\$229,951	\$41,311	\$381	\$ 0	\$270,881
2	70,437	7,283	408	0	77,312	68,458	10,683	180	0	78,961
Subtotal High or Highest Quality										
Securities(4)	278,363	36,187	1,074	0	313,476	298,409	51,994	561	0	349,842
3	12,279	716	235	0	12,760	11,913	1,192	95	0	13,010
4	5,475	194	140	9	5,520	5,119	211	119	23	5,188
5	1,389	68	47	27	1,383	1,629	123	67	16	1,669
6	434	33	20	58	389	371	48	24	67	328
Subtotal Other Securities(5)(6)	19,577	1,011	442	94	20,052	19,032	1,574	305	106	20,195
Total fixed maturities, available-for-sale(7)	\$297,940	\$37,198	\$1,516	\$94	\$333,528	\$317,441	\$53,568	\$866	\$106	\$370,037

- (1) Reflects equivalent ratings for investments of the international insurance operations.
- (2) Includes, as of December 31, 2021 and 2020, 617 securities with amortized cost of \$4,547 million (fair value, \$4,596 million) and 102 securities with amortized cost of \$356 million (fair value, \$382 million), respectively, that have been categorized based on expected NAIC Designations pending receipt of SVO ratings.
- (3) As of 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 and, as of December 31, 2020, includes gross unrealized losses of \$184 million on public fixed maturities and \$121 million on private fixed maturities considered to be other than high or highest quality.
- (4) On an amortized cost basis, as of December 31, 2021, includes \$234,323 million of public fixed maturities and \$44,040 million of private fixed maturities and, as of December 31, 2020, includes \$253,387 million of public fixed maturities and \$45,022 million of private fixed maturities.
- (5) On an amortized cost basis, as of December 31, 2021, includes \$9,824 million of public fixed maturities and \$9,753 million of private fixed maturities and, as of December 31, 2020, includes \$9,592 million of public fixed maturities and \$9,440 million of private fixed maturities.
- (6) On an amortized cost basis, as of December 31, 2021, securities considered below investment grade based on low issue composite ratings total \$15,843 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 to the Consolidated Financial Statements for additional information on the pending dispositions.

The following table sets forth our fixed maturity, held-to-maturity portfolio by NAIC Designation or equivalent rating attributable to PFI excluding the Closed Block division, as of the dates indicated:

NAIC Designation(1)	December 31, 2021					December 31, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses(2)	Fair Value	ACL	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses(2)	Fair Value	ACL
	(in millions)									
1	\$1,428	\$276	\$0	\$1,704	\$3	\$1,839	\$349	\$0	\$2,188	\$7
2	91	8	0	99	2	100	10	0	110	2
Subtotal High or Highest Quality										
Securities(3)	1,519	284	0	1,803	5	1,939	359	0	2,298	9
3	0	0	0	0	0	0	0	0	0	0
4	0	0	0	0	0	0	0	0	0	0
5	0	0	0	0	0	0	0	0	0	0
6	0	0	0	0	0	0	0	0	0	0
Subtotal Other Securities	0	0	0	0	0	0	0	0	0	0
Total fixed maturities, held-to-maturity	\$1,519	\$284	\$0	\$1,803	\$5	\$1,939	\$359	\$0	\$2,298	\$9

- (1) Reflects equivalent ratings for investments of the international insurance operations.
- (2) As of both December 31, 2021 and 2020, there were no gross unrealized losses on public fixed maturities and private fixed maturities considered to be other than high or highest quality.
- (3) On an amortized cost basis, as of December 31, 2021, includes \$1,418 million of public fixed maturities and \$101 million of private fixed maturities and, as of December 31, 2020, includes \$1,728 million of public fixed maturities and \$211 million of private fixed maturities.

## Asset-Backed and Commercial Mortgage-Backed Securities

The following table sets forth the amortized cost and fair value of asset-backed and commercial mortgage-backed securities within our fixed maturity available-for-sale portfolio attributable to PFI excluding the Closed Block division by credit quality, as of the dates indicated:

Low Issue Composite Rating(1)	December 31, 2021				December 31, 2020			
	Asset-Backed Securities(2)		Commercial Mortgage-Backed Securities(3)		Asset-Backed Securities(2)		Commercial Mortgage-Backed Securities(3)	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)							
AAA .....	\$7,180	\$7,225	\$8,423	\$8,867	\$11,327	\$11,323	\$10,284	\$11,159
AA .....	1,395	1,395	0	0	139	144	1	2
A .....	12	12	2	2	16	17	2	2
BBB .....	18	20	9	9	12	13	9	8
BB and below .....	73	130	0	0	90	157	0	0
Total(4) .....	<u>\$8,678</u>	<u>\$8,782</u>	<u>\$8,434</u>	<u>\$8,878</u>	<u>\$11,584</u>	<u>\$11,654</u>	<u>\$10,296</u>	<u>\$11,171</u>

- (1) The table above provides ratings as assigned by nationally recognized rating agencies as of December 31, 2021, including S&P, Moody's, Fitch Ratings Inc. ("Fitch") and Morningstar, Inc. ("Morningstar"). Low issue composite rating uses ratings from the major credit rating agencies or if these are not available an equivalent internal rating. For securities where the ratings assigned are not equivalent, the second lowest rating is utilized.
- (2) Includes collateralized loan obligations ("CLOs"), credit-tranched securities collateralized by home equity and other asset types.
- (3) As of December 31, 2021 and 2020, based on amortized cost, more than 99% and 98%, respectively, were securities with vintages of 2013 or later.
- (4) Excludes fixed maturity securities classified as "Assets supporting experience-rated contractholder liabilities" and "Fixed maturities, trading" as well as securities held outside the general account in other entities and operations. Also excludes "Assets held-for-sale" of \$1,391 million and \$1,024 million at fair value of asset-backed securities and commercial mortgage-backed securities, respectively, as of December 31, 2021. See Note 1 to the Consolidated Financial Statements for additional information on the pending dispositions.

Included in "Asset-backed securities" above are investments in CLOs. The following table sets forth information pertaining to these investments in CLOs within our fixed maturity available-for-sale portfolio attributable to PFI excluding the Closed Block division, as of the dates indicated:

Low Issue Composite Rating(1)	December 31, 2021		December 31, 2020	
	Collateralized Loan Obligations			
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
AAA .....	\$6,361	\$6,388	\$9,554	\$9,506
AA .....	1,295	1,292	2	2
A .....	10	10	1	1
BBB .....	10	10	1	1
BB and below .....	8	8	1	1
Total(2)(3) .....	<u>\$7,684</u>	<u>\$7,708</u>	<u>\$9,559</u>	<u>\$9,511</u>

- (1) The table above provides ratings as assigned by nationally recognized rating agencies as of December 31, 2021, including S&P, Moody's, Fitch and Morningstar. Low issue composite rating uses ratings from the major credit rating agencies or if these are not available an equivalent internal rating. For securities where the ratings assigned are not equivalent, the second lowest rating is utilized.
- (2) There was no allowance for credit losses as of both December 31, 2021 and 2020.
- (3) Excludes fixed maturity securities classified as "Assets supporting experience-rated contractholder liabilities" and "Fixed maturities, trading" as well as securities held outside the general account in other entities and operations. Also excludes "Assets held-for-sale" of \$1,277 million at fair value as of December 31, 2021. See Note 1 to the Consolidated Financial Statements for additional information on the pending dispositions.

## Assets Supporting Experience-Rated Contractholder Liabilities

For information regarding the composition of "Assets supporting experience-rated contractholder liabilities," see Note 3 to the 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:

	December 31, 2021	December 31, 2020
	(in millions)	
Commercial mortgage and agricultural property loans	\$48,550	\$55,223
Uncollateralized loans	561	655
Residential property loans	67	101
Other collateralized loans	70	120
Total recorded investment gross of allowance(1)	49,248	56,099
Allowance for credit losses	(102)	(207)
Total net commercial mortgage and other loans(2)	<u>\$49,146</u>	<u>\$55,892</u>

(1) As a percentage of recorded investment gross of allowance, more than 99% of these assets were current as of December 31, 2021 and 2020, respectively.

(2) Excluded from the table above are commercial mortgage and other loans held outside the general account in other entities and operations. For additional information regarding commercial mortgage and other loans held outside the general account, see “—Invested Assets of Other Entities and Operations” below. Also excluded are “Assets held-for-sale” of \$6,565 million net of allowance for credit losses of \$15 million as of December 31, 2021. See Note 1 to the Consolidated Financial Statements for additional information on the pending dispositions.

We originate commercial mortgage and agricultural property loans using a dedicated sales and underwriting staff through our various regional offices in the U.S. and international offices primarily in London and Tokyo. All loans are underwritten consistently to our standards using a proprietary quality rating system that has been developed from our industry experience in real estate and mortgage lending.

Uncollateralized loans primarily represent corporate loans held by the company’s international insurance operations.

Residential property loans primarily include Japanese recourse loans. 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 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:

	December 31, 2021		December 31, 2020	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
	(\$ in millions)			
Commercial mortgage and agricultural property loans by region:				
U.S. Regions(1):				
Pacific . . . . .	\$17,744	36.5%	\$19,186	34.7%
South Atlantic . . . . .	7,570	15.6	8,710	15.8
Middle Atlantic . . . . .	5,179	10.7	6,500	11.8
East North Central . . . . .	2,490	5.1	3,018	5.5
West South Central . . . . .	4,965	10.2	5,426	9.8
Mountain . . . . .	2,203	4.5	2,239	4.1
New England . . . . .	1,409	2.9	1,664	3.0
West North Central . . . . .	468	1.0	531	0.9
East South Central . . . . .	1,099	2.3	836	1.5
Subtotal-U.S. . . . .	43,127	88.8	48,110	87.1
Europe . . . . .	3,308	6.8	4,605	8.3
Asia . . . . .	919	1.9	979	1.8
Other . . . . .	1,196	2.5	1,529	2.8
Total commercial mortgage and agricultural property loans(2) . . . . .	\$48,550	100.0%	\$55,223	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 to the Consolidated Financial Statements for additional information on the pending dispositions.

	December 31, 2021		December 31, 2020	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
(\$ in millions)				
<b>Commercial mortgage and agricultural property loans by property type:</b>				
Industrial	\$11,773	24.3%	\$13,819	25.0%
Retail	5,294	10.9	5,718	10.4
Office	8,454	17.4	10,719	19.4
Apartments/Multi-Family	13,734	28.3	15,316	27.7
Agricultural properties	4,375	9.0	3,273	5.9
Hospitality	1,601	3.3	2,056	3.7
Other	3,319	6.8	4,322	7.9
Total commercial mortgage and agricultural property loans(1)	<u>\$48,550</u>	<u>100.0%</u>	<u>\$55,223</u>	<u>100.0%</u>

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

Loan-to-value and debt service coverage ratios are measures commonly used to assess the quality of commercial mortgage and agricultural property loans. The loan-to-value ratio compares the amount of the loan to the fair value of the underlying property collateralizing the loan and is commonly expressed as a percentage. A loan-to-value ratio less than 100% indicates an excess of collateral value over the loan amount. Loan-to-value ratios greater than 100% indicate that the loan amount exceeds the collateral value. The debt service coverage ratio compares a property's net operating income to its debt service payments. Debt service coverage ratios less than 1.0 times indicate that property operations do not generate enough income to cover the loan's current debt payments. A debt service coverage ratio greater than 1.0 times indicates an excess of net operating income over the debt service payments.

As of December 31, 2021, our commercial mortgage and agricultural property loans attributable to PFI excluding the Closed Block division had a weighted-average debt service coverage ratio of 2.43 times and a weighted-average loan-to-value ratio of 57%. As of December 31, 2021, 96% of commercial mortgage and agricultural property loans were fixed rate loans. For those commercial mortgage and agricultural property loans that were originated in 2021, the weighted-average debt service coverage ratio was 3.27 times, and the weighted-average loan-to-value ratio was 61%.

The values utilized in calculating these loan-to-value ratios are developed as part of our periodic review of the commercial mortgage and agricultural property loan portfolio, which includes an internal evaluation of the underlying collateral value. Our periodic review also includes a credit quality re-rating process, whereby we update the internal quality rating originally assigned at underwriting based on the proprietary quality rating system mentioned above. As discussed below, the internal credit quality rating is a key input in determining our allowance for credit losses.

For loans with collateral under construction, renovation or lease-up, a stabilized value and projected net operating income are used in the calculation of the loan-to-value and debt service coverage ratios. Our commercial mortgage and agricultural property loan portfolio included \$2.3 billion and \$2.4 billion of such loans as of December 31, 2021 and 2020, respectively. All else being equal, these loans are inherently riskier than those collateralized by properties that have already stabilized. As of December 31, 2021 and 2020, there were less than \$1 million and \$1 million, respectively, of allowances 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:

Loan-to-Value Ratio	December 31, 2021			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%	\$22,444	\$ 911	\$1,264	\$24,619
60%-69.99%	14,035	1,589	595	16,219
70%-79.99%	6,023	538	522	7,083
80% or greater	171	313	145	629
Total commercial mortgage and agricultural property loans(1)	\$42,673	\$3,351	\$2,526	\$48,550

(1) Excludes "Assets held-for-sale" of \$6,580 million. See Note 1 to the Consolidated Financial Statements for additional information on the pending dispositions.



The following table sets forth the breakdown of our commercial mortgage and agricultural property loans attributable to PFI excluding the Closed Block division by year of origination, as of the date indicated:

Year of Origination	December 31, 2021	
	Gross Carrying Value	% of Total
	(\$ in millions)	
2021	\$ 6,872	14.2%
2020	3,987	8.2
2019	7,779	16.0
2018	7,434	15.3
2017	5,016	10.3
2016	4,713	9.7
2015	4,180	8.6
2014 & Prior	8,533	17.6
Revolving Loans	36	0.1
Total commercial mortgage and agricultural property loans(1)	<u>\$48,550</u>	<u>100.0%</u>

(1) Excludes “Assets held-for-sale” of \$6,580 million. See Note 1 to the Consolidated Financial Statements for additional information on the pending dispositions.

### *Commercial Mortgage and Other Loans by Contractual Maturity Date*

The following table sets forth the breakdown of our commercial mortgage and other loans portfolio by contractual maturity, as of the date indicated:

Vintage	December 31, 2021	
	Gross Carrying Value	% of Total
	(\$ in millions)	
Maturing in 2022	\$ 1,676	3.4%
Maturing in 2023	2,512	5.1
Maturing in 2024	3,927	8.0
Maturing in 2025	6,047	12.2
Maturing in 2026	5,644	11.5
Maturing in 2027	4,700	9.5
Maturing in 2028	5,664	11.5
Maturing in 2029	4,693	9.5
Maturing in 2030	3,650	7.4
Maturing in 2031	2,638	5.4
Maturing in 2032	1,368	2.8
Maturing in 2033 and beyond	6,729	13.7
Total commercial mortgage and other loans(1)	<u>\$49,248</u>	<u>100.0%</u>

(1) Excludes “Assets held-for-sale” of \$6,580 million. See Note 1 to the Consolidated Financial Statements for additional information on the pending dispositions.

### *Commercial Mortgage and Other Loans Quality*

The commercial mortgage and other loans portfolio is monitored on an ongoing basis. If certain criteria are met, loans are assigned to either of the following “watch list” categories:

- (1) “Closely Monitored,” which includes a variety of considerations, such as when loan metrics fall below acceptable levels, the borrower is not cooperative or has requested a material modification, or the portfolio manager has directed a change in category; or
- (2) “Not in Good Standing,” which includes loans in default or with a high probability of loss of principal, such as when the loan is in the process of foreclosure or the borrower is in bankruptcy.

Our workout and special servicing professionals manage the loans on the watch list.

The current expected credit loss (“CECL”) allowance represents the Company’s best estimate of expected credit losses over the remaining life of the assets. The determination of the allowance considers historical credit loss experience, current conditions, and reasonable and supportable forecasts. The allowance is calculated separately for commercial mortgage loans, agricultural mortgage loans, uncollateralized loans, other collateralized loans and residential property loans.

For commercial mortgage and agricultural mortgage loans, the allowance is calculated using an internally developed CECL model.

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

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

The CECL allowance for other collateralized and uncollateralized loans carried at amortized cost is determined based on probability of default and loss given default assumptions by sector, credit quality and average lives of the loans.

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

	December 31, 2021	December 31, 2020
	(in millions)	
Allowance, beginning of year	\$207	\$102
Cumulative effect of adoption of ASU 2016-13	0	101
Addition to (release of) allowance for credit losses	(87)	1
Reclassified as "Assets held-for-sale"(1)	(15)	0
Other	(3)	3
Allowance, end of period	<u>\$102</u>	<u>\$207</u>

(1) See Note 1 to the Consolidated Financial Statements for additional information on the pending dispositions.

The allowance for credit losses as of December 31, 2021 decreased compared to December 31, 2020, primarily reflecting the improving credit environment.

### Equity Securities

The equity securities attributable to PFI excluding the Closed Block division consist principally of investments in Common and Preferred Stock of publicly-traded companies, as well as mutual fund shares. The following table sets forth the composition of our equity securities portfolio and the associated gross unrealized gains and losses, as of the dates indicated:

	December 31, 2021				December 31, 2020			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)							
Mutual funds(1)	\$1,158	\$ 699	\$ 0	\$1,857	\$ 956	\$ 404	\$ 5	\$1,355
Other Common Stocks(1)	2,553	1,073	34	3,592	2,726	1,019	62	3,683
Non-redeemable Preferred Stocks	97	49	8	138	54	22	6	70
Total equity securities, at fair value(2)	<u>\$3,808</u>	<u>\$1,821</u>	<u>\$42</u>	<u>\$5,587</u>	<u>\$3,736</u>	<u>\$1,445</u>	<u>\$73</u>	<u>\$5,108</u>

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

(2) Amounts presented exclude investments in private equity and hedge funds and other investments which are reported in "Other invested assets." Excludes "Assets held-for-sale" of \$322 million at fair value as of December 31, 2021. See Note 1 to the Consolidated Financial Statements for additional information on the pending dispositions.

The net change in unrealized gains (losses) from equity securities attributable to PFI excluding Closed Block division, including "Assets held-for Sale" still held at period end, recorded within "Other income (loss)," was \$406 million and \$83 million during the year ended December 31, 2021 and 2020, respectively.

## Other Invested Assets

The following table sets forth the composition of “Other invested assets” attributable to PFI excluding the Closed Block division, as of the dates indicated:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
	(in millions)	
LPs/LLCs:		
Equity method:		
Private equity(1) . . . . .	\$ 5,163	\$ 3,411
Hedge funds . . . . .	2,044	1,770
Real estate-related(1) . . . . .	1,487	1,214
Subtotal equity method . . . . .	8,694	6,395
Fair value:		
Private equity . . . . .	1,124	1,063
Hedge funds . . . . .	1,078	1,111
Real estate-related . . . . .	34	41
Subtotal fair value . . . . .	2,236	2,215
Total LPs/LLCs . . . . .	10,930	8,610
Real estate held through direct ownership(2) . . . . .	889	1,176
Derivative instruments . . . . .	337	199
Other(3) . . . . .	329	731
Total other invested assets(4) . . . . .	<u>\$12,485</u>	<u>\$10,716</u>

- (1) Prior period amounts have been updated to conform to current period presentation.
- (2) As of December 31, 2021 and 2020, real estate held through direct ownership had mortgage debt of \$274 million and \$409 million, respectively.
- (3) Primarily includes leveraged leases and member and activity stock held in the Federal Home Loan Banks of New York and Boston. For additional information regarding our holdings in the Federal Home Loan Banks of New York and Boston, see Note 17 to the Consolidated Financial Statements.
- (4) Excludes “Assets held-for-sale” of \$104 million as of December 31, 2021. See Note 1 to the Consolidated Financial Statements for additional information on the pending dispositions.

## Invested Assets of Other Entities and Operations

“Invested Assets of Other Entities and Operations” presented below includes investments held outside the general account and primarily represents investments associated with our investment management operations and derivative operations. Our derivative operations act on behalf of affiliates primarily to manage interest rate, foreign currency, credit and equity exposures. Assets within our investment management operations that are managed for third-parties and those assets classified as “Separate account assets” on our balance sheet are not included.

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
	(in millions)	
Fixed maturities:		
Public, available-for-sale, at fair value(1) . . . . .	\$ 478	\$ 644
Fixed maturities, trading, at fair value(1) . . . . .	213	212
Equity securities, at fair value . . . . .	699	682
Commercial mortgage and other loans, at book value(2) . . . . .	1,279	1,112
Other invested assets . . . . .	4,990	3,799
Short-term investments . . . . .	35	36
Total investments . . . . .	<u>\$7,694</u>	<u>\$6,485</u>

- (1) As of December 31, 2021 and 2020, balances include investments in CLOs with fair value of \$329 million and \$496 million, respectively.
- (2) Book value is generally based on unpaid principal balance, net of any allowance for credit losses, or at fair value, when the fair value option has been elected.

### Fixed Maturities, Trading

“Fixed maturities, trading, at fair value” are primarily related to assets associated with consolidated variable interest entities (“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 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 includes certain assets in consolidated investment funds where the Company is deemed to exercise control over the funds.

## **Liquidity and Capital Resources**

### **Overview**

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

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

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

From the beginning of 2021 through February 17, 2022, we took the following significant actions that have impacted, or are expected to impact, our liquidity and capital positions:

- Through actions in February 2021, May 2021, and July 2021, Prudential Financial’s Board of Directors (the “Board”) authorized the Company to repurchase at management’s discretion up to an aggregate of \$2.5 billion of its outstanding Common Stock during the period from January 1, 2021 through December 31, 2021. We utilized the entirety of this \$2.5 billion share repurchase authorization in 2021. In November 2021, 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.
- During 2021, we entered into agreements for a number of business dispositions, including for the sale of our Full Service Retirement business and a portion of our in-force traditional variable annuity block of business. For more information about these transactions, see Note 1 to our Consolidated Financial Statements contained herein.
- In July 2021, the Company amended and restated its \$4.0 billion five-year credit facility, extending the term of the facility to July 2026. The extension also includes certain sustainability-linked pricing adjustments, by which the applicable interest rate margins and commitment fee may be adjusted based on the Company’s ability to meet certain targets.
- In August 2021, we redeemed our \$700 million 3.500% medium-term notes due 2021 and \$210 million of our \$600 million 3.878% medium-term notes due 2028.

### **Capital**

Our capital management framework is primarily based on statutory Risk-Based Capital (“RBC”) and solvency margin measures. Due to our diverse mix of businesses and applicable regulatory requirements, we apply certain refinements to the framework that are designed to more appropriately reflect risks associated with our businesses on a consistent basis across the Company.

We believe Prudential Financial’s capitalization and financial profile are consistent with its ratings targets. Our long-term senior debt rating targets for Prudential Financial are “A” for S&P, Moody’s, and Fitch, and “a” for A.M. Best Company (“A.M. Best”). Our financial strength rating targets for our life insurance companies are “AA/Aa/AA” for S&P, Moody’s and Fitch, respectively, and “A+” for A.M.

Best. Some entities may currently be rated below these targets, and not all of our insurance company subsidiaries are rated by each of these rating agencies. See “—Ratings” below for a description of the potential impacts of ratings downgrades.

### Capital Governance

Our capital management framework is ultimately reviewed and approved by our Board. The Board has authorized our Chairman and Chief Executive Officer and Vice Chair to approve certain capital actions on behalf of the Company and to further delegate authority with respect to capital actions to appropriate officers, up to specified limits. Any capital commitment that exceeds the authority granted to senior management must be separately authorized by the Board.

In addition, our Capital and Finance Committee (“CFC”) reviews the use and allocation of capital above certain threshold amounts to promote the efficient use of capital, consistent with our strategic objectives, ratings aspirations and other goals and targets. This management committee provides a multi-disciplinary due diligence review of specific initiatives or transactions requiring the use of capital, including mergers and acquisitions. The CFC also reviews our annual capital plan (and updates to this plan), as well as our capital, liquidity and financial position, borrowing plans, and related matters prior to the discussion of these items with the Board.

### Capitalization

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 December 31, 2021, the Company had \$53.2 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.

	December 31,	
	2021	2020
	(in millions)	
Equity(1) .....	\$40,552	\$36,687
Junior subordinated debt (including hybrid securities) .....	7,619	7,615
Other capital debt .....	5,073	5,856
Total capital .....	<u>\$53,244</u>	<u>\$50,158</u>

(1) Amounts attributable to Prudential Financial, excluding AOCL.

### Insurance Regulatory Capital

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 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 is calculated based on statutory financial statements and risk formulas consistent with the practices of the NAIC. RBC considers, among other things, risks related to the type and quality of the invested assets, insurance-related risks associated with an insurer’s products and liabilities, interest rate risks and general business risks. RBC ratio calculations are intended to assist insurance regulators in measuring an insurer’s solvency and ability to pay future claims. The reporting of RBC measures is not intended for the purpose of ranking any insurance company or for use in connection with any marketing, advertising or promotional activities, but is available to the public.

The table below presents the RBC ratios of our most significant domestic insurance subsidiaries as of December 31, 2020, the most recent statutory fiscal year-end for these subsidiaries for which RBC information has been filed.

	Ratio
PICA(1) .....	394%
Prudential Annuities Life Assurance Corporation (“PALAC”) .....	465%
Composite Major U.S. Insurance Subsidiaries(2) .....	411%

- (1) Includes Prudential Retirement Insurance and Annuity Company (“PRIAC”), Pruco Life Insurance Company (“Pruco Life”), Pruco Life Insurance Company of New Jersey (“PLNJ”), which is a subsidiary of Pruco Life, and Prudential Legacy Insurance Company of New Jersey (“PLIC”).
- (2) Includes PICA and its subsidiaries, as noted above, and PALAC. Composite RBC is not reported to regulators and is based on the summation of total adjusted capital and risk charges for the included companies as determined under statutory accounting and RBC guidance to calculate a composite numerator and denominator, respectively, for purposes of calculating the composite ratio.

Although not yet filed, we expect these RBC ratios as of December 31, 2021 to be above our “AA” financial strength target levels.

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 September 30, 2021, the most recent date for which this information is available.

	<b>Ratio</b>
Prudential of Japan consolidated(1) .....	826%
Gibraltar Life consolidated(2) .....	937%

(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.

Although not yet filed, we expect the solvency margin ratio for each of these subsidiaries to be greater than 700% (3.5 times the regulatory required minimums) as of December 31, 2021.

All of our domestic and significant international insurance subsidiaries have capital levels that substantially exceed the minimum level required by applicable insurance regulations; however, market conditions could negatively impact the statutory capital of our insurance companies and constrain our overall capital flexibility. Our regulatory capital levels also may be affected in the future by changes to the applicable regulations, proposals for which are currently under consideration by both domestic and international insurance regulators. For additional information on the calculation of RBC and solvency margin ratios, as well as regulatory minimums, see Note 19 to the Consolidated Financial Statements.

### ***Captive Reinsurance Companies***

We use captive reinsurance companies to more effectively manage our reserves and capital on an economic basis and to enable the aggregation and transfer of risks. Our captive reinsurance companies assume business from affiliates only. To support the risks they assume, our captives are capitalized to a level we believe is consistent with the "AA" financial strength rating targets of our insurance subsidiaries. All of our captives are subject to internal policies governing their activities. In the normal course of business, we contribute capital to the captives to support business growth and other needs. Prudential Financial has also entered into support agreements with several of the captives in connection with financing arrangements. For a description of captive reinsurance company financing activities, see below under "—Financing Activities—Subsidiary Borrowings—Term and Universal Life Reserve Financing."

### ***Shareholder Distributions***

#### ***Share Repurchase Program and Shareholder Dividends***

Through actions in February 2021, May 2021, and July 2021, Prudential Financial's Board of Directors authorized the Company to repurchase at management's discretion up to an aggregate of \$2.5 billion of its outstanding Common Stock during the period from January 1, 2021 through December 31, 2021. We utilized the entirety of this \$2.5 billion share repurchase authorization in 2021. In November 2021, 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.

In general, the timing and amount of share repurchases are determined by management based on market conditions and other considerations, including any increased capital needs of our businesses due to, among other things, credit migration and losses in our investment portfolio, changes in regulatory capital requirements and opportunities for growth and acquisitions. Repurchases may be executed in the open market, through derivative, accelerated repurchase and other negotiated transactions and through plans designed to comply with Rule 10b5-1(c) under the Securities Exchange Act of 1934.



The following table sets forth information about declarations of Common Stock dividends, as well as repurchases of shares of Prudential Financial's Common Stock, for each of the quarterly periods in 2021 and for the prior four years:

<u>Quarterly period ended:</u>	<u>Dividend Amount</u>		<u>Shares Repurchased</u>	
	<u>Per Share</u>	<u>Aggregate</u>	<u>Shares</u>	<u>Total Cost</u>
	(in millions, except per share data)			
December 31, 2021 .....	\$1.15	\$443	3.4	\$375
September 30, 2021 .....	\$1.15	\$451	8.4	\$875
June 30, 2021 .....	\$1.15	\$460	8.4	\$875
March 31, 2021 .....	\$1.15	\$467	4.3	\$375

<u>Year ended:</u>	<u>Dividend Amount</u>		<u>Shares Repurchased</u>	
	<u>Per Share</u>	<u>Aggregate</u>	<u>Shares</u>	<u>Total Cost</u>
	(in millions, except per share data)			
December 31, 2021 .....	\$4.60	\$1,821	24.5	\$2,500
December 31, 2020 .....	\$4.40	\$1,769	6.7	\$ 500
December 31, 2019 .....	\$4.00	\$1,644	27.2	\$2,500
December 31, 2018 .....	\$3.60	\$1,525	14.9	\$1,500
December 31, 2017 .....	\$3.00	\$1,300	11.5	\$1,250

In addition, on February 3, 2022, Prudential Financial's Board of Directors declared a cash dividend of \$1.20 per share of Common Stock, payable on March 11, 2022 to shareholders of record as of February 15, 2022.

## 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 December 31, 2021, Prudential Financial had highly liquid assets with a carrying value totaling \$4,226 million, a decrease of \$2,253 million from December 31, 2020. Highly liquid assets predominantly include cash, short-term investments, U.S. Treasury securities, obligations of other U.S. government authorities and agencies, and/or foreign government bonds. We maintain an intercompany liquidity account that is designed to optimize the use of cash by facilitating the lending and borrowing of funds between Prudential Financial and its subsidiaries on a daily basis. Excluding the net borrowings from this intercompany liquidity account, Prudential Financial had highly liquid assets of \$3,553 million as of December 31, 2021, a decrease of \$2,007 million from December 31, 2020.

The following table sets forth Prudential Financial's principal sources and uses of highly liquid assets, excluding net borrowings from our intercompany liquidity account, for the periods indicated:

	Year Ended December 31,	
	2021	2020
	(in millions)	
<b>Highly Liquid Assets, beginning of period</b>	\$ 5,560	\$ 4,061
Dividends and/or returns of capital from subsidiaries(1)	3,339	3,698
Affiliated loans/(borrowings)—(capital activities)(2)	406	(1,017)
Capital contributions to subsidiaries(3)	(197)	(386)
<b>Total Business Capital Activity</b>	3,548	2,295
Share repurchases	(2,500)	(500)
Common stock dividends(4)	(1,814)	(1,766)
Acquisition/Disposition Activity(5)	648	1,627
<b>Total Share Repurchases, Dividends and Acquisition/Disposition Activity</b>	(3,666)	(639)
Proceeds from the issuance of debt	0	2,768
Repayments of debt	(1,308)	(2,467)
<b>Total Debt Activity</b>	(1,308)	301
Proceeds from stock-based compensation and exercise of stock options	343	293
Interest income from subsidiaries on intercompany agreements, net of interest paid	238	223
Swap terminations	(94)	(190)
Net income tax receipts & payments	330	482
Interest paid on external debt	(963)	(988)
Affiliated (borrowings)/loans—(operating activities)(6)	(331)	(283)
Other, net	(104)	5
<b>Total Other Activity</b>	(581)	(458)
<b>Net increase (decrease) in highly liquid assets</b>	(2,007)	1,499
<b>Highly Liquid Assets, end of period</b>	<u>\$ 3,553</u>	<u>\$ 5,560</u>

- (1) 2021 includes \$1,184 million from international insurance subsidiaries (including \$994 million in the form of in-kind dividends). 2020 includes \$1,905 million from international insurance subsidiaries (including \$470 million in the form of in-kind dividends). See "Item 15—Schedule II—Notes to Condensed Financial Information of Registrant—Dividends and Returns of Capital" included in Prudential Financial's 2021 Annual Report on Form 10-K for dividends and returns of capital by subsidiary.
- (2) Represents the investment and deployment of capital to and from our businesses in the form of loans. 2021 includes net lending of \$406 million from international insurance subsidiaries including \$994 million received by PFI in the form of the extinguishment of debt held by international subsidiaries (offset by the in-kind dividends referred to in footnote 1 above). 2020 includes net receipts of \$1,017 million from international subsidiaries including \$470 million received by PFI in the form of the extinguishment of debt held by international subsidiaries (offset by the in-kind dividends referred to in footnote 1 above).
- (3) 2021 primarily includes capital contributions of \$181 million to international insurance subsidiaries, \$9 million to PGIM, and \$7 million to other corporate subsidiaries. 2020 includes capital contributions of \$217 million to PGIM, and \$170 million to international insurance subsidiaries.
- (4) Includes cash payments made on dividends declared in prior periods.
- (5) 2021 represents the net proceeds from the sales of POT and PGIM's joint venture in Italy that were distributed to PFI. 2020 represents the net proceeds from the sale of POK that were distributed to PFI.
- (6) Represents loans to and from affiliated subsidiaries to support business operating needs.

### ***Dividends and Returns of Capital from Subsidiaries***

**Domestic insurance subsidiaries.** During 2021, Prudential Financial received dividends of \$1,100 million from PICA and \$453 million from Prudential Annuities Holding Company, of which \$380 million was from PALAC.

**International insurance subsidiaries.** During 2021, Prudential Financial received dividends of \$1,184 million from its international insurance subsidiaries, which includes \$994 million of in-kind dividends in the form of the extinguishment of debt held by international insurance subsidiaries. In addition to paying Common Stock dividends, our international insurance operations may return capital to Prudential Financial through or facilitated 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 2021, Prudential Financial received dividends and returns of capital of \$540 million from PGIM subsidiaries and dividends of \$62 million from other subsidiaries.

**Restriction on dividends and returns of capital from subsidiaries.** Our insurance companies are subject to limitations on the payment of dividends and other transfers of funds to Prudential Financial and other affiliates under applicable insurance law and regulation. Further, market conditions could negatively impact capital positions of our insurance companies, which could further restrict their ability to pay dividends. More generally, the payment of dividends by any of our subsidiaries is subject to declaration by their Board of Directors and can be affected by market conditions and other factors.

With respect to our domestic insurance subsidiaries, PICA is permitted to pay ordinary dividends based on calculations specified under New Jersey insurance law, subject to prior notification to the New Jersey Department of Banking and Insurance ("NJDOBI"). Any

distributions above this amount in any twelve-month period are considered to be “extraordinary” dividends, and the approval of the NJDOBI is required prior to payment. The laws regulating dividends of the states where our other domestic insurance companies are domiciled are similar, but not identical, to New Jersey’s. Dividends from PRIAC are currently prohibited prior to the closing of its sale to Great-West under the terms of the sale agreement.

Capital redeployment from our international insurance subsidiaries is subject to local regulatory requirements in the international jurisdictions in which they operate. Our most significant international insurance subsidiaries, Prudential of Japan and Gibraltar Life, are permitted to pay common stock dividends based on calculations specified by Japanese insurance law, subject to prior notification to the FSA. Dividends in excess of these amounts and other forms of capital distribution require the prior approval of the FSA. The regulatory fiscal year end for both Prudential of Japan and Gibraltar Life is March 31, 2022, 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 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.

### ***Cash Flow***

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.

In each of our major insurance subsidiaries, we believe that the cash flows from operations are adequate to satisfy current liquidity requirements. The continued adequacy of this liquidity will depend upon factors such as future securities market conditions, changes in interest rate levels, policyholder perceptions of our financial strength, policyholder behavior, catastrophic events and the relative safety and attractiveness of competing products, each of which could lead to reduced cash inflows or increased cash outflows. Our insurance operations’ cash flows from investment activities result from repayments of principal, proceeds from maturities and sales of invested assets and investment income, net of amounts reinvested. The primary liquidity risks with respect to these cash flows are the risk of default by debtors or bond insurers, our counterparties’ willingness to extend repurchase and/or securities lending arrangements, commitments to invest and market volatility. We closely manage these risks through our credit risk management process and regular monitoring of our liquidity position.

**Domestic insurance operations.** In managing the liquidity of our domestic insurance operations, we consider the risk of policyholder and contractholder withdrawals of funds earlier than our assumptions when selecting assets to support these contractual obligations. We use surrender charges and other contract provisions to mitigate the extent, timing and profitability impact of withdrawals of funds by customers. The following table sets forth the liabilities for future policy benefits and policyholders' account balances of certain of our domestic insurance subsidiaries as of the dates indicated:

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in billions)</b>	
PICA .....	\$227.1	\$ 227.2
PLIC .....	49.6	50.9
Pruco Life .....	56.1	56.7
PRIAC .....	0.6	29.0
PALAC .....	0.0	27.7
Other(1) .....	(90.0)	(102.9)
Total future policy benefits and policyholders' account balances(2)(3) .....	<u>\$243.4</u>	<u>\$ 288.6</u>

(1) Includes the impact of intercompany eliminations.

(2) Amounts are reflected gross of affiliated reinsurance recoverables.

(3) Excludes "Liabilities held-for-sale" of \$28.3 billion and \$16.3 billion for PRIAC and PALAC, respectively, as of December 31, 2021. See Note 1 to the Consolidated Financial Statements for additional information on the pending dispositions.

The liabilities presented above are primarily supported by invested assets in our general account. As noted above, when selecting assets to support these contractual obligations, we consider the risk of policyholder and contractholder withdrawals of funds earlier than our assumptions. As a result, assets will include both liquid assets, as discussed below, and other assets that we believe adequately support our liabilities.

For PICA and other subsidiaries, the liabilities presented above primarily include annuity reserves and deposit liabilities and individual life insurance policy reserves. Individual life insurance policies may impose surrender charges and policyholders may be subject to a new underwriting process in order to obtain a new insurance policy. PICA's reserves for group annuity contracts primarily relate to pension risk transfer contracts, which are generally not subject to early withdrawal. For our individual annuity contracts, to encourage persistency, most of our variable and fixed annuities have surrender or withdrawal charges for a specified number of years. In addition, certain fixed annuities impose a market value adjustment if the invested amount is not held to maturity. The living benefit features of our variable annuities also encourage persistency because the potential value of the living benefit is fully realized only if the contract persists.

Gross account withdrawals for our domestic insurance operations' products in 2021 were generally consistent with our assumptions in asset/liability management, and the associated cash outflows did not have a material adverse impact on our overall liquidity.

**International insurance operations.** As with our domestic operations, in managing the liquidity of our international insurance operations, we consider the risk of policyholder and contractholder withdrawals of funds earlier than our assumptions in selecting assets to support these contractual obligations. The following table sets forth the liabilities for future policy benefits and policyholders' account balances of certain of our international insurance subsidiaries as of the dates indicated:

	<b>December 31,</b>	
	<b>2021</b>	<b>2020(1)</b>
	<b>(in billions)</b>	
Prudential of Japan(2) .....	\$ 63.7	\$ 63.3
Gibraltar Life(3) .....	110.5	114.6
Other international insurance subsidiaries, excluding Japan .....	2.8	6.4
Other(4) .....	(7.9)	(4.9)
Total future policy benefits and policyholders' account balances(5) .....	<u>\$169.1</u>	<u>\$179.4</u>

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

(2) As of December 31, 2021 and 2020, \$21.0 billion and \$18.3 billion, respectively, of the insurance-related liabilities for Prudential of Japan are associated with U.S. dollar-denominated products that are coinsured to our domestic insurance operations and supported by U.S. dollar-denominated assets. As of December 31, 2021 and 2020, \$1.9 billion and \$1.4 billion, respectively, of the insurance-related liabilities for Prudential of Japan are primarily associated with yen- and U.S. dollar-denominated products that are coinsured to Gibraltar Re, our Bermuda-based reinsurance affiliate, and primarily supported by yen- and U.S. dollar-denominated assets.

(3) Includes PGFL. As of December 31, 2021 and 2020, \$8.1 billion and \$7.1 billion, respectively, of the insurance-related liabilities for PGFL are associated with U.S. dollar-denominated products that are coinsured to our domestic insurance operations and supported by U.S. dollar-denominated assets. As of December 31, 2021 and 2020, \$7.6 billion and \$4.5 billion, respectively, of the insurance-related liabilities for Gibraltar Life are primarily associated with yen- and U.S. dollar-denominated products that are coinsured to Gibraltar Re and primarily supported by yen- and U.S. dollar-denominated assets.

(4) Reflects the impact of intercompany eliminations.

(5) Amounts are reflected gross of affiliated reinsurance recoverables.

The liabilities presented above are primarily supported by invested assets in our general account. When selecting assets to support these contractual obligations, we consider the risk of policyholder and contractholder withdrawals of funds earlier than our assumptions. As a result, assets will include both liquid assets, as discussed below, and other assets that we believe adequately support our liabilities.

We believe most of the longer-term recurring pay individual life insurance policies sold by our Japanese operations do not have significant withdrawal risk because policyholders may incur surrender charges and must undergo a new underwriting process to obtain a new insurance policy.

Gibraltar Life sells fixed annuities, denominated in U.S. and Australian dollars, that may be subject to increased surrenders should the yen depreciate in relation to these currencies or if interest rates in Australia and the U.S. decline relative to Japan. A significant portion of the liabilities associated with these contracts include a market value adjustment feature, which mitigates the profitability impact from surrenders. As of December 31, 2021, products with a market value adjustment feature represented \$25.3 billion of our Japan operations' insurance-related liabilities, which included \$22.3 billion attributable to non-yen denominated fixed annuities.

### Liquid Assets

Liquid assets include cash and cash equivalents, short-term investments, U.S. Treasury securities, fixed maturities that are not designated as held-to-maturity and public equity securities. In addition to access to substantial investment portfolios, our insurance companies' liquidity is managed through access to a variety of instruments available for funding and/or managing cash flow mismatches, including from time to time those arising from claim levels in excess of projections. Our ability to utilize assets and liquidity between our subsidiaries is limited by regulatory and other constraints. We believe that ongoing operations and the liquidity profile of our assets provide sufficient liquidity under reasonably foreseeable stress scenarios for each of our insurance subsidiaries.

The following table sets forth the fair value of certain of our domestic insurance operations' portfolio of liquid assets, as of the dates indicated.

	December 31, 2021						December 31, 2020
	Prudential Insurance(1)	PLIC	PRIAC(2)	PALAC(2)	Pruco Life	Total	
	(in billions)						
Cash and short-term investments	\$ 7.9	\$ 1.0	\$ 0.9	\$ 3.1	\$ 1.1	\$ 14.0	\$ 9.4
Fixed maturity investments(3):							
High or highest quality	134.6	34.6	22.4	8.1	15.2	214.9	222.4
Other than high or highest quality	9.8	3.5	0.8	0.7	1.4	16.2	15.4
Subtotal	144.4	38.1	23.2	8.8	16.6	231.1	237.8
Public equity securities, at fair value	1.3	2.2	0.3	0.3	0.1	4.2	3.2
Total	<u>\$153.6</u>	<u>\$41.3</u>	<u>\$24.4</u>	<u>\$12.2</u>	<u>\$17.8</u>	<u>\$249.3</u>	<u>\$250.4</u>

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

(2) During 2021, the Company entered into definitive sale agreements to sell its equity interests in both PRIAC and PALAC. See Note 1 to the Consolidated Financial Statements for more information about these pending dispositions.

(3) Excludes fixed maturities designated as held-to-maturity. Credit quality is based on NAIC or equivalent rating.

The following table sets forth the fair value of our international insurance operations' portfolio of liquid assets, as of the dates indicated.

	December 31, 2021				December 31, 2020
	Prudential of Japan	Gibraltar Life(1)	All Other(2)	Total	
	(in billions)				
Cash and short-term investments	\$ 1.0	\$ 2.3	\$ 1.6	\$ 4.9	\$ 6.0
Fixed maturity investments(3):					
High or highest quality(4)	41.0	87.0	10.0	138.0	147.7
Other than high or highest quality	0.8	2.2	2.0	5.0	4.8
Subtotal	41.8	89.2	12.0	143.0	152.5
Public equity securities	2.4	2.0	0.1	4.5	3.6
Total	<u>\$45.2</u>	<u>\$93.5</u>	<u>\$13.7</u>	<u>\$152.4</u>	<u>\$162.1</u>

(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 December 31, 2021, \$103.6 billion, or 75%, were invested in government or government agency bonds.

Given the size and liquidity profile of our investment portfolios, we believe that claim experience, including policyholder withdrawals and surrenders, varying from our projections does not constitute a significant liquidity risk. Our asset/liability management process takes

into account the expected maturity of investments and expected claim payments as well as the specific nature and risk profile of the liabilities. To the extent we need to pay claims in excess of projections, we may borrow temporarily or sell investments sooner than anticipated to pay these claims, which may result in increased borrowing costs or realized investment gains or losses, including from changes in interest rates or credit spreads. The payment of claims and sale of investments earlier than anticipated would have an impact on the reported level of cash flow from operating, investing, and financing activities, in our financial statements. Historically, there has been no significant variation between the expected maturities of our investments and the payment of claims.

## ***Liquidity associated with other activities***

### ***Hedging activities associated with Individual Annuities***

For the portion of our Individual Annuities' ALM strategy executed through hedging, as well as the capital hedge program, we enter into a range of exchange-traded, cleared and other OTC equity and interest rate derivatives in order to hedge certain capital market risks related to more severe market conditions. For a full discussion of our Individual Annuities' risk management strategy, see "—Results of Operations by Segment—U.S. Businesses—Individual Annuities." This portion of our Individual Annuities' ALM strategy and capital hedge program requires access to liquidity to meet payment obligations relating to these derivatives, such as payments for periodic settlements, purchases, maturities and terminations. These liquidity needs can vary materially due to, among other items, changes in interest rates, equity markets, mortality and policyholder behavior.

The hedging portion of our Individual Annuities' ALM strategy and capital hedge program may also result in derivative related collateral postings to (when we are in a net post position) or from (when we are in a net receive position) counterparties. The net collateral position depends on changes in interest rates and equity markets related to the amount of the exposures hedged. Depending on market conditions, the collateral posting requirements can result in material liquidity needs when we are in a net post position. As of December 31, 2021, the derivatives comprising the hedging portion of our Individual Annuities' ALM strategy and capital hedge program were in a net post position of \$5.5 billion compared to a net receive position of \$3.4 billion as of December 31, 2020. The change in collateral position was primarily driven by the impact of increasing interest rates and equity markets.

### ***Foreign exchange hedging activities***

We employ various hedging strategies to manage potential exposure to foreign currency exchange rate movements, particularly those associated with the yen. Our overall yen hedging strategy calibrates the hedge level to preserve the relative contribution of our yen-based business to the Company's overall return on equity on a leverage neutral basis. The hedging strategy includes two primary components:

**Income Hedges**—We hedge a portion of our prospective yen-based earnings streams by entering into external forward currency derivative contracts that effectively fix the currency exchange rates for that portion of earnings, thereby reducing volatility from foreign currency exchange rate movements. As of December 31, 2021, we have hedged 100%, 72%, and 28%, of expected yen-based earnings for 2022, 2023 and 2024, respectively.

**Equity Hedges**—We hold both internal and external hedges primarily to hedge our USD-equivalent equity. These hedges also mitigate volatility in the solvency margins of yen-based subsidiaries resulting from changes in the market value of their USD-denominated investments hedging our USD-equivalent equity attributable to changes in the yen-USD exchange rate.

For additional information on our hedging strategy, see "—Results of Operations—Impact of Foreign Currency Exchange Rates."

Cash settlements from these hedging activities result in cash flows between subsidiaries of Prudential Financial and either international-based subsidiaries or external parties. The cash flows are dependent on changes in foreign currency exchange rates and the notional amount of the exposures hedged. For example, a significant yen depreciation over an extended period of time could result in net cash inflows, while a significant yen appreciation could result in net cash outflows. The following tables set forth information about net cash settlements and the net asset or liability resulting from these hedging activities related to the yen and other currencies for the periods indicated.

<b>Cash Settlements: Received (Paid)</b>	<b>Year ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in millions)</b>	
Income Hedges (External)(1) .....	\$ 33	\$ 74
Equity Hedges:		
Internal(2) .....	488	188
External(3) .....	(137)	230
Total Equity Hedges .....	351	418
Total Cash Settlements .....	<u>\$ 384</u>	<u>\$492</u>



<u>Assets (Liabilities):</u>	<u>As of December 31,</u>	
	<u>2021</u>	<u>2020</u>
	<u>(in millions)</u>	
Income Hedges (External)(4) .....	\$ 47	\$ 3
Equity Hedges:		
Internal(2) .....	955	291
External(5) .....	(20)	(56)
Total Equity Hedges(6) .....	935	235
Total Assets (Liabilities) .....	<u>\$982</u>	<u>\$238</u>

- (1) Includes non-yen related cash settlements of \$19 million, primarily denominated in Brazilian real, Australian dollar and Chilean peso and \$60 million, primarily denominated in Australian dollar, Korean won and Brazilian real for the year ended December 31, 2021 and 2020, respectively.
- (2) Represents internal transactions between international-based and U.S.-based entities. Amounts noted are from the U.S.-based entities' perspectives.
- (3) Includes non-yen related cash settlements of \$4 million and \$23 million, denominated in Korean won for the year ended December 31, 2021 and December 31, 2020.
- (4) Includes non-yen related assets of \$28 million, primarily denominated in Brazilian real, Chilean peso and Australian dollar and assets of \$2 million, primarily denominated in Korean won, Australian dollar and Chilean peso, as of December 31, 2021 and 2020, respectively.
- (5) Includes non-yen related assets of \$1 million, denominated in Korean won, as of December 31, 2020.
- (6) As of December 31, 2021, approximately \$214 million, \$453 million and \$268 million of the net market values are scheduled to settle in 2022, 2023 and thereafter, respectively. The net market value of the assets (liabilities) will vary with changing market conditions to the extent there are no corresponding offsetting positions.

### *PGIM operations*

The principal sources of liquidity for our fee-based PGIM businesses include asset management fees, commercial mortgage origination and servicing fees, and internal and external funding facilities. The principal uses of liquidity include general and administrative expenses, facilitating our commercial mortgage loan business, and distributions of dividends and returns of capital to Prudential Financial. The primary liquidity risks for our fee-based PGIM businesses relate to their profitability, which is impacted by market conditions, our investment management performance and client redemptions. We believe the cash flows from our fee-based PGIM businesses are adequate to satisfy the current liquidity requirements of these operations, as well as requirements that could arise under reasonably foreseeable stress scenarios, which are monitored through the use of internal measures.

The principal sources of liquidity for our seed and co-investments held in our PGIM businesses are cash flows from investments, borrowing lines from internal sources, including Prudential Financial and Prudential Funding, LLC ("Prudential Funding"), a wholly-owned subsidiary of PICA, and external sources, including PGIM's limited-recourse credit facility. The principal uses of liquidity for our seed and co-investments include making investments to support business growth and paying interest expense from the internal and external borrowings used to fund those investments. The primary liquidity risks include the inability to sell assets in a timely manner, declines in the value of assets and credit defaults.

### *Alternative Sources of Liquidity*

In addition to asset-based financing as discussed below, Prudential Financial and certain subsidiaries have access to other sources of liquidity, including syndicated, unsecured committed credit facilities, membership in the Federal Home Loan Banks, commercial paper programs, and contingent financing facilities in the form of a put option agreement and facility agreement. In July 2021, we amended and restated our \$4 billion five-year credit facility that has Prudential Financial and Prudential Funding as borrowers, extending the term of the facility to July 2026. For more information on these sources of liquidity, see Note 17 to the Consolidated Financial Statements.

### *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:

	December 31, 2021			December 31, 2020		
	PFI Excluding Closed Block Division	Closed Block Division	Consolidated	PFI Excluding Closed Block Division	Closed Block Division	Consolidated
	(\$ in millions)					
Securities sold under agreements to repurchase	\$ 7,393	\$2,792	\$10,185	\$ 8,092	\$2,802	\$10,894
Cash collateral for loaned securities(1)	4,168	82	4,250	3,379	120	3,499
Securities sold but not yet purchased	3	0	3	2	0	2
Total(2)(3)	<u>\$11,564</u>	<u>\$2,874</u>	<u>\$14,438</u>	<u>\$11,473</u>	<u>\$2,922</u>	<u>\$14,395</u>
Portion of above securities that may be returned to the Company						
overnight requiring immediate return of the cash collateral	\$10,637	\$2,874	\$13,511	\$10,463	\$2,922	\$13,385
Weighted average maturity, in days(4)	31	N/A		28	N/A	

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

(2) The daily weighted average outstanding balance for the year ended December 31, 2021 and 2020 was \$11,484 million and \$11,464 million, respectively, for PFI excluding the Closed Block division, and \$3,290 million and \$3,034 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 December 31, 2021, our domestic insurance entities had assets eligible for the asset-based or secured financing programs of \$130.9 billion, of which \$14.0 billion were on loan. Taking into account market conditions and outstanding loan balances as of December 31, 2021, we believe approximately \$15.3 billion of the remaining eligible assets are readily lendable, including approximately \$10.3 billion relating to PFI excluding the Closed Block division, of which \$2.5 billion relates to certain separate accounts and may only be used for financing activities related to those accounts, and the remaining \$5.0 billion relating to the Closed Block division.

## Financing Activities

As of December 31, 2021, total short-term and long-term debt of the Company on a consolidated basis was \$19.3 billion, a decrease of \$1.3 billion from December 31, 2020. The following table sets forth total consolidated borrowings of the Company as of the dates indicated. We may, from time to time, seek to redeem or repurchase our outstanding debt securities through open market purchases, individually negotiated transactions or otherwise. Any such actions will depend on prevailing market conditions, our liquidity position and other factors.

	December 31, 2021			December 31, 2020		
	Prudential Financial	Subsidiaries	Consolidated	Prudential Financial	Subsidiaries	Consolidated
	(in millions)					
General obligation short-term debt:						
Commercial paper	\$ 25	\$ 395	\$ 420	\$ 25	\$ 355	\$ 380
Current portion of long-term debt	0	0	0	399	0	399
Other short-term debt	0	\$ 98	98	0	0	0
Subtotal	<u>25</u>	<u>493</u>	<u>518</u>	<u>424</u>	<u>355</u>	<u>779</u>
General obligation long-term debt:						
Senior debt	10,109	173	10,282	11,007	173	11,179
Junior subordinated debt	7,564	54	7,618	7,554	60	7,615
Surplus notes(1)	0	344	344	0	343	343
Subtotal	<u>17,673</u>	<u>571</u>	<u>18,244</u>	<u>18,561</u>	<u>576</u>	<u>19,137</u>
Total general obligations	<u>17,698</u>	<u>1,064</u>	<u>18,762</u>	<u>18,985</u>	<u>931</u>	<u>19,916</u>
Limited and non-recourse borrowings(2)						
Short-term debt	0	7	7	0	18	18
Current portion of long-term debt	0	197	197	0	128	128
Long-term debt	0	378	378	0	581	581
Subtotal	<u>0</u>	<u>582</u>	<u>582</u>	<u>0</u>	<u>727</u>	<u>727</u>
Total borrowings	<u>\$17,698</u>	<u>\$1,646</u>	<u>\$19,344</u>	<u>\$18,985</u>	<u>\$1,658</u>	<u>\$20,643</u>

(1) Amounts are net of assets under set-off arrangements of \$10,691 million and \$10,964 million as of December 31, 2021 and 2020, respectively.

(2) Limited and non-recourse borrowing primarily represents mortgage debt of our subsidiaries that has recourse only to real estate investment property of \$274 million and \$409 million as of December 31, 2021 and 2020, respectively, and a draw on a credit facility with recourse only to collateral pledged by the Company of \$300 million as of both December 31, 2021 and 2020.

As of December 31, 2021 and 2020, we were in compliance with all debt covenants related to the borrowings in the table above. For additional information on our short- and long-term debt obligations, see Note 17 to the Consolidated Financial Statements.

Based on the use of proceeds, we classify our borrowings as capital debt and operating debt. Capital debt, which is debt utilized to meet the capital requirements of our businesses, was \$12.7 billion and \$13.5 billion as of December 31, 2021 and 2020, respectively. Operating debt of \$6.1 billion and \$6.4 billion as of December 31, 2021 and 2020, respectively, is utilized for business funding to meet specific purposes, which may include activities associated with our PGIM and Assurance IQ businesses. Operating debt also consists of debt issued to finance specific portfolios of investment assets, the proceeds from which will service the debt. Specifically, this includes assets supporting reserve requirements under Regulation XXX and Guideline AXXX as described below, as well as funding for institutional and insurance company portfolio cash flow timing differences.

### ***Prudential Financial Borrowings***

Long-term borrowings are conducted primarily by Prudential Financial. It borrows these funds to meet its capital and other funding needs, as well as the capital and funding needs of its subsidiaries. Prudential Financial maintains a shelf registration statement with the SEC that permits the issuance of public debt, equity and hybrid securities. As a “Well-Known Seasoned Issuer” under SEC rules, Prudential Financial’s shelf registration statement provides for automatic effectiveness upon filing and has no stated issuance capacity.

Prudential Financial’s borrowings decreased \$1.3 billion from December 31, 2020, primarily driven by \$910 million in debt redemptions and \$400 million in debt maturities. On August 30, 2021, the Company redeemed, at a make-whole redemption price, \$700 million principal amount of its 3.500% medium-term notes due in 2024 and \$210 million of the previously outstanding \$600 million principal amount of its 3.878% medium-term notes due in 2028. For more information on long-term debt, see Note 17 to the Consolidated Financial Statements.

### ***Subsidiary Borrowings***

Subsidiary borrowings principally consist of commercial paper borrowings by Prudential Funding, asset-based financing and real estate investment financing. Borrowings of our subsidiaries decreased \$12 million from December 31, 2020, due primarily to a \$145 million decrease in limited and non-recourse borrowings, offset by increases of \$98 million in other short-term debt and \$40 million in commercial paper outstanding.

### ***Term and Universal Life Reserve Financing***

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

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

We have entered into agreements with external counterparties providing for the issuance of surplus notes by our captive reinsurers in return for the receipt of credit-linked notes (“Credit-Linked Note Structures”). As of December 31, 2021, we had Credit-Linked Note Structures with an aggregate issuance capacity of \$14,600 million, of which \$12,721 million was outstanding, as compared to an aggregate issuance capacity of \$14,825 million, of which \$12,919 million was outstanding, as of December 31, 2020. Under the agreements, the captive receives in exchange for the surplus notes one or more credit-linked notes issued by a special-purpose affiliate of the Company with an aggregate principal amount equal to the surplus notes outstanding. The captive holds the credit-linked notes as assets supporting Regulation XXX or Guideline AXXX non-economic reserves, as applicable. The captive can redeem the principal amount of the outstanding credit-linked notes for cash upon the occurrence of, and in an amount necessary to remedy, a specified liquidity stress event affecting the captive. Under the agreements, the external counterparties have agreed to fund any such payments under the credit-linked notes in return for the receipt of fees. Under certain of the transactions, Prudential Financial has agreed to make capital contributions to the captive to reimburse it for investment losses in excess of specified amounts and/or has agreed to reimburse the external counterparties for any payments made under the credit-linked notes. To date, no such payments under the credit-linked notes have been required. Under these transactions, because valid rights of set-off exist, interest and principal payments on the surplus notes and on the credit-linked notes are settled on a net basis, and the surplus notes are reflected in the Company’s total consolidated borrowings on a net basis.

The following table summarizes our Credit-Linked Note Structures, which are reported on a net basis, as of December 31, 2021:

Credit-Linked Note Structures:	Surplus Notes		Outstanding as of December 31, 2021	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	775	1,200
Total Credit-Linked Note Structures .....			<u>\$12,721</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 \$500 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 December 31, 2021, we also had outstanding an aggregate of \$2,975 million of debt issued for the purpose of financing Regulation XXX and Guideline AXXX non-economic reserves, of which approximately \$1,125 million relates to Regulation XXX reserves and \$1,850 million relates to Guideline AXXX reserves. In addition, as of December 31, 2021, for purposes of financing Guideline AXXX reserves, one of our captives had \$3,982 million of surplus notes outstanding that were issued to affiliates.

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

## Contractual Obligations

The table below summarizes the future estimated cash payments related to certain contractual obligations as of December 31, 2021. The estimated payments reflected in this table are based on management's estimates and assumptions about these obligations. Because these estimates and assumptions are necessarily subjective, the actual cash outflows in future periods will vary, possibly materially, from those reflected in the table. In addition, we do not believe that our cash flow requirements can be adequately assessed based solely upon an analysis of these obligations, as the table below does not contemplate all aspects of our cash inflows, such as the level of cash flow generated by certain of our investments, nor all aspects of our cash outflows.

	Estimated Payments Due by Period				
	2022	2023-2024	2025-2026	2027 and thereafter	Total
			(in millions)		
Short-term and long-term debt obligations(1) .....	\$ 1,625	\$ 2,315	\$ 2,572	\$ 32,657	\$ 39,168
Operating lease obligations(2) .....	129	184	87	69	469
Purchase obligations:					
Commitments to purchase or fund investments(3) .....	5,465	3,239	911	968	10,583
Commercial mortgage loan commitments(4) .....	2,211	89	0	0	2,300
Other liabilities:					
Insurance liabilities(5) .....	49,100	72,814	69,656	1,017,841	1,209,411
Other(6) .....	14,496	112	65	114	14,787
Total .....	<u>\$73,026</u>	<u>\$78,753</u>	<u>\$73,291</u>	<u>\$1,051,649</u>	<u>\$1,276,718</u>

- (1) The estimated payments due by period for long-term debt reflects the contractual maturities of principal, as disclosed in Note 17 to the Consolidated Financial Statements, as well as estimated future interest payments. The payment of principal and estimated future interest for short-term debt are reflected in estimated payments due in 2022. The estimate for future interest payments includes the effect of derivatives that qualify for hedge accounting treatment. See Note 17 to the Consolidated Financial Statements for additional information concerning our short-term and long-term debt.
- (2) The estimated payments due by period for operating leases reflect the future minimum lease payments under non-cancelable operating leases, as disclosed in Note 11 to the Consolidated Financial Statements.
- (3) As discussed in Note 23 to the Consolidated Financial Statements, we have commitments to purchase or fund investments, some of which are contingent upon events or circumstances not under our control, including those at the discretion of our counterparties. The timing of the fulfillment of certain of these commitments cannot be estimated, therefore the settlements of these obligations are reflected in estimated payments due in less than one year. Commitments to purchase or fund investments include \$236 million that we anticipate will ultimately be funded from our separate accounts.
- (4) As discussed in Note 23 to the Consolidated Financial Statements, loan commitments of our commercial mortgage operations, which are legally binding commitments to extend credit to a counterparty, have been reflected in the contractual obligations table above principally based on the expiration date of the commitment; however, it is possible these loan commitments could be funded prior to their expiration date. In certain circumstances the counterparty may also extend the date of the expiration in exchange for a fee.

- (5) The estimated cash flows due by period for insurance liabilities reflect future estimated cash payments to be made to policyholders and others for future policy benefits, policyholders' account balances, policyholder's dividends, reinsurance payables and separate account liabilities, net of premium receipts and reinsurance recoverables. Contractual obligations are contingent upon the receipt of premiums. These future estimated cash flows for current policies in force generally reflect our best estimate economic and actuarial assumptions. These cash flows are undiscounted with respect to interest. Therefore, the sum of the cash flows shown for all years in the table of \$1,209 billion exceeds the corresponding liability amounts of approximately \$673 billion included in the Consolidated Financial Statements as of December 31, 2021. Separate account liabilities are legally insulated from general account obligations, and it is generally expected these liabilities will be fully funded by separate account assets and their related cash flows. We have made significant assumptions to determine the future estimated cash flows related to the underlying policies and contracts. Due to the significance of the assumptions used and the contingent nature of contractual terms, actual cash flows and their timing will differ, possibly materially, from these estimates. Timing of cash flows in the "2027 and thereafter" category include long term liabilities that may extend beyond 100 years.
- (6) The estimated payments due by period for other liabilities includes securities sold under agreements to repurchase, cash collateral for loaned securities, liabilities for unrecognized tax benefits, bank customer liabilities, and other miscellaneous liabilities. Amounts presented in the table also exclude \$274 million of notes issued by consolidated VIE's which recourse for these obligations is limited to the assets of the respective VIE and do not have recourse to the general credit of the company.

We also enter into agreements to purchase goods and services in the normal course of business; however, these purchase obligations are not material to our consolidated results of operations or financial position as of December 31, 2021.

### **Off-Balance Sheet Arrangements**

See additional information on off-balance sheet arrangements in Note 17 and other commitments in Note 23 to the 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**

Financial strength ratings (which are sometimes referred to as "claims-paying" ratings) and credit ratings are important factors affecting public confidence in an insurer and its competitive position in marketing products. Our credit ratings are also important for our ability to raise capital through the issuance of debt and for the cost of such financing. Nationally Recognized Statistical Ratings Organizations continually review the financial performance and financial condition of the entities they rate, including Prudential Financial and its rated subsidiaries.

A downgrade in the credit or financial strength ratings of Prudential Financial or its rated subsidiaries could potentially, among other things, limit our ability to market products, reduce our competitiveness, increase the number or value of policy surrenders and withdrawals, increase our borrowing costs and potentially make it more difficult to borrow funds, adversely affect the availability of financial guarantees, such as letters of credit, cause additional collateral requirements or other required payments under certain agreements, allow counterparties to terminate derivative agreements and/or hurt our relationships with creditors, distributors, or trading counterparties thereby potentially negatively affecting our profitability, liquidity, and/or capital. In addition, we consider our own risk of non-performance in determining the fair value of our liabilities. Therefore, changes in our credit or financial strength ratings may affect the fair value of our liabilities.

Financial strength ratings represent the opinions of rating agencies regarding the financial ability of an insurance company to meet its obligations under an insurance policy. Credit ratings represent the opinions of rating agencies regarding an entity's ability to repay its indebtedness. The following table summarizes the ratings for Prudential Financial and certain of its subsidiaries as of February 17, 2022:

	<b>A.M. Best(1)</b>	<b>S&amp;P(2)</b>	<b>Moody's(3)</b>	<b>Fitch(4)(5)</b>
<b>Last review date</b>	<b>12/2/2021</b>	<b>11/29/2021</b>	<b>11/22/2021</b>	<b>5/10/2021</b>
<b>Current outlook(6)</b>	<b>Stable</b>	<b>Stable</b>	<b>Stable</b>	<b>Stable</b>
<b>Financial Strength Ratings:</b>				
The Prudential Insurance Company of America .....	A+	AA-	Aa3	AA-
Pruco Life Insurance Company .....	A+	AA-	Aa3	AA-
Pruco Life Insurance Company of New Jersey .....	A+	AA-	NR*	AA-
Prudential Annuities Life Assurance Corporation .....	A+	AA-	NR	A
Prudential Retirement Insurance and Annuity Company .....	A+	AA-	Aa3	AA-
The Prudential Life Insurance Company Ltd. (Prudential of Japan) .....	NR	A+	NR	NR
Gibraltar Life Insurance Company, Ltd. ....	NR	A+	NR	NR
The Prudential Gibraltar Financial Life Insurance Co. Ltd .....	NR	A+	NR	NR
<b>Credit Ratings:</b>				
Prudential Financial, Inc.:				
Short-term borrowings .....	AMB-1	A-1	P-2	F1
Long-term senior debt .....	a-	A	A3	A-
Junior subordinated long-term debt .....	bbb	BBB+	Baa1	BBB
The Prudential Insurance Company of America:				
Capital and surplus notes .....	a	A	A2	A
Prudential Funding, LLC:				
Short-term debt .....	AMB-1	A-1+	P-1	F1+
Long-term senior debt .....	a+	AA-	A1	A+
PRICOA Global Funding I:				
Long-term senior debt .....	aa-	AA-	Aa3	AA-

\* "NR" indicates not rated.

- (1) A.M. Best Company, which we refer to as A.M. Best, financial strength ratings for insurance companies range from "A++ (superior)" to "D (Poor)". A rating of A+ is the second highest of thirteen rating categories. A.M. Best long-term credit ratings range from "aaa (exceptional)" to "c (Poor)". A.M. Best short-term credit ratings range from "AMB-1+", which represents the strongest ability to repay short-term debt obligations, to "AMB-4 (Questionable)".
- (2) Standard & Poor's Rating Services, which we refer to as S&P, financial strength ratings for insurance companies range from "AAA (extremely strong)" to "D (default)". A rating of AA- is the fourth highest of twenty-two rating categories. S&P's long-term issue credit ratings range from "AAA (extremely strong)" to "D (default)". S&P short-term ratings range from "A-1 (extremely strong)" to "D (default)".
- (3) Moody's Investors Service, Inc., which we refer to as Moody's, insurance financial strength ratings range from "Aaa (highest quality)" to "C (lowest)". A rating of Aa3 is the fourth highest of twenty-one rating categories. Numeric modifiers are used to refer to the ranking within the group—with 1 being the highest and 3 being the lowest. These modifiers are used to indicate relative strength within a category. Moody's long-term credit ratings range from "Aaa (highest)" to "C (default)". Moody's short-term ratings range from "Prime-1 (P-1)", which represents a superior ability for repayment of short-term debt obligations, to "Prime-3 (P-3)", which represents an acceptable ability for repayment of such obligations. Issuers rated "Not Prime" do not fall within any of the Prime rating categories.
- (4) Fitch Ratings Inc., which we refer to as Fitch, financial strength ratings range from "AAA (exceptionally strong)" to "C (distressed)". A rating of AA- is the fourth highest of twenty-one rating categories. Fitch long-term credit ratings range from "AAA (highest credit quality)", which denotes exceptionally strong capacity for timely payment of financial commitments, to "D (default)". Short-term ratings range from "F1+ (highest credit quality)" to "D (default)".
- (5) In response to the announced agreements to sell all equity interests in PRIAC as part of Retirement's Full Service business sale to Great-West Life & Annuity Insurance Company and sell all equity interests in PALAC as part of the in-force variable annuities block sale to Fortitude Group Holdings, LLC, Fitch took PRIAC and PALAC to ratings committee in July 2021 and October 2021 respectively.
- (6) A.M. Best, Fitch, and S&P have all of Prudential's ratings on Stable outlook with the exception of PRIAC and PALAC. As a result of the announced Full Service sale, Fitch and AM Best changed the ratings outlook of PRIAC to Credit Watch Positive from Stable, and S&P changed the ratings outlook of PRIAC to Credit Watch Negative from Stable. As a result of the announced variable annuity block sale, S&P, Fitch and AM Best changed the ratings outlook of PALAC to Credit Watch Negative from Stable.

The ratings set forth above reflect current opinions of each rating agency. Each rating should be evaluated independently of any other rating. These ratings are not directed toward shareholders and do not in any way reflect evaluations of the safety and security of the Common Stock. These ratings are reviewed periodically and may be changed at any time by the rating agencies. As a result, we cannot assure stakeholders that we will maintain our current ratings in the future.

Rating agencies use an "outlook" statement for both industry sectors and individual companies. For an industry sector, a stable outlook generally implies that over the next 12 to 18 months the rating agency expects ratings to remain unchanged among companies in the sector. In 2021, Fitch, Moody's and AM Best revised the Rating Outlook on the U.S. life insurance industry from Negative to Stable. S&P maintained their outlook for the U.S. life insurance sector at Stable.



For a particular company, an outlook generally indicates a medium- or long-term trend (generally six months to two years) in credit fundamentals, which if continued, may lead to a rating change. These indicators are not necessarily a precursor of a rating change nor do they preclude a rating agency from changing a rating at any time without notice. A.M. Best, Fitch, S&P and Moody's have the Company's ratings on Stable outlook with the exception of PRIAC and PALAC.

The following is a summary of the significant changes or actions in ratings and rating outlooks for our Company that have occurred from January 1, 2021, through February 17, 2022:

On July 21, 2021 Prudential announced an agreement to sell Retirement's Full Service business to Great-West Life & Annuity Insurance Company, which would include the sale of all equity interests in PRIAC. As a result of this announcement, Fitch and AM Best changed the ratings outlook of PRIAC to Credit Watch Positive from Stable, and S&P changed the ratings outlook of PRIAC to Credit Watch Negative from Stable.

On September 15, 2021, Prudential announced an agreement to sell a portion of the Company's in-force variable annuities business through the sale of all equity interests in PALAC to Fortitude Group Holdings, LLC. As a result of this announcement, S&P and AM Best changed the ratings outlook of PALAC to Credit Watch Negative from Stable and Fitch downgraded PALAC's financial strength rating to A with an outlook of Rating Watch Negative from AA- with an outlook of Stable.

Requirements to post collateral or make other payments because of ratings downgrades under certain agreements, including derivative agreements, can be satisfied in cash or by posting permissible securities held by the subsidiaries subject to the agreements. In addition, a ratings downgrade by A.M. Best to "A-" for our domestic life insurance companies would require PICA to either post collateral or a letter of credit in the amount of approximately \$1.2 billion, based on the level of statutory reserves related to the variable annuity business acquired from Allstate. We believe that the posting of such collateral would not be a material liquidity event for PICA.

## **Risk Management**

### **Overview**

We employ a risk governance structure, overseen by senior management and our Board and managed by Enterprise Risk Management ("ERM"), to provide a common framework for: evaluating the risks embedded in and across our businesses and corporate centers; developing risk appetites; managing these risks; and identifying current and future risk challenges and opportunities. For a discussion of the risks of our businesses, see "Risk Factors" included in Prudential Financial's 2021 Annual Report on Form 10-K.

### **Risk Governance Framework**

Each of our businesses has a risk governance structure that is supported by a framework at the corporate level. Generally, our businesses are authorized to make day-to-day risk decisions that are consistent with enterprise risk policies and limits, and subject to enterprise oversight.

### **Board of Directors Oversight**

Our Board oversees our risk profile and management's processes for assessing and managing risk, through both the whole Board and its committees. The Board also reviews strategic risks and opportunities facing the Company and its businesses. Other important categories of risk are assigned to designated Board committees that report back to the full Board. In general, the committees oversee the following risks:

- Audit Committee: insurance risk and operational risk, including model risk, as well as risks related to financial controls, legal, regulatory, cyber security and compliance risk;
- Compensation Committee: the design and operation of the Company's compensation programs so that they do not encourage unnecessary or excessive risk-taking;
- Corporate Governance and Business Ethics Committee: the Company's overall ethical culture, political contributions, lobbying expenses and overall political strategy, as well as the Company's environmental risk (which includes climate risk), sustainability and corporate social responsibility to minimize reputational risk and focus on future sustainability;
- Finance Committee: liquidity risk and risk involving our capital and liquidity management, the incurrence and repayment of borrowings, the capital structure of the Company, funding of benefit plans and statutory insurance reserves. The Finance Committee oversees our capital plan and receives regular updates on the sources and uses of capital relative to plan, as well as on our Risk Appetite Framework;
- Investment Committee: investment risk, market risk, and review of investment performance and risk positions. The Investment Committee approves investment and market risk limits based on asset class, issuer, credit quality and geography; and
- Risk Committee: the governance of significant risk throughout the Company, the establishment and ongoing monitoring of our risk profile, risk capacity and risk appetite, and coordination of the risk oversight functions of the other Board committees.

## ***Management Oversight***

Our primary risk management committee is the Enterprise Risk Committee (“ERC”). The ERC is chaired by our Chief Risk Officer and otherwise consists of the Vice Chairman, Head of U.S. Businesses, Head of International Businesses, General Counsel, Chief Financial Officer, Chief Investment Officer, Chief Information Officer and Chief Actuary. Our Chief Auditor also attends meetings of the ERC. The ERC oversees the Company’s risk management framework, including the identification, assessment, monitoring and management of risks and how those risks align with the Company’s loss absorption resources. The primary focus of the ERC is the critical analysis of significant quantitative and qualitative risks and the appropriateness and alignment to the defined risk appetite of the Company.

The ERC is supported by five Risk Oversight Committees aligned with our tactical risks, each of which consists of subject matter experts and are dedicated to one of the following risk types: investment, market (including liquidity), insurance, operational, and model. Significant matters or matters where there are unresolved points of view are reviewed by the ERC. The Risk Oversight Committees provide an opportunity to evaluate complex issues by subject matter experts within the various risk areas. They evaluate the effectiveness of risk mitigation options, identify stakeholders of risks and issues, review material assumptions for reasonability and consistency across the Company, and develop recommendations for risk limits, among other responsibilities.

In addition, each of our businesses and certain corporate centers maintains their own risk committee as a forum for leaders to identify, assess, and monitor risk and exposure issues and to review new business activities and initiatives.

## ***Enterprise Risk Management Oversight***

ERM manages the risk management framework. It operates independently and is responsible for recommending policies, limits and standards for all risks. ERM oversees these risks under the guidance of the ERC and Risk Oversight Committees. Additionally, ERM and our business unit Chief Risk Officers work with our businesses and corporate areas to identify, monitor and manage risks that we may face. The ERM infrastructure is generally aligned by risk type, with certain groups within ERM working across risk types.

## **Risk Identification**

We rely on a combination of activities to ensure that all material risks have been identified and managed as appropriate. There are three levels of activities that seek to ensure that changes in risk levels or new risks to the Company are identified and escalated as appropriate: (1) business activities, (2) corporate center activities, and (3) processes involving senior management and the Board.

- **Business Activities:** Each business area has a risk committee that allows senior leaders to discuss and evaluate current, new, and emerging risks in their own operations. Businesses are required to develop and maintain documented risk inventories that facilitate the identification of current risk exposures.
- **Corporate Center Activities:** The corporate centers review the results of the business activities and examine risks from an enterprise view across businesses under normal and stressed conditions. As a result, the corporate centers, particularly ERM, use several processes and activities to identify and assess the risks of the Company. Most corporate centers have their own risk committees.
- **Senior Management and the Board:** Senior management plays a critical role in reviewing the risk profile of the Company, including identifying impacts to the business strategy and risks in any new strategies under consideration. These risks are discussed with the ERC as appropriate, and with the Board if significant. As discussed above, the Board oversees the Company’s risk profile and management’s processes for assessing and managing risk, both as a full Board and through its committees.

## **Risk Measurement and Monitoring**

Our Risk Appetite Framework is a comprehensive process designed to reasonably ensure that risks taken across the Company align with the Company’s capacity and willingness to take those risks. Using the Risk Appetite Framework, the Company measures, evaluates, and manages its financial risks. The comprehensive models, metrics, and stress scenarios used enable the Company to understand its current risk profile as well as how the risk profile may change over time through varying degrees of stress. The Risk Appetite Framework anchors the risk and capital management processes and supports management and the Board in making well-informed business decisions.

The Risk Appetite Framework is centered around a comprehensive and cohesive stress testing regime which includes a variety of stress scenarios designed to explore outcomes across the investment portfolios and businesses. This robust stress testing examines the sensitivity of assets and liabilities and how they interact with each other through time to identify places where the Company’s capacity may be challenged by the risks taken. These analytics provide insight into the impact of stress scenarios on capital and liquidity.

Additionally, the Qualitative Risk Appetite Framework helps the Company understand and manage risks that are not easily quantifiable. By continuously scanning the internal environment and reporting findings to leadership and the Board on a regular basis, the Company can monitor and mitigate operational risks in qualitative areas, such as: culture; reputation; compliance with laws, regulations, and policies; and decision-making incentives.

## COVID-19

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 December 31, 2021, the COVID-19 pandemic has not reached the most severe levels of financial impacts included in the Company’s stress testing. In addition, the net 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 Retirement business). As the U.S. COVID-19 mortality skewed younger in the second half of 2021, the net mortality impact to the Company increased due to higher mortality exposure with less longevity offset. The future evolution of the virus, among other factors, could cause the actual course of the pandemic to differ from our current expectations.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Market Risk

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

For additional information regarding the potential impacts of interest rate and other market fluctuations, as well as general economic and market conditions on our businesses and profitability, see “Risk Factors” included in Prudential Financial’s 2021 Annual Report on Form 10-K. For additional information regarding the overall management of our general account investments and our asset mix strategies, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—General Account Investments—Management of Investments” above. For additional information regarding our liquidity and capital resources, which may be impacted by changing market risks, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” above.

### Market Risk Management

Management of market risk, which we consider to be a combination of both investment risk and market risk exposures, includes the identification and measurement of various forms of risk, the establishment of risk thresholds and the creation of processes intended to maintain risks within these thresholds while optimizing returns on the underlying assets or liabilities.

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

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

For additional information regarding our overall risk management framework and governance structure, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Risk Management” above.

### Market Risk Mitigation

Risk mitigation takes three primary forms:

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

## Market Risk Related to Interest Rates

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

- Net investment spread between the amounts that we are required to pay and the rate of return we are able to earn on investments for certain products supported by general account investments;
- Asset-based fees earned on assets under management or contractholder account values;
- Estimated total gross profits and the amortization of deferred policy acquisition and other costs;
- Net exposure to the guarantees provided under certain products; and
- Capital levels of our regulated entities.

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

We assess the impact of interest rate movements on the value of our financial assets, financial liabilities and derivatives using hypothetical test scenarios that assume either upward or downward 100 basis point parallel shifts in the yield curve from prevailing interest rates, reflecting changes in either credit spreads or the risk-free rate. The following table sets forth the net estimated potential loss in fair value on these financial instruments from a hypothetical 100 basis point upward shift as of December 31, 2021 and 2020. This table is presented on a gross basis and excludes offsetting impacts to insurance liabilities that are not considered financial liabilities under U.S. GAAP. This scenario results in the greatest net exposure to interest rate risk of the hypothetical scenarios tested at those dates. While the test scenario is for illustrative purposes only and does not reflect our expectations regarding future interest rates or the performance of fixed income markets, it is a near-term, reasonably possible hypothetical change that illustrates the potential impact of such events. These test scenarios do not measure the changes in value that could result from non-parallel shifts in the yield curve which we would expect to produce different changes in discount rates for different maturities. As a result, the actual loss in fair value from a 100 basis point change in interest rates could be different from that indicated by these calculations. The estimated changes in fair values are inclusive of any assets or liabilities held-for-sale, but do not include separate account assets.

	As of December 31, 2021			As of December 31, 2020(1)		
	Notional	Fair Value	Hypothetical Change in Fair Value	Notional	Fair Value	Hypothetical Change in Fair Value
	(in millions)					
Financial assets with interest rate risk:						
Fixed maturities(2)		\$415,769	\$(43,547)		\$440,531	\$(47,271)
Commercial mortgage and other loans		67,998	(3,069)		68,676	(3,010)
Derivatives with interest rate risk:						
Swaps	\$269,823	(1,748)	(5,389)	\$244,020	3,457	(6,039)
Futures	25,122	57	(1,327)	21,454	79	(1,191)
Options	97,101	(187)	(209)	52,093	1,384	(616)
Forwards	38,394	(159)	(73)	41,214	86	(49)
Synthetic GICs	81,984	1	0	86,264	0	0
Variable annuity and other living benefit feature embedded derivatives		(13,231)	5,807		(18,879)	7,720
Indexed universal life contracts		(1,436)	205		(1,334)	170
Indexed annuity contracts		(2,041)	(344)		(580)	(115)
Total embedded derivatives(3)		(16,708)	5,668		(20,793)	7,775
Financial liabilities with interest rate risk(4):						
Short-term and long-term debt		22,648	4,231		24,408	4,873
Policyholders’ account balances—investment contracts		103,064	3,520		110,473	3,791
Net estimated potential loss			<u>\$(40,195)</u>			<u>\$(41,737)</u>

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

(2) Includes assets classified as “Fixed maturities, available-for-sale, at fair value,” “Assets supporting experience-rated contractholder liabilities, at fair value” and “Fixed maturities, trading, at fair value.” Approximately \$386 billion and \$413 billion as of December 31, 2021 and 2020, respectively, of fixed maturities are classified as available-for-sale.

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

- (4) Excludes approximately \$356 billion and \$360 billion as of December 31, 2021 and 2020, respectively, of insurance reserve and deposit liabilities which are not considered financial liabilities. We believe that the interest rate sensitivities of these insurance liabilities would serve as an offset to the net interest rate risk of the financial assets and liabilities, including investment contracts.

Under U.S. GAAP, the fair value of the embedded derivatives for certain features associated with variable annuity, indexed universal life, and indexed annuity contracts, reflected in the table above, includes the impact of the market's perception of our NPR. For more information on NPR related to the sensitivity of the embedded derivatives to our NPR credit spread, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Accounting Policies & Pronouncements—Application of Critical Accounting Estimates—Sensitivities for Insurance Assets and Liabilities" above.

For an additional discussion of our variable annuity optional living benefit guarantees accounted for as embedded derivatives and related derivatives used to hedge the changes in fair value of these embedded derivatives, see "Market Risk Related to Certain Variable Annuity Products" below. For additional information about the key estimates and assumptions used in our determination of fair value, see Note 6 to the Consolidated Financial Statements. For information on the impacts of a sustained low interest rate environment, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Executive Summary—Impact of a Low Interest Rate Environment" above.

## Market Risk Related to Equity Prices

We have exposure to equity risk through asset/liability mismatches, including our investments in equity securities held in our general account investment portfolio and unhedged exposure in our insurance liabilities, principally related to certain variable annuity living benefit feature embedded derivatives. Our equity-based derivatives primarily hedge the equity risk embedded in these living benefit feature embedded derivatives, and are also part of our capital hedging program. Changes in equity prices create risk that the resulting changes in asset values will differ from the changes in the value of the liabilities relating to the underlying or hedged products. Additionally, changes in equity prices may impact other items including, but not limited to, the following:

- Asset-based fees earned on assets under management or contractholder account value;
- Estimated total gross profits and the amortization of deferred policy acquisition and other costs; and
- Net exposure to the guarantees provided under certain products.

We manage equity risk against benchmarks in respective markets. We benchmark our return on equity holdings against a blend of market indices, mainly the S&P 500 and Russell 2000 for U.S. equities. We benchmark foreign equities against the Tokyo Price Index, and the MSCI EAFE, a market index of European, Australian, and Far Eastern equities. We target price sensitivities that approximate those of the benchmark indices.

We estimate our equity risk from a hypothetical 10% decline in equity benchmark market levels. The following table sets forth the net estimated potential loss in fair value from such a decline as of December 31, 2021 and 2020. While these scenarios are for illustrative purposes only and do not reflect our expectations regarding future performance of equity markets or of our equity portfolio, they represent near-term reasonably possible hypothetical changes that illustrate the potential impact of such events. These scenarios consider only the direct impact on fair value of declines in equity benchmark market levels and not changes in asset-based fees recognized as revenue, changes in our estimates of total gross profits used as a basis for amortizing deferred policy acquisition and other costs, or changes in any other assumptions such as market volatility or mortality, utilization or persistency rates in our variable annuity contracts that could also impact the fair value of our living benefit features. In addition, these scenarios do not reflect the impact of basis risk, such as potential differences in the performance of the investment funds underlying the variable annuity products relative to the market indices we use as a basis for developing our hedging strategy. The impact of basis risk could result in larger differences between the change in fair value of the equity-based derivatives and the related living benefit features in comparison to these scenarios. In calculating these amounts, we include assets and liabilities held-for-sale, but exclude separate account equity securities.

	As of December 31, 2021			As of December 31, 2020(1)		
	Notional	Fair Value	Hypothetical Change in Fair Value	Notional	Fair Value	Hypothetical Change in Fair Value
			(in millions)			
Equity securities(2)		\$ 11,296	\$(1,130)		\$ 10,041	\$(1,004)
Equity-based derivatives(3)	\$103,944	(1,095)	(934)	\$64,407	(557)	1,800
Variable annuity and other living benefit feature embedded derivatives		(13,231)	(1,563)		(18,879)	(1,921)
Indexed universal life contracts		(1,436)	54		(1,334)	59
Indexed annuity contracts		(2,041)	680		(580)	186
Total embedded derivatives(3)(4)		(16,708)	(829)		(20,793)	(1,676)
Net estimated potential loss			<u>\$(2,893)</u>			<u>\$ (880)</u>

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

(2) Includes equity securities classified as "Assets supporting experience-rated contractholder liabilities" and "Equity securities, at fair value."

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



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

## Market Risk Related to Foreign Currency Exchange Rates

As a U.S.-based company with significant business operations outside of the U.S., particularly in Japan, we are exposed to foreign currency exchange rate risk related to these operations, as well as in our general account investment portfolio and other proprietary investment portfolios.

For our international insurance operations, changes in foreign currency exchange rates create risk that we may experience volatility in the U.S. dollar-equivalent earnings and equity of these operations. We actively manage this risk through various hedging strategies, including the use of foreign currency hedges and through holding U.S. dollar-denominated securities in the investment portfolios of certain of these operations. Additionally, our Japanese insurance operations offer a variety of non-yen denominated products which are supported by investments in corresponding currencies. While these non-yen denominated assets are economically matched to the currency of the product liabilities, the accounting treatment may differ for changes in the value of these assets and liabilities due to moves in foreign currency exchange rates, resulting in volatility in reported U.S. GAAP earnings. This volatility has been mitigated by disaggregating the U.S. and Australian dollar-denominated businesses in Gibraltar Life into separate divisions, each with its own functional currency that aligns with the underlying products and investments. For certain of our international insurance operations outside of Japan, we elect to not hedge the risk of changes in our equity investments due to foreign exchange rate movements. For further information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Impact of Foreign Currency Exchange Rates—Impact of products denominated in non-local currencies on U.S. GAAP earnings” above.

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

We manage our foreign currency exchange rate risks within specified limits, and estimate our exposure, excluding equity in our Japanese insurance operations, to a hypothetical 10% change in foreign currency exchange rates. The following table sets forth the net estimated potential loss in fair value from such a change as of December 31, 2021 and 2020. While these scenarios are for illustrative purposes only and do not reflect our expectations regarding future changes in foreign exchange markets, they represent reasonably possible near-term hypothetical changes that illustrate the potential impact of such events.

	As of December 31, 2021		As of December 31, 2020	
	Fair Value	Hypothetical Change in Fair Value	Fair Value	Hypothetical Change in Fair Value
	(in millions)			
Unhedged portion of equity investment in international subsidiaries and foreign currency denominated investments in domestic general account portfolio .....	\$3,375	\$338	\$3,490	\$349

For additional information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—General Account Investments—Portfolio Composition” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations by Segment—International Businesses” above.

## Derivatives

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

Our derivatives also include interest rate guarantees we provide on our synthetic GIC products. Synthetic GICs simulate the performance of traditional insurance-related GICs but are accounted for as derivatives under U.S. GAAP due to the fact that the policyholders own the underlying assets, and we only provide a book value “wrap” on the customers’ funds, which are held in a client-owned trust. Since these wraps provide payment of guaranteed principal and interest to the customer, changes in interest rates create risk such that declines in the market value of customers’ funds would increase our net exposure to these guarantees; however, our obligation is limited to payments that are in excess of the existing customers’ fund value. Additionally, we have the ability to periodically reset crediting rates, subject to a 0% minimum floor, as well as the ability to increase prices. Further, our contract provisions provide that, although participants may withdraw funds at book value, contractholder withdrawals may only occur at market value immediately, or at book value over time. These factors, among others, result in these contracts experiencing minimal changes in fair value, despite a more significant notional value.

Our derivatives also include those that are embedded in certain financial instruments, and primarily relate to certain optional living benefit features associated with our variable annuity products, as discussed in more detail in “Market Risk Related to Certain Variable Annuity Products” below. For additional information on our derivative activities, see Note 5 to the Consolidated Financial Statements.



## **Market Risk Related to Certain Variable Annuity Products**

The primary risk exposures of our variable annuity contracts relate to actual deviations from, or changes to, the assumptions used in the original pricing of these products, including capital markets assumptions, such as equity market returns, interest rates and market volatility and actuarial assumptions. For our capital markets assumptions, we manage our exposure to the risk created by capital markets fluctuations through a combination of product design elements, such as an automatic rebalancing element and inclusion of certain optional living benefits in our living benefits hedging program. In addition, we consider external reinsurance a form of risk mitigation as well as our capital hedge program. Certain variable annuity optional living benefit features are accounted for as embedded derivatives and recorded at fair value. The market risk sensitivities associated with U.S. GAAP values of both the embedded derivatives and the related derivatives used to hedge the changes in fair value of these embedded derivatives are provided under “Market Risk Related to Interest Rates” and “Market Risk Related to Equity Prices” above.

For additional information regarding our risk management strategies, including our living benefit hedging program and other product design elements, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations by Segment—Individual Annuities” above.

## CONSOLIDATED FINANCIAL STATEMENTS

### Management's Annual Report on Internal Control Over Financial Reporting

Management of Prudential Financial, Inc. (together with its consolidated subsidiaries, the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. Management conducted an assessment of the effectiveness, as of December 31, 2021, of the Company's internal control over financial reporting, based on the framework established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our assessment under that framework, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2021.

Our internal control over financial reporting is a process designed by or under the supervision of our principal executive and principal financial officers 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. Our internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2021, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing herein.

February 17, 2022

## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of  
Prudential Financial, Inc.

### ***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated statements of financial position of Prudential Financial, Inc. and its subsidiaries (the “Company”) as of December 31, 2021 and 2020, and the related consolidated statements of operations, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2021, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the COSO.

### ***Change in Accounting Principle***

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

### ***Basis for Opinions***

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### ***Definition and Limitations of Internal Control over Financial Reporting***

A company’s internal control over financial reporting is a process designed 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. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally

accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### ***Critical Audit Matters***

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

### ***Valuation of Guaranteed Benefit Features Associated with Certain Life and Annuity Products Included in the Liability for Future Policy Benefits***

As described in Notes 2, 6, 12 and 13 to the consolidated financial statements, the Company issues certain life and annuity contracts which contain guaranteed benefit features. Certain of the guarantees associated with variable annuity contracts are accounted for as embedded derivatives and recorded at fair value, with changes in fair value recognized currently in earnings. As of December 31, 2021, the fair value of the obligations associated with these guarantees accounted for as embedded derivatives was \$13,231 million, of which \$4,163 million is included in liabilities classified as held-for-sale. As there is no observable active market for the transfer of these obligations, the valuations are calculated by management using internally-developed models with option pricing techniques. The models are based on a risk neutral valuation framework and incorporate premiums for risks inherent in valuation techniques, inputs, and the general uncertainty around the timing and amount of future cash flows. The significant inputs to the valuation models for these embedded derivatives include capital market assumptions, such as interest rate levels and volatility assumptions, the Company's market-perceived non-performance risk under the contract, as well as actuarially determined assumptions, including mortality rates, lapse rates, benefit utilization rates and withdrawal rates. For certain life insurance and annuity products that include certain other contract features, including guaranteed minimum death benefits ("GMDB") and no-lapse guarantees, additional policyholder liabilities are established when associated assessments are recognized. The liability for no-lapse guarantee features is grouped with GMDB features in Note 13. As of December 31, 2021, the additional liability for these contract features was \$10,593 million and \$216 million, recorded within the liability for future policy benefits and liabilities classified as held-for-sale, respectively. As disclosed by management, this liability is established using current best estimate assumptions, including mortality rates, lapse rates, benefit utilization rates, withdrawal rates, and premium pattern rates, as well as interest rate and equity market return assumptions, and is based on the ratio of the present value of total expected excess payments (i.e., payments in excess of account value) over the life of the contract divided by the present value of total expected assessments (i.e., benefit ratio). The liability equals the current benefit ratio multiplied by cumulative assessments recognized to date, plus interest, less cumulative excess payments to date.

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

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

Company data and experience. The procedures also included testing the completeness and accuracy of data used to develop the aforementioned assumptions and testing that the aforementioned assumptions are accurately reflected in the models.

### *Valuation of the Deferred Acquisition Costs Related to Universal Life and Variable Life Products and Fixed and Variable Deferred Annuity Products*

As described in Notes 2 and 7 to the consolidated financial statements, the Company defers acquisition costs that relate directly to the successful acquisition of new and renewal insurance and annuity business to the extent such costs are deemed recoverable from future profits. As of December 31, 2021, a portion of the \$19,389 million of deferred policy acquisition costs (“DAC”), of which \$1,197 million is included in assets classified as held-for-sale, are associated with certain universal and variable life products and fixed and variable deferred annuity products. DAC related to universal and variable life products and fixed and variable deferred annuity products is generally amortized over the expected life of the contracts in proportion to gross profits arising principally from investment margins, mortality and expense margins, and surrender charges. These margins are updated periodically based on historical and anticipated future experience. Gross profits also include impacts from the embedded derivatives associated with certain of the optional living benefit features of variable annuity contracts. The DAC balance is regularly adjusted with a corresponding charge or credit to current period earnings for the impact of actual gross profits and changes in management’s projections of estimated future gross profits. DAC is subject to periodic recoverability testing.

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

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

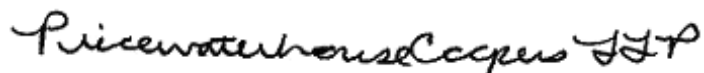
### *Valuation of Goodwill Impairment – Assurance IQ Reporting Unit*

As described in Notes 1, 2 and 10 to the consolidated financial statements, management conducts its evaluation of goodwill impairment at the reporting unit level annually as of December 31, and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. If the fair value of a reporting unit exceeds its carrying value, the applicable goodwill is considered not to be impaired. If the carrying value exceeds fair value, goodwill is reduced and an impairment charge is recognized for the excess after adjusting for related tax effects. As of December 31, 2021, the goodwill balance associated with the Assurance IQ reporting unit was \$1,080 million, net of the impairment charge discussed below. The fair value of Assurance IQ was estimated by weighting the results from discounted cash flow valuation techniques and market valuation techniques based on both sales and Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”) forward multiples. In determining the fair value of a reporting unit, management is required to make significant estimates including, but not limited to projected revenues and operating margins, applicable discount and growth rates, and comparative market multiples. As a result of this analysis, goodwill was reduced and a pre-tax impairment charge of \$1,060 million was recognized.

The principal considerations for our determination that performing procedures relating to the valuation of the goodwill impairment of the Assurance IQ reporting unit is a critical audit matter are (i) the significant judgment by management to determine the fair value measurement of the Assurance IQ reporting unit, (ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating audit evidence related to projected revenues and operating margins, discount rates, and comparative market multiples (collectively, the “significant assumptions”), and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the valuation of goodwill impairment related to the Assurance IQ reporting unit, including controls over the significant assumptions. These procedures also

included, among others, (i) testing management's process for determining the fair value estimate, (ii) evaluating the appropriateness of the valuation techniques, and (iii) evaluating the significant assumptions used by management by considering the consistency of the assumptions with the current and past performance of the reporting unit, external market and industry data, and evidence obtained in other areas of the audit, and (iv) testing the completeness and accuracy of underlying data used in the techniques. Professionals with specialized skill and knowledge were used to assist in the evaluation of the appropriateness of the techniques and the reasonableness of the discount rates and comparative market multiples assumptions used to determine the estimated fair value of the Assurance IQ reporting unit.

The logo for PricewaterhouseCoopers LLP, written in a cursive, handwritten style.

New York, New York  
February 17, 2022

We have served as the Company's auditor since 1996, which includes periods before the Company became subject to SEC reporting requirements.



**PRUDENTIAL FINANCIAL, INC.**

**Consolidated Statements of Financial Position**  
**December 31, 2021 and 2020 (in millions, except share amounts)**

	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>		
Fixed maturities, available-for-sale, at fair value (allowance for credit losses: 2021-\$114; 2020-\$133) (amortized cost: 2021-\$333,459; 2020-\$354,470)(1) .....	\$372,410	\$412,905
Fixed maturities, held-to-maturity, at amortized cost, net of allowance for credit losses (allowance for credit losses: 2021-\$5; 2020-\$9) (fair value: 2021-\$1,803; 2020-\$2,298)(1) .....	1,514	1,930
Fixed maturities, trading, at fair value (amortized cost: 2021-\$8,741; 2020-\$3,670)(1) .....	8,823	3,914
Assets supporting experience-rated contractholder liabilities, at fair value .....	3,358	24,115
Equity securities, at fair value (cost: 2021-\$5,815; 2020-\$5,968)(1) .....	8,574	8,135
Commercial mortgage and other loans (net of \$119 and \$235 allowance for credit losses; includes \$1,263 and \$1,092 of loans measured at fair value under the fair value option at December 31, 2021 and 2020, respectively)(1) .....	58,666	65,425
Policy loans .....	10,386	11,271
Other invested assets (net of \$2 and \$2 allowance for credit losses; includes \$8,046 and \$6,407 of assets measured at fair value at December 31, 2021 and 2020, respectively)(1) .....	21,833	18,125
Short-term investments (net of allowance for credit losses: 2021-\$0; 2020-\$1) .....	6,635	7,800
<b>Total investments</b> .....	<b>492,199</b>	<b>553,620</b>
Cash and cash equivalents(1) .....	12,888	13,701
Accrued investment income(1) .....	2,855	3,193
Deferred policy acquisition costs .....	18,192	19,027
Value of business acquired .....	771	1,103
Assets held-for-sale(2) .....	153,793	0
Other assets (net of allowance for credit losses: 2021-\$19; 2020-\$11)(1) .....	10,739	22,801
Separate account assets .....	246,145	327,277
<b>TOTAL ASSETS</b> .....	<b>\$937,582</b>	<b>\$940,722</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Future policy benefits .....	\$290,784	\$306,343
Policyholders' account balances .....	122,633	161,682
Policyholders' dividends .....	8,731	9,524
Securities sold under agreements to repurchase .....	10,185	10,894
Cash collateral for loaned securities .....	4,251	3,499
Income taxes .....	9,513	12,022
Short-term debt .....	722	925
Long-term debt .....	18,622	19,718
Liabilities held-for-sale(2) .....	151,359	0
Other liabilities (including allowance for credit losses: 2021-\$21; 2020-\$20)(1) .....	11,755	20,323
Notes issued by consolidated variable interest entities(1) .....	274	305
Separate account liabilities .....	246,145	327,277
<b>Total liabilities</b> .....	<b>874,974</b>	<b>872,512</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES (See Note 23)</b>		
<b>EQUITY</b>		
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 December 31, 2021 and 2020) .....	6	6
Additional paid-in capital .....	25,732	25,584
Common Stock held in treasury, at cost (290,018,851 and 269,867,738 shares at December 31, 2021 and 2020, respectively) ..	(21,838)	(19,652)
Accumulated other comprehensive income (loss) .....	21,324	30,738
Retained earnings .....	36,652	30,749
<b>Total Prudential Financial, Inc. equity</b> .....	<b>61,876</b>	<b>67,425</b>
Noncontrolling interests .....	732	785
<b>Total equity</b> .....	<b>62,608</b>	<b>68,210</b>
<b>TOTAL LIABILITIES AND EQUITY</b> .....	<b>\$937,582</b>	<b>\$940,722</b>

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

(2) See Note 1 for details of the assets and liabilities classified as "held-for-sale" as of December 31, 2021.

*See Notes to Consolidated Financial Statements*

**PRUDENTIAL FINANCIAL, INC.**

**Consolidated Statements of Operations**

**Years Ended December 31, 2021, 2020 and 2019 (in millions, except per share amounts)**

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<b>REVENUES</b>			
Premiums .....	\$34,827	\$31,140	\$34,202
Policy charges and fee income .....	5,944	6,029	5,978
Net investment income .....	18,287	17,410	17,585
Asset management and service fees .....	4,901	4,391	4,239
Other income (loss) .....	2,951	1,950	3,262
Realized investment gains (losses), net .....	4,024	(3,887)	(459)
Total revenues .....	<u>70,934</u>	<u>57,033</u>	<u>64,807</u>
<b>BENEFITS AND EXPENSES</b>			
Policyholders' benefits .....	38,458	35,059	36,820
Interest credited to policyholders' account balances .....	3,482	4,538	4,880
Dividends to policyholders .....	2,874	1,625	2,274
Amortization of deferred policy acquisition costs .....	2,097	2,221	2,332
Goodwill impairment .....	1,060	0	0
General and administrative expenses .....	13,582	13,913	13,416
Total benefits and expenses .....	<u>61,553</u>	<u>57,356</u>	<u>59,722</u>
<b>INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES .....</b>	<u>9,381</u>	<u>(323)</u>	<u>5,085</u>
Total income tax expense (benefit) .....	<u>1,674</u>	<u>(81)</u>	<u>947</u>
<b>INCOME (LOSS) BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES .....</b>	<u>7,707</u>	<u>(242)</u>	<u>4,138</u>
Equity in earnings of operating joint ventures, net of taxes .....	<u>87</u>	<u>96</u>	<u>100</u>
<b>NET INCOME (LOSS) .....</b>	<u>7,794</u>	<u>(146)</u>	<u>4,238</u>
Less: Income (loss) attributable to noncontrolling interests .....	<u>70</u>	<u>228</u>	<u>52</u>
<b>NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC. ....</b>	<u>\$ 7,724</u>	<u>\$ (374)</u>	<u>\$ 4,186</u>
<b>EARNINGS PER SHARE</b>			
<b>Basic earnings per share-Common Stock:</b>			
Net income (loss) attributable to Prudential Financial, Inc. ....	<u>\$ 19.65</u>	<u>\$ (1.00)</u>	<u>\$ 10.23</u>
<b>Diluted earnings per share-Common Stock:</b>			
Net income (loss) attributable to Prudential Financial, Inc. ....	<u>\$ 19.51</u>	<u>\$ (1.00)</u>	<u>\$ 10.11</u>
Dividends declared per share of Common Stock .....	<u>\$ 4.60</u>	<u>\$ 4.40</u>	<u>\$ 4.00</u>

*See Notes to Consolidated Financial Statements*

**PRUDENTIAL FINANCIAL, INC.**

**Consolidated Statements of Comprehensive Income**  
**Years Ended December 31, 2021, 2020 and 2019 (in millions)**

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<b>NET INCOME (LOSS)</b> .....	\$ 7,794	\$ (146)	\$ 4,238
Other comprehensive income (loss), before tax:			
Foreign currency translation adjustments for the period .....	(1,138)	523	67
Net unrealized investment gains (losses) .....	(11,712)	7,229	17,195
Defined benefit pension and postretirement unrecognized periodic benefit (cost) .....	<u>1,107</u>	<u>210</u>	<u>(322)</u>
Total .....	<u>(11,743)</u>	<u>7,962</u>	<u>16,940</u>
Less: Income tax expense (benefit) related to other comprehensive income (loss) .....	<u>(2,314)</u>	<u>1,252</u>	<u>3,811</u>
Other comprehensive income (loss), net of taxes .....	<u>(9,429)</u>	<u>6,710</u>	<u>13,129</u>
Comprehensive income (loss) .....	(1,635)	6,564	17,367
Less: Comprehensive income (loss) attributable to noncontrolling interests .....	<u>55</u>	<u>239</u>	<u>55</u>
<b>Comprehensive income (loss) attributable to Prudential Financial, Inc.</b> .....	<u><u>\$ (1,690)</u></u>	<u><u>\$6,325</u></u>	<u><u>\$17,312</u></u>

*See Notes to Consolidated Financial Statements*

**PRUDENTIAL FINANCIAL, INC.**

**Consolidated Statements of Equity**  
**Years Ended December 31, 2021, 2020 and 2019 (in millions)**

	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
<b>Balance, December 31, 2018</b> .....	\$6	\$24,828	\$30,470	\$(17,593)	\$10,906	\$48,617	\$ 414	\$49,031
Cumulative effect of adoption of accounting changes(1) .....			(21)		7	(14)		(14)
Common Stock acquired .....				(2,500)		(2,500)		(2,500)
Exchangeable Surplus Notes conversion .....		502				502		502
Assurance IQ acquisition .....		79		375		454		454
Contributions from noncontrolling interests .....							208	208
Distributions to noncontrolling interests .....							(82)	(82)
Consolidations/(deconsolidations) of noncontrolling interests .....							9	9
Stock-based compensation programs .....		123		265		388		388
Dividends declared on Common Stock .....			(1,644)			(1,644)		(1,644)
Comprehensive income:								
Net income (loss) .....			4,186			4,186	52	4,238
Other comprehensive income (loss), net of tax ...					13,126	13,126	3	13,129
Total comprehensive income (loss) .....						17,312	55	17,367
<b>Balance, December 31, 2019</b> .....	<u>6</u>	<u>25,532</u>	<u>32,991</u>	<u>(19,453)</u>	<u>24,039</u>	<u>63,115</u>	<u>604</u>	<u>63,719</u>
Cumulative effect of adoption of accounting changes(2) .....			(99)			(99)		(99)
Common Stock acquired .....				(500)		(500)		(500)
Contributions from noncontrolling interests .....							100	100
Distributions to noncontrolling interests .....							(53)	(53)
Consolidations/(deconsolidations) of noncontrolling interests .....							(105)	(105)
Stock-based compensation programs .....		52		301		353		353
Dividends declared on Common Stock .....			(1,769)			(1,769)		(1,769)
Comprehensive income:								
Net income (loss) .....			(374)			(374)	228	(146)
Other comprehensive income (loss), net of tax ...					6,699	6,699	11	6,710
Total comprehensive income (loss) .....						6,325	239	6,564
<b>Balance, December 31, 2020</b> .....	<u>6</u>	<u>25,584</u>	<u>30,749</u>	<u>(19,652)</u>	<u>30,738</u>	<u>67,425</u>	<u>785</u>	<u>68,210</u>
Common Stock acquired .....				(2,500)		(2,500)		(2,500)
Contributions from noncontrolling interests .....							85	85
Distributions to noncontrolling interests .....							(75)	(75)
Consolidations/(deconsolidations) of noncontrolling interests .....							(118)	(118)
Stock-based compensation programs .....		148		314		462		462
Dividends declared on Common Stock .....			(1,821)			(1,821)		(1,821)
Comprehensive income:								
Net income (loss) .....			7,724			7,724	70	7,794
Other comprehensive income (loss), net of tax ...					(9,414)	(9,414)	(15)	(9,429)
Total comprehensive income (loss) .....						(1,690)	55	(1,635)
<b>Balance, December 31, 2021</b> .....	<u>\$6</u>	<u>\$25,732</u>	<u>\$36,652</u>	<u>\$(21,838)</u>	<u>\$21,324</u>	<u>\$61,876</u>	<u>\$ 732</u>	<u>\$62,608</u>

(1) Includes the impact from the adoptions of ASU 2017-08 and 2017-12.

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

*See Notes to Consolidated Financial Statements*

**PRUDENTIAL FINANCIAL, INC.**

**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2021, 2020 and 2019 (in millions)**

	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income (loss) .....	\$ 7,794	\$ (146)	\$ 4,238
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Realized investment (gains) losses, net .....	(4,024)	3,887	459
Policy charges and fee income .....	(2,302)	(2,652)	(2,616)
Interest credited to policyholders' account balances .....	3,482	4,538	4,880
Goodwill impairment .....	1,060	0	0
Depreciation and amortization .....	204	457	460
(Gains) losses on assets supporting experience-rated contractholder liabilities, net .....	299	(743)	(971)
Change in:			
Deferred policy acquisition costs .....	(451)	(542)	(634)
Future policy benefits and other insurance liabilities .....	7,762	10,817	10,992
Income taxes .....	(62)	(424)	(339)
Derivatives, net .....	(2,426)	(2,940)	1,485
Other, net .....	(1,524)	(3,884)	1,671
<b>Cash flows from (used in) operating activities .....</b>	<b>9,812</b>	<b>8,368</b>	<b>19,625</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from the sale/maturity/prepayment of:			
Fixed maturities, available-for-sale .....	64,759	44,106	52,306
Fixed maturities, held-to-maturity .....	239	88	100
Fixed maturities, trading .....	3,626	690	363
Assets supporting experience-rated contractholder liabilities .....	18,863	29,162	15,281
Equity securities .....	4,290	2,704	2,708
Commercial mortgage and other loans .....	9,367	5,447	6,525
Policy loans .....	2,019	2,528	2,279
Other invested assets .....	2,972	1,815	1,783
Short-term investments .....	32,696	47,339	38,095
Payments for the purchase/origination of:			
Fixed maturities, available-for-sale .....	(65,174)	(56,523)	(64,570)
Fixed maturities, trading .....	(5,675)	(1,413)	(876)
Assets supporting experience-rated contractholder liabilities .....	(21,394)	(30,822)	(14,613)
Equity securities .....	(4,430)	(3,168)	(2,813)
Commercial mortgage and other loans .....	(9,434)	(6,107)	(10,677)
Policy loans .....	(1,216)	(1,956)	(1,931)
Other invested assets .....	(3,628)	(2,760)	(2,557)
Short-term investments .....	(32,329)	(49,802)	(37,286)
Acquisitions, net of cash acquired .....	0	0	(1,755)
Dispositions, net of cash disposed .....	132	1,454	0
Derivatives, net .....	(429)	1,286	1,047
Other, net .....	(596)	(278)	(437)
<b>Cash flows from (used in) investing activities .....</b>	<b>(5,342)</b>	<b>(16,210)</b>	<b>(17,028)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Policyholders' account deposits .....	31,795	41,424	27,485
Policyholders' account withdrawals .....	(29,227)	(34,701)	(26,662)
Net change in securities sold under agreements to repurchase and cash collateral for loaned securities .....	42	499	16
Cash dividends paid on Common Stock .....	(1,814)	(1,766)	(1,641)
Net change in financing arrangements (maturities 90 days or less) .....	297	(21)	(181)
Common Stock acquired .....	(2,500)	(500)	(2,500)
Common Stock reissued for exercise of stock options .....	200	153	133
Proceeds from the issuance of debt (maturities longer than 90 days) .....	268	3,013	2,993
Repayments of debt (maturities longer than 90 days) .....	(1,708)	(2,743)	(1,429)
Proceeds from notes issued by consolidated VIEs .....	0	0	971
Repayments of notes issued by consolidated VIEs .....	0	(19)	(638)
Other, net .....	(364)	(456)	(181)
<b>Cash flows from (used in) financing activities .....</b>	<b>(3,011)</b>	<b>4,883</b>	<b>(1,634)</b>
Effect of foreign exchange rate changes on cash balances .....	(309)	340	16
<b>NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, RESTRICTED CASH AND RESTRICTED CASH EQUIVALENTS INCLUDING BALANCES CLASSIFIED AS HELD-FOR-SALE .....</b>	<b>1,150</b>	<b>(2,619)</b>	<b>979</b>
<b>NET CHANGE IN CASH BALANCES CLASSIFIED AS HELD-FOR-SALE .....</b>	<b>2,071</b>	<b>0</b>	<b>0</b>
<b>NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, RESTRICTED CASH AND RESTRICTED CASH EQUIVALENTS .....</b>	<b>(921)</b>	<b>(2,619)</b>	<b>979</b>
<b>CASH, CASH EQUIVALENTS, RESTRICTED CASH AND RESTRICTED CASH EQUIVALENTS, BEGINNING OF YEAR .....</b>	<b>13,855</b>	<b>16,474</b>	<b>15,495</b>
<b>CASH, CASH EQUIVALENTS, RESTRICTED CASH AND RESTRICTED CASH EQUIVALENTS, END OF YEAR .....</b>	<b>\$ 12,934</b>	<b>\$ 13,855</b>	<b>\$ 16,474</b>

**PRUDENTIAL FINANCIAL, INC.**

**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2021, 2020 and 2019 (in millions)**

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>			
Income taxes paid, net of refunds .....	\$ 1,668	\$ 287	\$ 1,348
Interest paid .....	\$ 1,452	\$ 1,531	\$ 1,521
<b>HELD-FOR-SALE CLASSIFICATION(1)</b>			
Assets classified as held-for-sale .....	\$153,793	\$ 0	\$ 0
Liabilities classified as held-for-sale .....	151,359	0	0
Net assets classified as held-for-sale .....	<u>\$ 2,434</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>NON-CASH TRANSACTIONS DURING THE YEAR</b>			
Treasury Stock shares issued for stock-based compensation programs .....	\$ 138	\$ 151	\$ 197
Conversion of surplus notes into Common Stock .....	\$ 0	\$ 0	\$ 502
Significant Pension Risk Transfer transactions:			
Assets received, excluding cash and cash equivalents .....	\$ 5,377	\$ 703	\$ 3,166
Liabilities assumed .....	6,397	1,049	4,332
Net cash received .....	<u>\$ 1,020</u>	<u>\$ 346</u>	<u>\$ 1,166</u>
Acquisitions:			
Assets acquired, excluding cash and cash equivalents .....	\$ 0	\$ 0	\$ 2,425
Liabilities assumed .....	0	0	216
Treasury Stock shares issued .....	0	0	454
Net cash paid on acquisition .....	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,755</u>
<b>RECONCILIATION TO STATEMENTS OF FINANCIAL POSITION</b>			
Cash and cash equivalents .....	\$ 12,888	\$13,701	\$16,327
Restricted cash and restricted cash equivalents (included in "Other assets") .....	46	154	147
Total cash, cash equivalents, restricted cash and restricted cash equivalents .....	<u>\$ 12,934</u>	<u>\$13,855</u>	<u>\$16,474</u>

(1) See Note 1 for details of the assets and liabilities classified as "held-for-sale" as of December 31, 2021.

*See Notes to Consolidated Financial Statements*



**PRUDENTIAL FINANCIAL, INC.**  
**Notes to 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.

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

### ***Basis of Presentation***

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

### ***Use of Estimates***

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

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

### ***Reclassifications***

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

### ***COVID-19***

Since the first quarter of 2020, the novel coronavirus (“COVID-19”) has resulted in extreme stress and disruption in the global economy and financial markets. While markets have rebounded, the pandemic has adversely impacted, and may continue to adversely impact, the Company’s results of operations, financial condition and cash flows. Due to the highly uncertain nature of these conditions, it is not possible to estimate the ultimate impacts at this time. The risks may have manifested, and may continue to manifest, in the Company’s financial statements in the areas of, among others, i) 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.

### ***Acquisitions***

#### ***Assurance IQ***

The Company completed its acquisition of Assurance IQ in October 2019. Assurance IQ is a wholly-owned subsidiary of the Company and the results of the Assurance IQ business are reported as a separate segment within the Company’s U.S. Businesses.

The total purchase consideration included \$2,212 million paid at closing, and \$100 million of contingent consideration (see Note 23 for additional information regarding the contingent liability). In addition to the purchase consideration, the Company also granted approximately \$160 million of cash and equity awards to Assurance IQ employees which are recognized as compensation expense over

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their requisite service periods. See Note 21 for further details on the equity awards issued as part of the transaction. The contingent consideration as well as additional compensation awards are payable in 2023, contingent upon Assurance IQ's achievement of certain profitability targets. The Company recognized a goodwill asset of \$2,140 million in connection with the acquisition. Based on the goodwill impairment test performed as of December 31, 2021, the Company recorded a goodwill impairment charge of \$1,060 million, which reduced the Assurance IQ goodwill asset to \$1,080 million as of December 31, 2021. See Note 2 and Note 10 for additional information regarding goodwill.

***Business Dispositions***

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

In September 2021, the Company entered into a definitive agreement to sell its equity interest in Prudential Annuities Life Assurance Corporation ("PALAC"), which represents a portion of its in-force traditional variable annuity block of business, to Fortitude Group Holdings, LLC. The transaction has a total value of approximately \$2.2 billion, comprising the sales price for PALAC, a pre-closing net capital release to the Company and the expected tax impact from the sale. The PALAC block primarily consists of non-New York traditional variable annuities with guaranteed living benefits that were issued prior to 2011, which constitute approximately \$30 billion or 18% of Prudential's total in-force individual annuity account values as of December 31, 2021. The Company will retain, through a reinsurance agreement, its interest in all FlexGuard products and all fixed annuities and fixed indexed annuities remaining in PALAC.

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

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

*Full Service Retirement Business*

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

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

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

Beginning in the third quarter of 2021, the Company reported the assets and liabilities of the Full Service Retirement business as "held-for-sale" and has transferred the results of this business to Divested and Run-off Businesses within Corporate and Other operations. All prior period amounts have been restated, which impacts both segment reporting and adjusted operating income, but does not impact results reported under GAAP. The Full Service Retirement business generated pre-tax income of \$190 million, \$179 million and \$237 million for the years ended December 31, 2021, 2020 and 2019, respectively. These amounts exclude the impacts of overhead costs, retained in the Company's Corporate and Other operations, that will not be transferred to the buyer or eliminated with the sale.

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

	December 31, 2021		
	<b>Retirement Full Service</b>	<b>Individual Annuities PALAC</b>	<b>Total</b>
	(in millions)		
<b>Assets held-for-sale(1):</b>			
Fixed maturities, available-for-sale, at fair value(2) . . . . .	\$ 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(2) . . . . .	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(3) . . . . .	674	10,644	11,318
Separate account assets . . . . .	65,835	32,267	98,102
<b>Total assets held-for-sale . . . . .</b>	<b>\$96,081</b>	<b>\$57,712</b>	<b>\$153,793</b>
<b>Liabilities held-for-sale(1):</b>			
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
<b>Total liabilities held-for-sale . . . . .</b>	<b>\$94,530</b>	<b>\$56,829</b>	<b>\$151,359</b>

- (1) Under the terms of the sales agreements, certain of these assets and liabilities held-for-sale may be subject to capital transactions or substituted for other similar items prior to the closing of each transaction.
- (2) "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.
- (3) Includes \$455 million of goodwill associated with Retirement Full Service 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, and contingent consideration with a fair value of approximately \$80 million as of December 31, 2021. The fair value of the contingent consideration is tied to the level of yields for the 10-year Taiwanese Government bond for two years after the signing of the transaction and can result in a maximum payout of \$100 million if yields increase by 40 basis points. In connection with the transaction, the Company recognized a liability with a fair value of approximately \$34 million as of December 31, 2021, representing its financial guarantee of certain insurance obligations of POT.

The after-tax loss on the sale of POT was approximately \$400 million, of which approximately \$350 million was recorded during 2020, and approximately \$50 million was recorded during 2021.

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.

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*Pramerica SGR (PGIM Italy Joint Venture)*

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

*The Prudential Life Insurance Company of Korea, Ltd.*

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

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

## **2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS**

### **ASSETS**

**Fixed maturities, available-for-sale, at fair value** ("AFS debt securities") includes bonds, notes and redeemable preferred stock that are carried at fair value. See Note 6 for additional information regarding the determination of fair value. The purchased cost of fixed maturities is adjusted for amortization of premiums and accretion of discounts to maturity or, if applicable, call date.

AFS debt securities, where fair value is below amortized cost, are reviewed quarterly to determine whether the amortized cost basis of the security is recoverable. For mortgage-backed and asset-backed AFS debt securities, a credit impairment will be recognized in earnings as an allowance for credit losses and reported in "Realized investment gains (losses), net," to the extent the amortized cost exceeds the net present value of projected future cash flows (the "net present value") for the security.

For all other AFS debt securities, qualitative factors are first considered including, but not limited to, the extent of the decline and the reasons for the decline in value (e.g., credit events, currency or interest-rate related, including general credit spread widening), and the financial condition of the issuer. If analysis of these qualitative factors results in the security needing to be impaired, a credit impairment will be recognized in earnings as an allowance for credit losses and reported in "Realized investment gains (losses), net," to the extent the amortized cost exceeds the net present value of projected future cash flows (the "net present value") for the security.

A credit impairment recorded cannot exceed the difference between the amortized cost and fair value of the respective security. The net present value used to measure a credit impairment is calculated by discounting the Company's best estimate of projected future cash flows at the effective interest rate implicit in the AFS debt security at the date of acquisition. Once the Company has deemed all or a portion of the amortized cost uncollectible, the allowance is removed from the balance sheet by writing down the amortized cost basis of the AFS debt security. Any amount of an AFS debt security's change in fair value not recorded as an allowance for credit losses will be recorded in Other Comprehensive Income (loss) ("OCI").

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

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

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

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

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

The associated unrealized gains and losses, net of tax, and the effect on DAC, VOBA, DSI, future policy benefits, policyholders' account balances and policyholders' dividends that would result from the realization of unrealized gains and losses, are included in "Accumulated other comprehensive income (loss)" ("AOCT"). Each of these balances is discussed in greater detail below.

**Fixed maturities, held-to-maturity, at amortized cost** includes bonds that the Company has both the positive intent and ability to hold to maturity, and are carried at amortized cost, net of the current expected credit loss ("CECL") allowance ("HTM debt securities"). Interest income for HTM debt securities is computed in the same manner as interest income for AFS debt securities.

Credit impairment for HTM debt securities is recorded through a CECL allowance. The CECL allowance is generally determined based on probability of default and loss given default assumptions according to sector, credit quality and remaining time to maturity. Changes in the allowance are reported in "Realized investment gains (losses), net." Once the Company has deemed all or a portion of the amortized cost uncollectible, the uncollectible portion of the allowance is removed from the balance sheet by writing down the amortized cost basis of the security.

The 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 each HTM debt security.

Key inputs to the CECL model include unpaid principal balances, credit ratings, annual expected loss factors, average life 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.

**Fixed maturities, trading, at fair value** consists of fixed maturities with embedded features that are considered derivatives and assets contained within consolidated variable interest entities. Realized and unrealized gains and losses on these investments are reported in "Other income (loss)," and interest and dividend income from these investments is reported in "Net investment income."

**Assets supporting experience-rated contractholder liabilities, at fair value** includes invested assets that consist of fixed maturities, equity securities, short-term investments and cash equivalents, that support certain products which are experience-rated, meaning that the investment results associated with these products are expected to ultimately accrue to contractholders. Realized and unrealized gains and losses for these investments are reported in "Other income (loss)." Interest and dividend income from these investments is reported in "Net investment income."

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

**Commercial mortgage and other loans** consists of commercial mortgage loans, agricultural property loans, as well as certain other collateralized and uncollateralized loans. Uncollateralized loans primarily represent reverse dual currency loans and corporate loans held by the Company's international insurance operations.

Commercial mortgage and other loans originated and held for investment are generally carried at unpaid principal balance, net of unamortized deferred loan origination fees and expenses, and net of the CECL allowance. Certain off-balance sheet credit exposures (e.g., indemnification of serviced mortgage loans, and certain unfunded mortgage loan commitments where the Company cannot unconditionally cancel the commitment) are also subject to a CECL allowance. See Note 23 for additional information.

The Company carries certain commercial mortgage loans originated within the Company's commercial mortgage operations at fair value where the fair value option has been elected. Loans held for sale where the Company has not elected the fair value option are carried at the lower of cost or fair value. Commercial mortgage and other loans acquired, including those related to the acquisition of a business,



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are recorded at fair value when purchased, reflecting any premiums or discounts to unpaid principal balances. Interest income, and the amortization of the related premiums or discounts, are included in “Net investment income” under the effective yield method. Prepayment fees are also included in “Net investment income.”

Effective January 1, 2020, the Company adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, and related ASUs, using a modified retrospective method for certain financial assets carried at amortized cost and certain off-balance sheet exposures. Adoption of these ASUs requires an entity to estimate lifetime credit losses for certain financial assets carried at amortized cost and certain off-balance sheet exposures based on relevant information about past events, current conditions, and reasonable and supportable forecasts that may affect the collectability of reported amounts. The most significant impact is that modifications made to the Company’s process for measuring credit losses for its commercial mortgage and other loans class classified as held for investment. The impact of the standard resulted in a decrease to “Total assets” of \$122 million (\$115 million of this decrease was recorded for commercial mortgage and other loans), a decrease to “Total liabilities” of \$23 million, and a decreased to “Retained earnings” of \$99 million upon adoption on January 1, 2020.

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

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

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

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

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

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

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

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

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



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

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

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

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

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

The Company's PGIM business provides commercial mortgage origination, underwriting and servicing for certain government sponsored entities ("GSEs"). The Company has agreed to indemnify the GSEs for a portion of the credit risk associated with certain of the mortgages it services. Management has established a CECL allowance that factors in historical loss information, current conditions and reasonable and supportable forecasts. The allowance also considers the remaining lives of the loans subject to the indemnification. The CECL allowance is included in "Other liabilities" and changes in the CECL allowance are reported in "Realized investment gains (losses), net." See Note 23 for additional information. Prior to the adoption of ASU 2016-13, a credit loss allowance was not required.

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

**Other invested assets** consists of the Company's non-coupon investments in limited partnerships and limited liability companies ("LPs/LLCs"), other than operating joint ventures, as well as wholly-owned investment real estate, derivative assets and other investments. LPs/LLCs interests are accounted for using either the equity method of accounting, or at fair value with changes in fair value reported in "Other income (loss)." The Company's income from investments in LPs/LLCs accounted for using the equity method, other than the Company's investments in operating joint ventures, is included in "Net investment income." The carrying value of these investments is written down, or impaired, to fair value when a decline in value is considered to be other-than-temporary. In applying the equity method (including assessment for OTTI), the Company uses financial information provided by the investee, generally on a one to three-month lag. The Company consolidates LPs/LLCs in certain other instances where it is deemed to exercise control, or is considered the primary beneficiary of a variable interest entity. See Note 4 for additional information about VIEs.

The Company's wholly-owned investment real estate consists of real estate which the Company has the intent to hold for the production of income as well as real estate held for sale. Real estate which the Company has the intent to hold for the production of income is carried at depreciated cost less any write-downs to fair value for impairment losses and is reviewed for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. Real estate held for sale is carried at the lower of depreciated cost or fair value less estimated selling costs and is not further depreciated once classified as such. An impairment loss is recognized when the carrying value of the investment real estate exceeds the estimated undiscounted future cash flows (excluding interest charges) from the investment. At that time, the carrying value of the investment real estate is written down to fair value. Decreases in the carrying value of investment real estate held for the production of income due to OTTI are recorded in "Realized investment gains (losses), net." Depreciation on real estate held for the production of income is computed using the straight-line method over the estimated useful lives of the properties and is included in "Net investment income."

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**Short-term investments** primarily consists of highly liquid debt instruments with a maturity of twelve months or less and greater than three months when purchased, other than those debt instruments meeting this definition that are included in “Assets supporting experience-rated contractholder liabilities, at fair value.” These investments are generally carried at fair value or amortized cost that approximates fair value and include certain money market investments, funds managed similar to regulated money market funds, short-term debt securities issued by government-sponsored entities and other highly liquid debt instruments.

**Cash and cash equivalents** includes cash on hand, amounts due from banks, certain money market investments, funds managed similar to regulated money market funds, other debt instruments with maturities of three months or less when purchased, other than cash equivalents that are included in “Assets supporting experience-rated contractholder liabilities, at fair value,” and receivables related to securities purchased under agreements to resell (see also “*Securities sold under agreements to repurchase*” below). These assets are generally carried at fair value or amortized cost which approximates fair value.

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

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

For traditional participating life insurance which are included in the Closed Block, DAC is amortized over the expected life of the contracts in proportion to gross margins based on historical and anticipated future experience. Any changes in estimated gross margins on unamortized DAC are reflected in the period such that estimated gross margins are revised on a retrospective basis. DAC related to non-participating traditional individual life insurance and longevity reinsurance contracts is amortized in proportion to gross premiums.

DAC related to universal and variable life products and fixed and variable deferred annuity products are generally deferred and amortized over the expected life of the contracts in proportion to gross profits arising principally from investment margins, mortality and expense margins, and surrender charges, based on historical and anticipated future experience, which is updated periodically. The Company uses a reversion to the mean approach for equities to derive future equity return assumptions; however, if the projected equity return calculated using this approach is greater than the maximum equity return assumption, the maximum equity return is utilized, and if the projected equity return is negative, the return is floored at 0%. Gross profits also include impacts from the embedded derivatives associated with certain of the optional living benefit features of variable annuity contracts, and index-linked crediting features of certain universal life and annuity contracts and related hedging activities. Total gross profits include both actual gross profits and estimates of gross profits for future periods. The Company regularly evaluates and adjusts DAC balances with a corresponding charge or credit to current period earnings, representing a cumulative adjustment to all prior periods’ amortization, for the impact of actual gross profits and changes in the Company’s projections of estimated future gross profits. Adjustments to DAC balances result from: (i) the annual review of assumptions that reflect the comprehensive review of the assumptions used in estimating gross profits for future periods; (ii) quarterly adjustments for current period experience (also referred to as “experience true-up” adjustments) that reflect the impact of differences between actual gross profits for a given period and the previously estimated expected gross profits for that period; and (iii) quarterly adjustments for market performance (also referred to as “experience unlocking”) that reflect the impact of changes to the Company’s estimate of total gross profits to reflect actual fund performance and market conditions.

For group annuity contracts (other than single premium group annuities), acquisition costs are generally deferred and amortized over the expected life of the contracts in proportion to gross profits. For group corporate-, bank- and trust-owned life insurance contracts, acquisition costs are generally deferred and amortized in proportion to lives insured. For single premium immediate annuities with life contingencies, single premium group annuities, including non-participating group annuity contracts, and single premium structured settlements with life contingencies, all acquisition costs are charged to expense immediately because generally all premiums are recognized as revenue at the inception of the contract. For funding agreement notes contracts, single premium structured settlement contracts without life contingencies, and single premium immediate annuities without life contingencies, acquisition expenses are deferred and amortized over the expected life of the contracts using the interest method. For other group life and disability insurance contracts and guaranteed investment contracts (“GICs”), acquisition costs are expensed as incurred.

For some products, policyholders can elect to modify product benefits, features, rights or coverages by exchanging a contract for a new contract or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. These transactions are known as internal replacements. If policyholders surrender traditional life insurance policies in exchange for life insurance policies that do not have fixed and guaranteed terms, the Company immediately charges to expense the remaining unamortized DAC on the surrendered policies. For other internal replacement transactions, except those that involve the addition of a nonintegrated contract feature that does not change the existing base contract, the unamortized DAC is immediately charged to expense if the terms of the new policies are not substantially similar to those of the former policies. If the new terms are substantially similar to those of the earlier policies, the DAC is retained with respect to the new policies and amortized over the expected life of the new policies. See Note 7 for additional information regarding DAC.

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**Value of business acquired** represents identifiable intangible assets to which a portion of the purchase price in a business acquisition is attributed under the application of purchase accounting. VOBA represents an adjustment to the stated value of in-force insurance contract liabilities to present them at fair value, determined as of the acquisition date. VOBA balances are subject to recoverability testing, in the manner in which they were acquired. The Company has established a VOBA asset primarily for its acquired life insurance products, accident and health products with fixed benefits, deferred annuity contracts, and defined contribution and defined benefit businesses. As of December 31, 2021, the majority of the VOBA balance relates to the 2011 acquisition of AIG Star Life Insurance Co., Ltd, AIG Edison Life Insurance Company, and AIG Financial Assurance Japan K.K. and AIG Edison Service Co., Ltd. (collectively, the “Star and Edison Businesses”). The Company amortizes VOBA over the anticipated life of the acquired contracts using the same methodology and assumptions used to amortize DAC. The Company records amortization of VOBA in “General and administrative expenses.” VOBA, for applicable products, is adjusted for the impact of unrealized gains or losses on investments as if these gains or losses had been realized, with corresponding credits or charges included in AOI. See Note 8 for additional information regarding VOBA.

**Assets held-for-sale** consists of assets associated with pending business dispositions. The Company classifies a business as held-for-sale when management has approved or received approval from the Board to sell the business, the sale is probable to be completed within a year and certain other specified criteria are met. The business classified as held-for-sale is recorded at the lower of carrying value or estimated fair value, less costs to sell. If the carrying value of the business exceeds its estimated fair value, less costs to sell, a loss is recognized and reported in “Other income (loss)” when the criteria for the held-for-sale classification as described above are met. If the estimated fair value, less costs to sell, exceeds the carrying value of the business, the gain is recorded in “Other income (loss)” when the sale is completed. See Note 1 for additional information on the pending business dispositions classified as held-for-sale, including the composition of assets included as “Assets held-for-sale”.

**Other assets** consists primarily of prepaid pension benefit costs (see Note 18), certain restricted assets (e.g., cash and cash equivalents), trade receivables, goodwill and other intangible assets, “right-of-use” lease assets (see “*Other liabilities*” below), DSI, the Company’s investments in operating joint ventures, property and equipment, reinsurance recoverables (see “*Reinsurance*” below), and receivables resulting from sales of securities that had not yet settled at the balance sheet date.

Trade receivables primarily relate to Assurance IQ and are reported net of the CECL allowance. The CECL allowance considers the credit quality of the counterparties and is generally determined based on probability of default and loss given default assumptions. Additions to or releases of the allowance are reported in “General and administrative expenses.”

Property and equipment are carried at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets, which generally range from 3 to 40 years.

As a result of certain acquisitions, the Company recognizes an asset for goodwill representing the excess of cost over the net fair value of the assets acquired and liabilities assumed. Goodwill is assigned to reporting units at the date the goodwill is initially recorded. A reporting unit is an operating segment, or a unit one level below the operating segment if discrete financial information is prepared and regularly reviewed by management at that level. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or organically grown, are available to support the value of the goodwill.

The Company tests goodwill for impairment annually as of December 31 and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Accounting guidance provides for an optional qualitative assessment for testing goodwill impairment that may allow companies to skip the quantitative test. As part of the annual goodwill impairment test, the Company estimates the fair value of the reporting units by applying the quantitative test, which involves comparing each reporting unit’s fair value to its carrying value including goodwill. If the fair value of a reporting unit exceeds its carrying value, the applicable goodwill is considered not to be impaired. If the carrying value exceeds fair value, goodwill is reduced and an impairment charge to income is recognized for the excess. The measurement of a goodwill impairment loss includes the related income tax effect from any tax deductible goodwill. The impairment loss cannot exceed the amount of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted. Management is required to make significant estimates in determining the fair value of a reporting unit including, but not limited to: projected revenues and operating margins, applicable discount and growth rates, and comparative market multiples. See Note 10 for additional information on goodwill, including the recorded impairment charge in 2021.

The Company offered various types of sales inducements to policyholders related to fixed and variable deferred annuity contracts. The Company defers sales inducements and amortizes them over the expected life of the policy using the same methodology and assumptions used to amortize DAC. Sales inducement balances are subject to periodic recoverability testing. The Company records amortization of DSI in “Interest credited to policyholders’ account balances.” DSI, for applicable products, is adjusted for the impact of unrealized gains or losses on investments as if these gains or losses had been realized, with corresponding credits or charges included in AOI. See Note 13 for additional information regarding sales inducements.

Identifiable intangible assets primarily include customer relationships and mortgage servicing rights and are recorded net of accumulated amortization. The Company tests identifiable intangible assets for impairment on an annual basis as of December 31 of each year or whenever events or circumstances suggest that the carrying value of an identifiable intangible asset may exceed the sum of the

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undiscounted cash flows expected to result from its use and eventual disposition. If this condition exists and the carrying value of an identifiable intangible asset exceeds its fair value, the excess is recognized as an impairment and is recorded as a charge against net income. Measuring intangible assets requires the use of estimates. Significant estimates include the projected net cash flow attributable to the intangible asset and the rate at which future net cash flows are discounted for purposes of estimating fair value, as applicable. See Note 10 for additional information regarding identifiable intangible assets.

Investments in operating joint ventures are generally accounted for under the equity method. The carrying value of these investments is written down, or impaired, to fair value when a decline in value is considered to be other-than-temporary. See Note 9 for additional information on investments in operating joint ventures.

**Leases** are recorded on the balance sheet as “right-of-use” assets and lease liabilities within “Other assets” and “Other liabilities” respectively. Leases are classified as either operating or finance leases and lease expense is recognized within “General and administrative expenses.” As a lessee, for operating leases, total lease expense is recognized using a straight-line method. Finance leases are treated as the purchase of an asset on a financing basis. Additionally, as a lessor, for sales-type and direct financing leases, the Company derecognizes the carrying value of the leased asset that is considered to have been transferred to a lessee and records a lease receivable and residual asset (“receivable and residual” approach). See Note 11 for additional information regarding leases.

**Separate account assets** represents segregated funds that are invested for certain policyholders, pension funds and other customers. The assets consist primarily of equity securities, fixed maturities, real estate-related investments, real estate mortgage loans, short-term investments and derivative instruments and are reported at fair value. The assets of each account are legally segregated and are not subject to claims that arise out of any other business of the Company. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. The investment income and realized investment gains or losses from separate account assets generally accrue to the policyholders and are not included in the Company’s results of operations. Mortality, policy administration and surrender charges assessed against the accounts are included in “Policy charges and fee income.” Asset management fees charged to the accounts are included in “Asset management and service fees.” Seed money that the Company invests in separate accounts is reported in the appropriate general account asset line. Investment income and realized investment gains or losses from seed money invested in separate accounts accrue to the Company and are included in the Company’s results of operations. See Note 13 for additional information regarding separate account arrangements with contractual guarantees. See also “*Separate account liabilities*” below.

## LIABILITIES

**Future policy benefits** represents liabilities that primarily consist of the present value of estimated future payments to or on behalf of policyholders, where the timing and amount of payment depends on policyholder mortality or morbidity, less the present value of future net premiums (the portion of the gross premium required to provide for all expected future benefits and expenses). For individual traditional participating life insurance products, the mortality and interest rate assumptions applied are those used to calculate the policies’ guaranteed cash surrender values. For life insurance, other than individual traditional participating life insurance, and annuity and disability products, expected mortality and morbidity are generally based on Company experience, industry data and/or other factors. Interest rate assumptions are based on factors such as market conditions and expected investment returns. Although mortality, morbidity and interest rate assumptions are “locked-in” upon the issuance of new insurance or annuity business with fixed and guaranteed terms, significant changes in experience or assumptions may require the Company to provide for expected future losses on a product by recognizing a premium deficiency. A premium deficiency exists when the liability for future policy benefits plus the present value of expected future gross premiums are determined to be insufficient to provide for expected future policy benefits and expenses. If a premium deficiency is recognized, the assumptions without a provision for the risk of adverse deviation as of the premium deficiency test date are locked-in and used in subsequent valuations. The net reserves continue to be subject to premium deficiency testing. In determining if a premium deficiency related to short-duration contracts exists, the Company considers, among other factors, anticipated investment income. Any adjustments to future policy benefit reserves related to net unrealized gains on securities classified as available-for-sale are included in AOCI. In certain instances, the policyholder liability for a particular line of business may not be deficient in the aggregate to trigger loss recognition, but the pattern of earnings may be such that profits are expected to be recognized in earlier years followed by losses in later years. In these situations, accounting standards require that an additional liability (Profits Followed by Losses or “PFL” liability) be recognized by an amount necessary to sufficiently offset the losses that would be recognized in later years. Historically, PFL liabilities have been predominantly associated with certain universal life contracts that measure GAAP reserves using a dynamic approach, and accordingly, are updated each quarter, using current in-force and market data, and as part of the annual assumption update, such that the liability as of each measurement date represents the Company’s current estimate of the present value of the amount necessary to offset anticipated future losses. See Note 12 for additional information regarding future policy benefits.

The Company’s liability for future policy benefits also includes a liability for unpaid claims and claim adjustment expenses. The Company does not establish claim liabilities until a loss has been incurred. However, unpaid claims and claim adjustment expenses include estimates of claims that the Company believes have been incurred but have not yet been reported as of the balance sheet date. The Company’s liability for future policy benefits also includes net liabilities for guarantee benefits related to certain long-duration life and annuity contracts, which are discussed more fully in Note 13, and deferred profits.

**Policyholders’ account balances** represents the contract value that has accrued to the benefit of the policyholder as of the balance sheet date. This liability is primarily associated with the accumulated account deposits, plus interest credited, less policyholder withdrawals



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and other charges assessed against the account balance, as applicable. These policyholders' account balances also include provision for benefits under non-life contingent payout annuities and certain unearned revenues. See Note 12 for additional information regarding policyholders' account balances. Policyholders' account balances also include amounts representing the fair value of embedded derivative instruments associated with the index-linked features of certain universal life and annuity products. For additional information regarding the valuation of these embedded derivatives, see Note 6.

**Policyholders' dividends** includes dividends payable to policyholders and the policyholder dividend obligation associated with the participating policies included in the Closed Block. The dividends payable for participating policies included in the Closed Block are determined at the end of each year for the following year by the Board of Directors of The Prudential Insurance Company of America ("PICA") based on its statutory results, capital position, ratings, and the emerging experience of the Closed Block. The policyholder dividend obligation represents amounts expected to be paid to Closed Block policyholders as an additional policyholder dividend unless otherwise offset by future Closed Block performance. Any adjustments to the policyholder dividend obligation related to net unrealized gains (losses) on securities classified as available-for-sale are included in AOCI. For additional information on the policyholder dividend obligation, see Note 15. The dividends payable for policies other than the participating policies included in the Closed Block include dividends payable in accordance with certain group and individual insurance policies.

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

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

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

The Company also enters into securities lending transactions where non-cash collateral, typically U.S. government, Japanese government, or other sovereign bonds are received. The collateral received is not reported on the Company's Consolidated Statements of Financial Position. In these transactions, the Company receives a fee and obtains collateral in an amount equal to 102% to 105% of the fair value of the loaned securities. The Company monitors the market value of the securities loaned on a daily basis with additional collateral obtained as necessary. Substantially all of these transactions are with large brokerage firms and large banks. Income is reported as "Net investment income."

**Income taxes** primarily represents the net deferred tax liability and the Company's estimated taxes payable for the current year and open audit years.

The Company and its includible domestic subsidiaries file a consolidated federal income tax return that includes both life insurance companies and non-life insurance companies. Subsidiaries operating outside the U.S. are taxed, and income tax expense is recorded, based on applicable foreign statutes. See Note 16 for a discussion of certain non-U.S. jurisdictions for which the Company assumes repatriation of earnings.

Items required by tax regulations to be included in the tax return may differ from the items reflected in the financial statements. As a result, the effective tax rate reflected in the financial statements may be different than the actual rate applied on the tax return. Some of these differences are permanent such as expenses that are not deductible in the Company's tax return, and some differences are temporary,

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reversing over time, such as valuation of insurance reserves. Temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in future years for which the Company has already recorded the tax benefit in the Company's Consolidated Statements of Operations. Deferred tax liabilities generally represent tax expense recognized in the Company's financial statements for which payment has been deferred, or expenditures for which the Company has already taken a deduction in the Company's tax return but have not yet been recognized in the Company's financial statements. Deferred income taxes are recognized, based on enacted rates, when assets and liabilities have different values for financial statement and tax reporting purposes.

The application of U.S. GAAP requires the Company to evaluate the recoverability of the Company's deferred tax assets and establish a valuation allowance if necessary to reduce the Company's deferred tax assets to an amount that is more likely than not expected to be realized. Considerable judgment is required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. See Note 16 for a discussion of factors considered when evaluating the need for a valuation allowance.

The U.S. Tax Cuts and Jobs Act of 2017 ("Tax Act of 2017") included two new tax provisions that could impact the Company's effective tax rate and cash tax payments. The Base Erosion and Anti-Abuse Tax ("BEAT") taxes modified taxable income, starting at a rate of 10% in 2019 and increasing to 12.5% in 2026, and is due if the calculated BEAT amount that is determined without the benefit of foreign and certain tax credits is greater than the regular corporate tax in any given year. In general, modified taxable income is calculated by adding back to a taxpayer's regular taxable income the amount of certain "base erosion tax benefits" with respect to payments to foreign affiliates, as well as the "base erosion percentage" of any net operating loss deductions. Final Regulations confirmed that benefit and claim payments made by our U.S. insurance business to our foreign affiliates on reinsurance assumed by the U.S. affiliates are not base erosion payments. The Global Intangible Low-Taxed Income ("GILTI") provision applies a minimum U.S. tax to earnings of consolidated foreign subsidiaries in excess of a 10% deemed return on tangible assets of foreign subsidiaries by imposing the U.S. tax rate to 50% of earnings of such foreign affiliates and provides for a partial foreign tax credit for foreign income taxes. The amount of tax in any period on GILTI can depend on annual differences between U.S. taxable income recognition rules and taxable income recognition rules in the country of operations and the overall taxable income of U.S. operations, as well as U.S. expense allocation rules which limit the amount of foreign tax credits that can be applied to reduce the U.S. tax on the GILTI provision. Under certain circumstances, the taxable income of U.S. operations may cause more than 50% of earnings of foreign affiliates to be subject to the GILTI provision. In years that the PFI consolidated federal income tax return reports a net operating loss or has a loss attributable to U.S. sources of operations, the GILTI provision would cause a loss of U.S. tax benefits for some or all of those losses, effectively increasing the tax on foreign earnings. The Company accounts for the effects of the BEAT and GILTI provisions as a period cost if and when incurred.

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

The Company's liability for income taxes includes a liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by the Internal Revenue Service ("IRS") or other taxing jurisdictions. Audit periods remain open for review until the statute of limitations has passed. Generally, for tax years which produce net operating losses, capital losses or tax credit carryforwards ("tax attributes"), the statute of limitations does not close, to the extent of these tax attributes, until the expiration of the statute of limitations for the tax year in which they are fully utilized. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the liability for income taxes. The Company classifies all interest and penalties related to tax uncertainties as income tax expense. See Note 16 for additional information regarding income taxes.

**Short-term and long-term debt** liabilities are primarily carried at an amount equal to unpaid principal balance, net of unamortized discount or premium and debt issue costs. Original-issue discount or premium and debt-issue costs are recognized as a component of interest expense over the period the debt is expected to be outstanding, using the interest method of amortization. Interest expense is generally presented within "General and administrative expenses" in the Company's Consolidated Statements of Operations. Interest expense may also be reported within "Net investment income" for certain activity, as prescribed by specialized industry guidance. Short-term debt is debt coming due in the next twelve months, including that portion of debt otherwise classified as long-term. The short-term debt caption may exclude short-term debt items for which the Company has the intent and ability to refinance on a long-term basis in the near-term. See Note 17 for additional information regarding short-term and long-term debt.

**Liabilities held-for-sale** consists of liabilities associated with pending business dispositions. See "Assets held-for-sale" above for further description of the held-for-sale classification. See Note 1 for additional information on the pending business dispositions, including the composition of liabilities included as "Liabilities held-for-sale".

**Other liabilities** consists primarily of trade payables, lease liabilities (see "Other assets" above), pension and other employee benefit liabilities (see Note 18), derivative liabilities (see "Derivative Financial Instruments" below), reinsurance payables (see "Reinsurance" below), and payables resulting from purchases of securities that had not yet settled at the balance sheet date.



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*Notes issued by consolidated variable interest entities* represents notes issued by certain asset-backed investment vehicles, primarily collateralized loan obligations (“CLOs”), which the Company is required to consolidate. The creditors of these VIEs do not have recourse to the Company in excess of the assets contained within the VIEs. The Company has elected the fair value option for the majority of these notes, and has based the fair value on the corresponding bank loan collateral. Changes in fair value are reported in “Other income (loss).”

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

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

## REVENUES AND BENEFITS AND EXPENSES

### *Insurance Revenue and Expense Recognition*

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

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

Certain individual annuity contracts provide the contractholder a guarantee that the benefit received upon death or annuitization will be no less than a minimum prescribed amount. These benefits are accounted for as insurance contracts. The Company also provides contracts with certain living benefits which are considered embedded derivatives. See Note 13 for additional information regarding these contracts and Note 6 for information regarding the valuation of these embedded derivatives.

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

Policyholders’ account balances also include amounts representing the fair value of embedded derivative instruments associated with the index-linked features of certain universal life and annuity products where changes in the value of the embedded derivatives are recorded through “Realized investment gains (losses), net”. For additional information regarding the valuation of these embedded derivatives, see Note 6.

For group life (other than universal and variable group life contracts) and disability insurance, premiums are generally recognized over the period to which the premiums relate in proportion to the amount of insurance protection provided. Claim and claim adjustment expenses are recognized when incurred.

*Asset management and service fees* principally includes asset-based asset management fees, which are recognized in the period in which the services are performed. In certain asset management fee arrangements, the Company is entitled to receive performance-based incentive fees when the return on assets under management exceeds certain benchmark returns or other performance targets. The Company may be required to return all, or part, of such performance-based incentive fees depending on future performance of these assets relative to performance benchmarks. The Company records performance-based incentive fee revenue when the contractual terms of the asset management fee arrangement have been satisfied and it is probable that a significant reversal in the amount of the fee will not occur. Under this principle the Company records a deferred performance-based incentive fee liability to the extent it receives cash related to the performance-based incentive fee prior to meeting the revenue recognition criteria delineated above.

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**Other income (loss)** includes realized and unrealized gains or losses from investments classified “Fixed maturities, trading, at fair value,” “Assets supporting experience-rated contractholder liabilities, at fair value,” “Equity securities, at fair value,” and “Other invested assets” that are measured at fair value and consolidated entities that follow specialized investment company fair value accounting. “Other income (loss)” also includes gains and losses primarily related to the remeasurement of foreign currency denominated assets and liabilities, as discussed in more detail under “*Foreign Currency*” below.

Additionally, for digital insurance brokerage placement services provided by Assurance IQ, the Company earns both initial and renewal commissions as compensation for the placement of insurance policies with insurance carriers. At the effective date of the policy, the Company records within “Other income (loss)” the expected lifetime revenue for the initial and renewal commissions considering estimates of the timing of future policy cancellations. These estimates are reassessed each reporting period and any changes in estimates are reflected in the current period.

**Realized investment gains (losses), net** includes realized gains or losses from sales and maturities of investments, changes to the allowance for credit losses, other impairments, fair value changes on mortgage loans where the fair value option has been elected, and derivative gains or losses. The derivative gains or losses include the impact of maturities, terminations and changes in fair value of the derivative instruments, including embedded derivatives, and other hedging instruments. Realized investment gains (losses) from the sales of securities are generally calculated using the specific identification method, with the exception of some of the Company’s International Businesses portfolios where the average cost method is used.

## **OTHER ACCOUNTING POLICIES**

### ***Share-Based Payments***

The Company applies the fair value-based measurement method in accounting for share-based payment transactions with employees except for equity instruments held by employee share ownership plans. Excess tax benefits (deficits) are recorded in earnings and represent the cumulative difference between the actual tax benefit realized and the amount of deferred tax assets recorded attributable to shared-based payment transactions.

The Company accounts for non-employee stock options using the fair value method in accordance with authoritative guidance and related interpretations on accounting for equity instruments that are issued to other than employees for acquiring, or in conjunction with selling, goods or services.

### ***Earnings Per Share***

Earnings per share of Common Stock for 2021, 2020 and 2019 reflects the consolidated earnings of Prudential Financial. Basic earnings per share is computed by dividing available income attributable to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share includes the effect of all dilutive potential common shares that were outstanding during the period. See Note 20 for additional information.

### ***Foreign Currency***

The currency in which the Company prepares its financial statements (the “reporting currency”) is the U.S. dollar. Assets, liabilities and results of foreign operations are recorded based on the functional currency of each foreign operation. The determination of the functional currency is based on economic facts and circumstances pertaining to each foreign operation. The local currencies of the Company’s foreign operations are typically their functional currencies with the most significant exception being the Company’s Japanese operations where multiple functional currencies exist.

There are two distinct processes for expressing these foreign transactions and balances in the Company’s financial statements: foreign currency measurement and foreign currency translation. Foreign currency measurement is the process by which transactions in foreign currencies are expressed in the functional currency. Gains and losses resulting from foreign currency measurement are reported in current earnings in “Other income (loss).” Foreign currency translation is the process of expressing a foreign entity’s functional currency financial statements in the reporting currency. Assets and liabilities of foreign operations and subsidiaries reported in currencies other than U.S. dollars are translated at the exchange rate in effect at the end of the period. Revenues, benefits and other expenses are translated at the average rate prevailing during the period. The effects of translating the statements of operations and financial position of non-U.S. entities with functional currencies other than the U.S. dollar are included, net of related qualifying hedge gains and losses and income taxes, in “Foreign currency translation adjustment,” a component of AOCI.

### ***Derivative Financial Instruments***

Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, financial indices, values of securities or commodities, credit spreads, market volatility, expected returns, and liquidity. Values can also be affected by changes in estimates and assumptions, including those related to counterparty behavior and non-performance risk (“NPR”) used in valuation models.

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Derivative financial instruments generally used by the Company include swaps, futures, forwards and options and may be exchange-traded or contracted in the over-the-counter (“OTC”) market. Certain of the Company’s OTC derivatives are cleared and settled through central clearing counterparties (OTC-cleared), while others are bilateral contracts between two counterparties (OTC-bilateral). Derivative positions are carried at fair value, generally by obtaining quoted market prices or through the use of valuation models.

Derivatives are used to manage the interest rate and currency characteristics of assets or liabilities and to mitigate volatility of expected non-functional currency earnings and net investments in foreign operations resulting from changes in currency exchange rates. Additionally, derivatives may be used to reduce exposure to interest rate, credit, foreign currency and equity risks associated with assets held or expected to be purchased or sold, and liabilities incurred or expected to be incurred. As discussed in detail below, and in Note 5, all realized and unrealized changes in fair value of derivatives are recorded in current earnings, with the exception of cash flow hedges and hedges of net investments in foreign operations. The Company may also enter into intercompany derivatives, the results of which ultimately eliminate in consolidation over the term of the instrument; however, where applicable, derivative results are included in business gross profits which may impact the pattern by which DAC and other assets are amortized. Cash flows from derivatives are reported in the operating, investing, or financing activities sections in the Consolidated Statements of Cash Flows based on the nature and purpose of the derivative.

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

The Company designates derivatives as either (1) a hedge of the fair value of a recognized asset or liability or unrecognized firm commitment (“fair value” hedge); (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (“cash flow” hedge); (3) a foreign currency fair value or cash flow hedge (“foreign currency” hedge); (4) a hedge of a net investment in a foreign operation; or (5) a derivative that does not qualify for hedge accounting.

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

The Company formally documents at inception all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as fair value, cash flow, or foreign currency hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. Hedges of a net investment in a foreign operation are linked to the specific foreign operation.

When a derivative is designated as a fair value hedge and is determined to be highly effective, changes in its fair value, along with changes in the fair value of the hedged asset or liability (including losses or gains on firm commitments), are reported on a net basis in the Consolidated Statements of Operations, generally in “Realized investment gains (losses), net.” When swaps are used in hedge accounting relationships, periodic settlements are recorded in the same Consolidated Statements of Operations line as the related settlements of the hedged items.

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

When a derivative is designated as a foreign currency hedge and is determined to be highly effective, changes in its fair value are recorded either in current period earnings if the hedge transaction is a fair value hedge (e.g., a hedge of a recognized foreign currency asset or liability) or in AOCI if the hedge transaction is a cash flow hedge (e.g., a foreign currency denominated forecasted transaction). When a derivative is used as a hedge of a net investment in a foreign operation, its change in fair value is accounted for in the same manner as a translation adjustment (i.e., reported in the cumulative translation adjustment account within AOCI).

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

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

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

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

### **Reinsurance**

For each of its reinsurance contracts, the Company determines if the contract provides indemnification against loss or liability relating to insurance risk in accordance with applicable accounting standards. The Company reviews all contractual features, particularly those that may limit the amount of insurance risk to which the reinsurer is subject or features that delay the timely reimbursement of claims.

The Company participates in reinsurance arrangements in various capacities as either the ceding entity or as the reinsurer (i.e., assuming entity). See Note 14 for additional information about the Company’s reinsurance arrangements. Reinsurance assumed business is generally accounted for consistent with direct business. Amounts currently recoverable under reinsurance agreements are included in “Other assets” and amounts payable are included in “Other liabilities.” Revenues and benefits and expenses include amounts assumed under reinsurance agreements and are reflected net of reinsurance ceded.

Reinsurance ceded arrangements do not discharge the Company as the primary insurer. Ceded balances would represent a liability of the Company in the event the reinsurers were unable to meet their obligations to the Company under the terms of the reinsurance agreements. Reinsurance recoverables are reported net of the CECL allowance. The CECL allowance considers the credit quality of the reinsurance counterparty and is generally determined based on the probability of default and loss given default assumptions, after considering any applicable collateral arrangements. Additions to or releases of the allowance are reported in “Policyholders’ benefits”. Reinsurance premiums, commissions, expense reimbursements, benefits and reserves related to reinsured long-duration contracts under coinsurance arrangements are accounted for over the life of the underlying reinsured contracts using assumptions consistent with those used to account for the underlying contracts. Coinsurance arrangements contrast with the Company’s yearly renewable term arrangements, where only mortality risk is transferred to the reinsurer and premiums are paid to the reinsurer to reinsure that risk. The mortality risk that is reinsured under yearly renewable term arrangements represents the difference between the stated death benefits in the underlying reinsured contracts and the corresponding reserves or account value carried by the Company on those same contracts. The premiums paid to the reinsurer are based upon negotiated amounts, not on the actual premiums paid by the underlying contract holders to the Company. As yearly renewable term arrangements are usually entered into by the Company with the expectation that the contracts will be in force for the lives of the underlying policies, they are considered to be long-duration reinsurance contracts. The cost of reinsurance for universal life products is generally recognized based on the gross assessments of the underlying direct policies. The cost of reinsurance for term insurance products is generally recognized in proportion to yearly renewable term premiums over the life of the underlying policies. The cost of reinsurance related to short-duration reinsurance contracts is accounted for over the reinsurance contract period.

If the Company determines that a reinsurance agreement does not expose the reinsurer to a reasonable possibility of a significant loss from insurance risk, the Company records the agreement using the deposit method of accounting. Deposits received are included in “Other liabilities” and deposits made are included in “Other assets”. As amounts are paid or received, consistent with the underlying contracts, the deposit assets or liabilities are adjusted. Interest on such deposits is recorded as “Other income (loss)” or “General and administrative expenses,” as appropriate.

### **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 December 31, 2021, and as of February 17, 2022. ASUs not listed below were assessed and determined to be either not applicable or not material.

#### ***ASU issued but not yet adopted as of December 31, 2021—ASU 2018-12***

ASU 2018-12, *Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*, was issued by the FASB on August 15, 2018, and was amended by ASU 2019-09, *Financial Services—Insurance (Topic 944): Effective*

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*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 controls 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. While the magnitude of impacts is still being assessed, the Company expects the standard to result in a significant decrease to "Total equity" upon adoption, primarily from remeasuring in-force contract liabilities using current upper-medium grade fixed income instrument yields through "Accumulated other comprehensive income (loss)". The standard also requires significantly enhanced disclosures. In addition to the significant impacts to the balance sheet upon adoption, the Company also expects an impact to the pattern of earnings emergence following the transition date. Outlined below are four key areas of change, although there are other less significant policy changes not noted below.

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. Upon adoption, the Company expects a decrease to AOCI as a result of remeasuring in-force contract liabilities using current upper-medium grade fixed income instrument yields. The adjustment upon adoption will largely reflect the difference between discount rates locked-in at contract inception versus current discount rates.



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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).

### Modifications related to COVID-19

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



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**3. INVESTMENTS**

***Fixed Maturity Securities***

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

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

	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) . . . . .	\$1,519	\$284	\$0	\$1,803	\$5	\$1,514

- (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 on the pending dispositions.
- (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.
- (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.

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

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

- (1) Excludes notes with amortized cost of \$5,966 million (fair value, \$6,100 million), which have been offset with the associated debt under a netting agreement.
- (2) Includes credit-tranched securities collateralized by loan obligations, auto loans, education loans, home equity and other asset types.
- (3) Includes publicly-traded agency pass-through securities and collateralized mortgage obligations.
- (4) Excludes notes with amortized cost of \$4,998 million (fair value, \$5,821 million), which have been offset with the associated debt under a netting agreement.

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

December 31, 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)					
<b>Fixed maturities, available-for-sale:</b>						
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 on the pending dispositions.

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

As of December 31, 2021 and 2020, the gross unrealized losses on fixed maturity available-for-sale securities without an allowance were composed of \$1,242 million and \$636 million, respectively, related to “1” highest quality or “2” high quality securities based on the National Association of Insurance Commissioners (“NAIC”) or equivalent rating and \$463 million and \$313 million, respectively, related to other than high or highest quality securities based on NAIC or equivalent rating. As of December 31, 2021, the \$755 million of gross unrealized losses of twelve months or more were concentrated in the consumer non-cyclical, utility and finance sectors within corporate securities. As of December 31, 2020, the \$463 million of gross unrealized losses of twelve months or more were concentrated in the energy, utility and finance sectors within corporate securities.

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

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:

	December 31, 2021			
	Available-for-Sale(1)		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost, Net of Allowance	Fair Value
	(in millions)			
<b>Fixed maturities:</b>				
Due in one year or less	\$ 8,049	\$ 8,454	\$ 0	\$ 0
Due after one year through five years	47,965	50,818	482	535
Due after five years through ten years	69,291	75,508	30	32
Due after ten years(2)	181,513	210,148	811	1,031
Asset-backed securities	11,402	11,525	0	0
Commercial mortgage-backed securities	12,490	13,099	0	0
Residential mortgage-backed securities	2,749	2,858	191	205
Total	<u>\$333,459</u>	<u>\$372,410</u>	<u>\$1,514</u>	<u>\$1,803</u>

(1) Excludes “Assets held-for-sale” with amortized cost of \$13,145 million and fair value of \$13,569 million. See Note 1 for additional information on the pending dispositions.

(2) Excludes available-for-sale notes with amortized cost of \$5,941 million (fair value, \$5,995 million) and held-to-maturity 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.

# PRUDENTIAL FINANCIAL, INC.

## Notes to Consolidated Financial Statements

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

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

	Years Ended December 31,		
	2021	2020	2019
	(in millions)		
<b>Fixed maturities, available-for-sale:</b>			
Proceeds from sales(1)	\$36,333	\$21,013	\$32,283
Proceeds from maturities/prepayments	27,976	23,563	20,036
Gross investment gains from sales and maturities	2,565	1,690	1,715
Gross investment losses from sales and maturities	(648)	(524)	(434)
OTTI recognized in earnings(2)	N/A	N/A	(315)
Write-downs recognized in earnings(3)	(1)	(304)	N/A
(Addition to) release of allowance for credit losses(4)	19	(133)	N/A
<b>Fixed maturities, held-to-maturity:</b>			
Proceeds from maturities/prepayments(5)	\$ 239	\$ 88	\$ 99
(Addition to) release of allowance for credit losses(4)	4	0	N/A

- (1) Excludes activity from non-cash related proceeds due to the timing of trade settlements of \$450 million, \$(470) million and \$(13) million for the years ended December 31, 2021, 2020 and 2019, respectively.
- (2) For the year ended December 31, 2019, amounts exclude the portion of OTTI amounts remaining in OCI, representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.
- (3) Amounts represent write-downs of credit adverse securities and securities actively marketed for sale. In addition, for the years ended December 31, 2020 and 2019, amounts also include write-downs on securities approaching maturities related to foreign exchange movements.
- (4) Effective January 1, 2020, credit losses on available-for-sale and held-to-maturity fixed maturity securities are recorded within the "allowance for credit losses".
- (5) Excludes activity from non-cash related proceeds due to the timing of trade settlements of less than \$(1) million, less than \$(1) million and less than \$1 million for the years ended December 31, 2021, 2020 and 2019, respectively.

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

	Year Ended December 31, 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
	(in millions)					
<b>Fixed maturities, available-for-sale:</b>						
Balance, beginning of period	\$0	\$0	\$123	\$0	\$10	\$0
Additions to allowance for credit losses not previously recorded	0	7	89	0	0	0
Reductions for securities sold during the period	0	0	(48)	0	(9)	0
Additions (reductions) on securities with previous allowance	0	0	(56)	0	(1)	0
Reclassified to "Assets held-for sale"(1)	0	0	(1)	0	0	0
Balance, end of period	<u>\$0</u>	<u>\$7</u>	<u>\$107</u>	<u>\$0</u>	<u>\$ 0</u>	<u>\$0</u>

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

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

Year Ended December 31, 2020

	U.S. Treasury Securities and Obligations of U.S. States	Foreign Government Bonds	U.S. and Foreign Corporate Securities	Asset- Backed Securities	Commercial Mortgage- Backed Securities	Residential Mortgage- Backed Securities	Total
	(in millions)						
<b>Fixed maturities, available-for-sale:</b>							
Balance, beginning of period	\$0	\$ 0	\$ 0	\$0	\$ 0	\$0	\$ 0
Additions to allowance for credit losses not previously recorded	0	39	255	0	1	0	295
Reductions for securities sold during the period	0	(39)	(126)	0	0	0	(165)
Additions (reductions) on securities with previous allowance	0	0	5	0	9	0	14
Write-downs charged against the allowance	0	0	(11)	0	0	0	(11)
Balance, end of period	<u>\$0</u>	<u>\$ 0</u>	<u>\$ 123</u>	<u>\$0</u>	<u>\$10</u>	<u>\$0</u>	<u>\$ 133</u>

Year Ended December 31, 2021

	U.S. Treasury Securities and Obligations of U.S. States	Foreign Government Bonds	U.S. and Foreign Corporate Securities	Asset- Backed Securities	Commercial Mortgage- Backed Securities	Residential Mortgage- Backed Securities	Total
	(in millions)						
<b>Fixed maturities, held-to-maturity:</b>							
Balance, beginning of period	\$0	\$0	\$ 9	\$0	\$0	\$0	\$ 9
Current period provision for expected losses	0	0	(3)	0	0	0	(3)
Change in foreign exchange	0	0	(1)	0	0	0	(1)
Balance, end of period	<u>\$0</u>	<u>\$0</u>	<u>\$ 5</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$ 5</u>

Year Ended December 31, 2020

	U.S. Treasury Securities and Obligations of U.S. States	Foreign Government Bonds	U.S. and Foreign Corporate Securities	Asset- Backed Securities	Commercial Mortgage- Backed Securities	Residential Mortgage- Backed Securities	Total
	(in millions)						
<b>Fixed maturities, held-to-maturity:</b>							
Balance, beginning of period	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Cumulative effect of adoption of ASU 2016-13	0	0	9	0	0	0	9
Balance, end of period	<u>\$0</u>	<u>\$0</u>	<u>\$9</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$9</u>

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

For the year ended December 31, 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, communications and utility sectors within corporate securities due to adverse projected cash flows. For the year ended December 31, 2020, the net increase in the allowance for credit losses on available-for-sale securities was primarily related to securities within the energy, communications and consumer cyclical sectors within corporate securities due to adverse projected cash flows, partially offset by a release on restructured securities in the energy sector within corporate securities and foreign government securities.

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

**PRUDENTIAL FINANCIAL, INC.**  
**Notes to Consolidated Financial Statements**

**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:

	December 31, 2021				December 31, 2020	
	Amortized Cost or Cost		Assets Held-for-Sale(1)		Amortized Cost or Cost	Fair Value
			Amortized Cost or Cost	Fair Value		
	(in millions)					
Short-term investments and cash equivalents	\$ 30	\$ 30	\$ 786	\$ 786	\$ 658	\$ 658
Fixed maturities:						
Corporate securities	101	103	12,112	12,463	14,442	15,472
Commercial mortgage-backed securities	0	0	1,799	1,830	1,743	1,839
Residential mortgage-backed securities(2)	0	0	658	683	964	1,018
Asset-backed securities(3)	0	0	2,079	2,093	1,665	1,697
Foreign government bonds	761	761	240	237	934	945
U.S. government authorities and agencies and obligations of U.S. states	182	193	344	400	371	443
Total fixed maturities(4)	1,044	1,057	17,232	17,706	20,119	21,414
Equity securities	1,787	2,271	328	326	1,661	2,043
Total assets supporting experience-rated contractholder liabilities(5)	\$2,861	\$3,358	\$18,346	\$18,818	\$22,438	\$24,115

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

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

(3) Includes collateralized loan obligations, auto loans, education loans, home equity and other asset types. Collateralized loan obligations at fair value, including “Assets held-for-sale” were \$1,607 million and \$1,102 million as of December 31, 2021 and 2020, respectively, all of which were rated AA or above.

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

(5) As a percentage of amortized cost, 95% and 79% of the portfolio including “Assets held-for-sale” consisted of public securities as of December 31, 2021 and 2020, respectively.

The net change in unrealized gains (losses) from assets supporting experience-rated contractholder liabilities including “Assets held-for-sale” still held at period end, recorded within “Other income (loss),” was \$(708) million, \$726 million and \$996 million during the years ended December 31, 2021, 2020 and 2019, respectively.

**Equity Securities**

The net change in unrealized gains (losses) from equity securities still held at period end, including “Assets held-for-sale” recorded within “Other income (loss),” was \$591 million, \$205 million and \$943 million during the years ended December 31, 2021, 2020 and 2019, respectively.

**Concentrations of Financial Instruments**

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



# PRUDENTIAL FINANCIAL, INC.

## Notes to Consolidated Financial Statements

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:

	December 31, 2021		December 31, 2020	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
<b>Investments in Japanese government and government agency securities:</b>				
Fixed maturities, available-for-sale	\$73,681	\$83,382	\$80,273	\$92,764
Fixed maturities, held-to-maturity	812	1,026	912	1,173
Fixed maturities, trading	23	23	25	25
Assets supporting experience-rated contractholder liabilities	983	977	849	855
Total	<u>\$75,499</u>	<u>\$85,408</u>	<u>\$82,059</u>	<u>\$94,817</u>

### Commercial Mortgage and Other Loans

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

	December 31, 2021		December 31, 2020	
	Amount (in millions)	% of Total	Amount (in millions)	% of Total
<b>Commercial mortgage and agricultural property loans by property type:</b>				
Office	\$10,225	17.6%	\$12,750	19.7%
Retail	6,779	11.7	7,326	11.3
Apartments/Multi-Family	16,742	28.8	18,330	28.3
Industrial	13,009	22.4	14,954	23.1
Hospitality	1,876	3.2	2,395	3.7
Other	3,936	6.8	4,981	7.7
Total commercial mortgage loans	<u>52,567</u>	<u>90.5</u>	<u>60,736</u>	<u>93.8</u>
Agricultural property loans	<u>5,520</u>	<u>9.5</u>	<u>4,048</u>	<u>6.2</u>
Total commercial mortgage and agricultural property loans	<u>58,087</u>	<u>100.0%</u>	<u>64,784</u>	<u>100.0%</u>
Allowance for credit losses	(115)		(227)	
Total net commercial mortgage and agricultural property loans	<u>57,972</u>		<u>64,557</u>	
<b>Other loans:</b>				
Uncollateralized loans	561		655	
Residential property loans	67		101	
Other collateralized loans	70		120	
Total other loans	<u>698</u>		<u>876</u>	
Allowance for credit losses	(4)		(8)	
Total net other loans	<u>694</u>		<u>868</u>	
Total net commercial mortgage and other loans(1)(2)	<u>\$58,666</u>		<u>\$65,425</u>	

(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 on the pending dispositions.

(2) Includes loans which are carried at fair value under the fair value option and are collateralized primarily by apartment complexes. As of December 31, 2021 and 2020, the net carrying value of these loans was \$1,263 million and \$1,092 million, respectively.

As of December 31, 2021, the commercial mortgage and agricultural property loans were secured by properties geographically dispersed throughout the United States (with the largest concentrations in California (29%), Texas (7%) and New York (7%)) and included loans secured by properties in Europe (6%), Asia (2%) and Australia (1%).

**PRUDENTIAL FINANCIAL, INC.**  
**Notes to Consolidated Financial Statements**

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

	<b>Commercial Mortgage Loans</b>	<b>Agricultural Property Loans</b>	<b>Residential Property Loans</b>	<b>Other Collateralized Loans</b>	<b>Uncollateralized Loans</b>	<b>Total</b>
	(in millions)					
<b>Balance at December 31, 2018</b> .....	\$120	\$ 3	\$0	\$ 0	\$ 5	\$128
Addition to (release of) allowance for credit losses .....	(5)	0	0	0	(1)	(6)
Charge-offs, net of recoveries .....	(1)	0	0	0	0	(1)
<b>Balance at December 31, 2019</b> .....	114	3	0	0	4	121
Cumulative effect of adoption of ASU 2016-13 .....	110	5	0	0	0	115
Addition to (release of) allowance for expected losses .....	1	1	0	0	1	3
Write-downs charged against allowance .....	(7)	0	0	0	0	(7)
Other .....	0	0	0	3	0	3
<b>Balance at December 31, 2020</b> .....	218	9	0	3	5	235
Addition to (release of) allowance for expected losses .....	(92)	(5)	0	0	(1)	(98)
Reclassified to "Asset held-for-sale"(1) .....	(15)	0	0	0	0	(15)
Other .....	0	0	0	(3)	0	(3)
<b>Balance at December 31, 2021</b>	<u>\$111</u>	<u>\$ 4</u>	<u>\$0</u>	<u>\$ 0</u>	<u>\$ 4</u>	<u>\$119</u>

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

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

For the year ended December 31, 2021, the net decrease in the allowance for credit losses on commercial mortgage and other loans was primarily related to the improving credit environment. For the year ended December 31, 2020, the increase in the allowance for credit losses on commercial mortgage and other loans was primarily related to the cumulative effect of adoption of ASU 2016-13.

# PRUDENTIAL FINANCIAL, INC.

## Notes to Consolidated Financial Statements

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

	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	\$7,069	\$3,654	\$7,917	\$7,963	\$5,109	\$20,855	\$ 0	\$52,567
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	\$7,069	\$3,654	\$7,917	\$7,963	\$5,109	\$20,855	\$ 0	\$52,567
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	\$2,050	\$ 895	\$ 528	\$ 371	\$ 370	\$ 1,226	\$80	\$ 5,520
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	\$ 2050	\$ 895	\$ 528	\$ 371	\$ 370	\$ 1,226	\$80	\$ 5,520

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

**PRUDENTIAL FINANCIAL, INC.**  
**Notes to Consolidated Financial Statements**

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

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

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

December 31, 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
<b>Total(3)</b>	<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.

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

# PRUDENTIAL FINANCIAL, INC.

## Notes to Consolidated Financial Statements

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

- (1) As of December 31, 2020, there were no loans in this category accruing interest.  
(2) For additional information regarding the Company's policies for accruing interest on loans, see Note 2.

Loans on non-accrual status recognized interest income of \$5 million and \$2 million for the year ended December 31, 2021 and 2020, respectively. Loans on non-accrual status that did not have a related allowance for credit losses were \$20 million and \$15 million as of December 31, 2021 and 2020, respectively.

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

### Other Invested Assets

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

	December 31,	
	2021	2020
	(in millions)	
LPs/LLCs:		
Equity method:		
Private equity(1)	\$ 6,509	\$ 4,311
Hedge funds	2,797	2,451
Real estate-related(1)	2,370	1,985
Subtotal equity method	11,676	8,747
Fair value:		
Private equity	1,852	1,786
Hedge funds	2,119	2,036
Real estate-related	319	314
Subtotal fair value	4,290	4,136
Total LPs/LLCs	15,966	12,883
Real estate held through direct ownership(2)	1,789	2,027
Derivative instruments	3,280	1,915
Other(3)	798	1,300
Total other invested assets(4)	<u>\$21,833</u>	<u>\$18,125</u>

- (1) Prior period amounts have been updated to conform to current period presentation.  
(2) As of December 31, 2021 and 2020, real estate held through direct ownership had mortgage debt of \$274 million and \$409 million, respectively.  
(3) Primarily includes strategic investments made by investment management operations, leveraged leases and member and activity stock held in the Federal Home Loan Banks of New York and Boston. For additional information regarding the Company's holdings in the Federal Home Loan Banks of New York, see Note 17.  
(4) Excludes "Assets held-for-sale" of \$104 million as of December 31, 2021. See Note 1 for additional information on the pending dispositions.

In certain investment structures, the Company's investment management business invests with other co-investors in an investment fund referred to as a feeder fund. In these structures, the invested capital of several feeder funds is pooled together and used to purchase ownership interests in another fund, referred to as a master fund. The master fund utilizes this invested capital and, in certain cases, other debt financing, to purchase various classes of assets on behalf of its investors. Specialized industry accounting for investment companies calls for the feeder fund to reflect its investment in the master fund as a single net asset equal to its proportionate share of the net assets of the master fund, regardless of its level of interest in the master fund. In cases where the Company consolidates the feeder fund, it retains the feeder fund's net asset presentation and reports the consolidated feeder fund's proportionate share of the net assets of the master fund in

# PRUDENTIAL FINANCIAL, INC.

## Notes to Consolidated Financial Statements

“Other invested assets,” with any unaffiliated investors’ non-controlling interest in the feeder fund reported in “Other liabilities” or “Noncontrolling interests.” The consolidated feeder funds’ investments in these master funds, reflected on this net asset basis, totaled \$654 million and \$459 million as of December 31, 2021 and 2020, respectively. There was \$467 million and \$201 million of unaffiliated interest in the consolidated feeder funds as of December 31, 2021 and 2020, respectively, and the master funds had gross assets of \$76,600 million and \$54,123 million, respectively, and gross liabilities of \$73,882 million and \$50,706 million, respectively, which are not included on the Company’s balance sheet.

### Equity Method Investments

The following tables set forth summarized combined financial information for significant LP/LLC interests accounted for under the equity method, including the Company’s investments in operating joint ventures that are described in more detail in Note 9. Changes between periods in the tables below reflect changes in the activities within the operating joint ventures and LPs/LLCs, as well as changes in the Company’s level of investment in such entities:

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
	<u>(in millions)</u>	
<b>STATEMENTS OF FINANCIAL POSITION</b>		
Total assets(1) . . . . .	\$689,767	\$424,712
Total liabilities(2) . . . . .	\$111,189	\$ 35,705
Partners' capital . . . . .	578,578	389,007
Total liabilities and partners' capital . . . . .	\$689,767	\$424,712
Total liabilities and partners' capital included above . . . . .	\$ 12,141	\$ 9,475
Equity in LP/LLC interests not included above . . . . .	852	666
Carrying value(3) . . . . .	\$ 12,993	\$ 10,141

- (1) Amount represents gross assets of each fund where the Company has a significant investment. These assets consist primarily of investments in real estate, investments in securities and other miscellaneous assets.
- (2) Amount represents gross liabilities of each fund where the Company has a significant investment. These liabilities consist primarily of third-party-borrowed funds, securities repurchase agreements and other miscellaneous liabilities.
- (3) Excludes “Assets held-for-sale” of \$81 million. See Note 1 for additional information on the pending dispositions.

	Years Ended December 31,		
	2021	2020	2019
	(in millions)		
STATEMENTS OF OPERATIONS			
Total revenue(1)	\$128,429	\$42,964	\$11,430
Total expenses(2)	(21,235)	(8,887)	(5,800)
Net earnings (losses)	\$107,194	\$34,077	\$ 5,630
Equity in net earnings (losses) included above	\$ 2,085	\$ 744	\$ 525
Equity in net earnings (losses) of LP/LLC interests not included above	161	28	11
Total equity in net earnings (losses)	\$ 2,246	\$ 772	\$ 536

- (1) Amount represents gross revenue of each fund where the Company has a significant investment. This revenue consists of income from investments in real estate, investments in securities and other income.
- (2) Amount represents gross expenses of each fund where the Company has a significant investment. These expenses consist primarily of interest expense, investment management fees, salary expenses and other expenses.



**PRUDENTIAL FINANCIAL, INC.**  
**Notes to Consolidated Financial Statements**

***Accrued Investment Income***

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

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in millions)</b>	
Fixed maturities	\$2,398	\$2,676
Equity securities	5	7
Commercial mortgage and other loans	175	205
Policy loans	253	274
Other invested assets	22	27
Short-term investments and cash equivalents	2	4
Total accrued investment income(1)	<u>\$2,855</u>	<u>\$3,193</u>

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

Write-downs on accrued investment income were less than \$1 million for both the years ended December 31, 2021 and 2020.

***Net Investment Income***

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

	<b>Years Ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
	<b>(in millions)</b>		
Fixed maturities, available-for-sale(1)	\$11,999	\$12,339	\$12,644
Fixed maturities, held-to-maturity(1)	226	235	232
Fixed maturities, trading	193	126	149
Assets supporting experience-rated contractholder liabilities	601	700	731
Equity securities	162	162	160
Commercial mortgage and other loans	2,552	2,485	2,584
Policy loans	533	584	619
Other invested assets	2,617	1,318	1,005
Short-term investments and cash equivalents	63	197	453
Gross investment income	<u>18,946</u>	<u>18,146</u>	<u>18,577</u>
Less: investment expenses	<u>(659)</u>	<u>(736)</u>	<u>(992)</u>
Net investment income	<u>\$18,287</u>	<u>\$17,410</u>	<u>\$17,585</u>

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

The carrying value of non-income producing assets included \$437 million in available-for-sale fixed maturities, \$72 million in trading fixed maturities and less than \$1 million in other invested assets as of December 31, 2021. Non-income producing assets represent investments that had not produced income for the twelve months preceding December 31, 2021.

**PRUDENTIAL FINANCIAL, INC.**  
**Notes to Consolidated Financial Statements**

**Realized Investment Gains (Losses), Net**

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

	<b>Years Ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
	<b>(in millions)</b>		
Fixed maturities(1) . . . . .	\$1,939	\$ 729	\$ 966
Commercial mortgage and other loans . . . . .	173	103	44
Investment real estate . . . . .	108	(16)	78
LPs/LLCs . . . . .	(14)	2	(38)
Derivatives . . . . .	1,796	(4,715)	(1,513)
Other . . . . .	22	10	4
Realized investment gains (losses), net . . . . .	<u>\$4,024</u>	<u>\$(3,887)</u>	<u>\$ (459)</u>

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

**Net Unrealized Gains (Losses) on Investments within AOCI**

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

	<b>December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
	<b>(in millions)</b>		
Fixed maturity securities, available-for-sale—with OTTI(1) . . . . .	\$ N/A	\$ N/A	\$ 243
Fixed maturity securities, available-for-sale—all other(1) . . . . .	N/A	N/A	44,279
Fixed maturity securities, available-for-sale with an allowance(2) . . . . .	23	(25)	N/A
Fixed maturity securities, available-for-sale without an allowance(2) . . . . .	39,467	58,593	N/A
Derivatives designated as cash flow hedges(3) . . . . .	1,019	(168)	832
Derivatives designated as fair value hedges(3) . . . . .	(35)	10	0
Other investments(4) . . . . .	(7)	7	(15)
Net unrealized gains (losses) on investments . . . . .	<u>\$40,467</u>	<u>\$58,417</u>	<u>\$45,339</u>

- (1) Effective January 1, 2020, per ASU 2016-13, fixed maturity securities, available-for-sale are no longer required to be disclosed “with OTTI” and “all other.”
- (2) Includes net unrealized gains of \$425 million on “Assets held-for-sale” as of December 31, 2021.
- (3) For additional information on cash flow and fair value hedges, see Note 5.
- (4) As of December 31, 2021, there were no net unrealized losses on held-to-maturity securities that were previously transferred from available-for-sale. Includes net unrealized gains on certain joint ventures that are strategic in nature and are included in “Other assets.”

**Repurchase Agreements and Securities Lending**

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

	<b>December 31, 2021</b>				<b>December 31, 2020</b>			
	<b>Remaining Contractual Maturities of the Agreements</b>				<b>Remaining Contractual Maturities of the Agreements</b>			
	<b>Overnight &amp; Continuous</b>	<b>Up to 30 Days</b>	<b>30 to 90 Days</b>	<b>Total</b>	<b>Overnight &amp; Continuous</b>	<b>Up to 30 Days</b>	<b>30 to 90 Days</b>	<b>Total</b>
	<b>(in millions)</b>							
U.S. Treasury securities and obligations of U.S. government authorities and agencies . . . . .	\$9,044	\$0	\$438	\$ 9,482	\$ 9,548	\$546	\$0	\$10,094
Commercial mortgage-backed securities . . . . .	486	0	0	486	463	0	0	463
Residential mortgage-backed securities . . . . .	217	0	0	217	337	0	0	337
Total securities sold under agreements to repurchase . . . . .	<u>\$9,747</u>	<u>\$0</u>	<u>\$438</u>	<u>\$10,185</u>	<u>\$10,348</u>	<u>\$546</u>	<u>\$0</u>	<u>\$10,894</u>

# PRUDENTIAL FINANCIAL, INC.

## Notes to Consolidated Financial Statements

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

	December 31, 2021			December 31, 2020		
	Remaining Contractual Maturities of the Agreements			Remaining Contractual Maturities of the Agreements		
	Overnight & Continuous	Up to 30 Days	Total	Overnight & Continuous	Up to 30 Days	Total
	(in millions)					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 1	\$0	\$ 1	\$ 0	\$0	\$ 0
Obligations of U.S. states and their political subdivisions	84	0	84	108	0	108
Foreign government bonds	205	0	205	426	0	426
U.S. public corporate securities	2,834	0	2,834	2,360	0	2,360
Foreign public corporate securities	643	0	643	567	0	567
Equity securities	484	0	484	38	0	38
Total cash collateral for loaned securities(1)	<u>\$4,251</u>	<u>\$0</u>	<u>\$4,251</u>	<u>\$3,499</u>	<u>\$0</u>	<u>\$3,499</u>

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

### Securities Pledged

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

	December 31,	
	2021	2020
	(in millions)	
Fixed maturities(1)	\$16,411	\$19,608
Fixed maturities, trading	0	67
Assets supporting experience-rated contractholder liabilities	34	29
Separate account assets	2,673	3,191
Equity securities	868	416
Other	319	450
Total securities pledged	<u>\$20,305</u>	<u>\$23,761</u>

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

The following table sets forth the carrying amount of the associated liabilities supported by the pledged collateral, as of the dates indicated:

	December 31,	
	2021	2020
	(in millions)	
Securities sold under agreements to repurchase	\$10,185	\$10,894
Cash collateral for loaned securities	4,251	3,499
Separate account liabilities	2,737	3,249
Total liabilities supported by the pledged collateral	<u>\$17,173</u>	<u>\$17,642</u>

In the normal course of its business activities, the Company accepts collateral that can be sold or repledged. The primary sources of this collateral are securities in customer accounts, securities purchased under agreements to resell and postings of collateral from OTC derivative counterparties. The fair value of this collateral was approximately \$4,967 million as of December 31, 2021 (the largest components of which included \$334 million of securities and \$4,633 million of cash from OTC derivative counterparties) and \$8,872 million as of December 31, 2020 (the largest components of which included \$252 million of securities and \$8,620 million of cash from OTC derivative counterparties). A portion of the aforementioned securities, for both periods, had either been sold or repledged.

**PRUDENTIAL FINANCIAL, INC.**  
**Notes to Consolidated Financial Statements**

***Assets on Deposit, Held in Trust, and Restricted as to Sale***

The following table provides assets on deposit, assets held in trust, and securities restricted as to sale, as of the dates indicated:

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in millions)</b>	
Assets on deposit with governmental authorities or trustees .....	\$ 33	\$ 31
Assets held in voluntary trusts(1) .....	484	539
Assets held in trust related to reinsurance and other agreements(2) .....	16,235	16,614
Securities restricted as to sale(3) .....	86	153
Total assets on deposit, assets held in trust and securities restricted as to sale(4) .....	<u>\$16,838</u>	<u>\$17,337</u>

- (1) Represents assets held in voluntary trusts established primarily to fund guaranteed dividends to certain policyholders and to fund certain employee benefits.
- (2) Represents assets held in trust related to reinsurance agreements excluding reinsurance agreements between wholly-owned subsidiaries. Assets valued at \$28.4 billion and \$34.0 billion were held in trust related to reinsurance agreements between wholly-owned subsidiaries as of December 31, 2021 and 2020, respectively.
- (3) Includes member and activity stock associated with memberships in the Federal Home Loan Banks of New York and Boston.
- (4) Includes \$553 million “Assets held-for-sale” related to the pending sales of PALAC and Full Service Retirement Business as of December 31, 2021.

#### **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 VIEs. A VIE is an entity that either (1) has equity investors that lack certain essential characteristics of a controlling financial interest (including the ability to control activities of the entity, the obligation to absorb the entity’s expected losses and the right to receive the entity’s expected residual returns) or (2) lacks sufficient equity to finance its own activities without financial support provided by other entities, which in turn would be expected to absorb at least some of the expected losses of the VIE.

The Company is the primary beneficiary if the Company has (1) the power to direct the activities of the VIE that most significantly impact the economic performance of the entity and (2) the obligation to absorb losses of the entity that could be potentially significant to the VIE or the right to receive benefits from the entity that could be potentially significant. If the Company determines that it is the VIE’s primary beneficiary, it consolidates the VIE.

##### ***Consolidated Variable Interest Entities***

The Company is the investment manager of certain asset-backed investment vehicles, commonly referred to as CLOs, and certain other vehicles for which the Company earns fee income for investment management services. The Company may sell or syndicate investments through these vehicles, principally as part of the strategic investing activity of the Company’s investment management businesses. Additionally, the Company may invest in securities issued by these vehicles. The Company is also the investment manager of certain investment structures whose beneficial interests are wholly-owned by consolidated subsidiaries.

The Company has analyzed these relationships and determined that for certain CLOs and other investment structures it is the primary beneficiary and consolidates these entities. This analysis includes a review of (1) the Company’s rights and responsibilities as investment manager and (2) variable interests (if any) held by the Company. The assets of these VIEs are restricted and must be used first to settle liabilities of the VIE. The Company is not required to provide, and has not provided, material financial or other support to any of these VIEs.

Additionally, the Company is the primary beneficiary of certain VIEs in which the Company has invested, as part of its investment activities, but for which it is not the investment manager. These include structured investments issued by a VIE that manages yen-denominated investments coupled with cross-currency coupon swap agreements thereby creating synthetic dual currency investments. The Company’s involvement in the structuring of these investments combined with its economic interest indicates that the Company is the primary beneficiary. The Company has not provided material financial support or other support that was not contractually required to these VIEs.

# PRUDENTIAL FINANCIAL, INC.

## Notes to Consolidated Financial Statements

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)	
	December 31,		December 31,	
	2021	2020	2021	2020
	(in millions)			
Fixed maturities, available-for-sale	\$ 200	\$ 110	\$ 262	\$ 296
Fixed maturities, held-to-maturity	9	87	790	882
Fixed maturities, trading	178	160	0	0
Assets supporting experience-rated contractholder liabilities	0	0	0	0
Equity securities	79	42	0	0
Commercial mortgage and other loans	915	975	0	0
Other invested assets	2,846	2,221	138	127
Cash and cash equivalents	128	101	0	0
Accrued investment income	1	2	3	4
Other assets	499	594	785	768
Total assets of consolidated VIEs	<u>\$4,855</u>	<u>\$4,292</u>	<u>\$1,978</u>	<u>\$2,077</u>
Other liabilities	\$ 505	\$ 256	\$ 2	\$ 2
Notes issued by consolidated VIEs(2)	274	305	0	0
Total liabilities of consolidated VIEs	<u>\$ 779</u>	<u>\$ 561</u>	<u>\$ 2</u>	<u>\$ 2</u>

- (1) Total assets of consolidated VIEs reflect \$2,885 million and \$2,538 million as of December 31, 2021 and 2020, respectively, related to VIEs whose beneficial interests are wholly-owned by consolidated subsidiaries.
- (2) Recourse is limited to the assets of the respective VIE and does not extend to the general credit of the Company. As of December 31, 2021, the maturity of this obligation was within 3 years.

### Unconsolidated Variable Interest Entities

The Company has determined that it is not the primary beneficiary of certain VIEs for which it is the investment manager. These VIEs consist primarily of CLOs and investment funds for which the Company has determined that it is not the primary beneficiary as it does not have both (1) the power to direct the activities of the VIE that most significantly impact the economic performance of the entity and (2) the obligation to absorb losses of the entity that could be potentially significant to the VIE or the right to receive benefits from the entity that could be potentially significant. 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 \$997 million and \$935 million at December 31, 2021 and 2020, respectively. These investments are reflected in "Fixed maturities, available-for-sale," "Fixed maturities, trading," "Equity securities" and "Other invested assets." There are no liabilities associated with these unconsolidated VIEs on the Company's Consolidated Statements of Financial Position.

In the normal course of its activities, the Company will invest in 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 has determined that it is not required to consolidate these entities because either (1) it does not control them or (2) it does not have the obligation to absorb losses of these entities that could be potentially significant to the entities or the right to receive benefits from the entities that could be potentially significant. The Company classifies these investments as "Other invested assets" and its maximum exposure to loss associated with these entities, excluding "Assets held for sale," was \$15,966 million and \$12,883 million as of December 31, 2021 and 2020, respectively.

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

**PRUDENTIAL FINANCIAL, INC.**  
**Notes to Consolidated Financial Statements**

## **5. DERIVATIVES AND HEDGING**

### ***Types of Derivative and Hedging Instruments***

#### ***Interest Rate Contracts***

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

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

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

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

#### ***Equity Contracts***

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

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

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

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

#### ***Foreign Exchange Contracts***

Currency derivatives, including currency futures, options, forwards and swaps, and foreign currency denominated debts are used by the Company to reduce risks from changes in currency exchange rates with respect to investments denominated in foreign currencies that the Company either holds or intends to acquire or sell, and to hedge the currency risk associated with net investments in foreign operations and anticipated earnings of its foreign operations.

Under currency forwards, the Company agrees with counterparties to deliver a specified amount of an identified currency at a specified future date. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at the specified future date. As noted above, the Company uses currency forwards to mitigate the impact of changes in currency exchange rates on U.S. dollar-equivalent earnings generated by certain of its non-U.S. businesses, primarily its international insurance and investment operations. The Company executes forward sales of the hedged currency in exchange for U.S. dollars at a specified exchange rate. The maturities of these currency forwards correspond with the future periods in which the non-U.S. dollar-denominated earnings are expected to be generated.

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



## PRUDENTIAL FINANCIAL, INC.

### Notes to Consolidated Financial Statements

Under foreign currency denominated debts, the Company uses a portion of its foreign currency denominated debt (same functional currency of its foreign subsidiaries) to hedge the risk of change in the net investment in a foreign subsidiary due to changes in exchange rates. These debt obligations reduce the Company's foreign currency exposure from equity investment and act as hedge of the investment.

#### *Credit Contracts*

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

#### *Other Contracts*

**"To Be Announced" ("TBA") Forward Contracts.** The Company uses TBA forward contracts to gain exposure to the investment risk and return of mortgage-backed securities. TBA transactions can help the Company enhance the return on its investment portfolio, and can provide a more liquid and cost-effective method of achieving these goals than purchasing or selling individual mortgage-backed pools. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at a specified future date. Additionally, pursuant to the Company's mortgage dollar roll program, TBAs or mortgage-backed securities are transferred to counterparties with a corresponding agreement to repurchase them at a future date. These transactions do not qualify as secured borrowings and are accounted for as derivatives.

**Loan Commitments.** In its mortgage operations, the Company enters into commitments to fund commercial mortgage loans at specified interest rates and other applicable terms within specified periods of time. These commitments are legally binding agreements to extend credit to a counterparty. Loan commitments for loans that will be held for sale are recognized as derivatives and recorded at fair value. The determination of the fair value of loan commitments accounted for as derivatives considers various factors including, among others, terms of the related loan, the intended exit strategy for the loans based upon either securitization valuation models or investor purchase commitments, prevailing interest rates, origination income or expense, and the value of service rights. Loan commitments that relate to the origination of mortgage loans that will be held for investment are not accounted for as derivatives and accordingly are not recognized in the Company's financial statements. See Note 23 for additional information.

**Embedded Derivatives.** The Company offers certain products (for example, variable annuities) which may include guaranteed benefit features that are accounted for as embedded derivatives. These embedded derivatives are carried at fair value through "Realized investment gains (losses), net" based on the change in value of the underlying contractual guarantees, which are determined using valuation models.

**Synthetic Guarantees.** The Company sells synthetic GICs, through both full service and investment-only sales channels, to investment vehicles primarily used by qualified defined contribution pension plans. The synthetic GICs are issued in respect of assets that are owned by the trustees of such plans, who invest the assets according to the contract terms agreed to with the Company. The contracts establish participant balances and credit interest thereon. The participant balances are supported by the underlying assets. In connection with certain participant-initiated withdrawals, the contract guarantees that after all underlying assets are liquidated, any remaining participant balances will be paid by the Company. These contracts are accounted for as derivatives and recorded at fair value.

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**Notes to Consolidated Financial Statements**

**Primary Risks Managed by Derivatives**

The table below provides a summary of the gross notional amount and fair value of derivatives contracts by the primary underlying risks, excluding embedded derivatives and associated reinsurance recoverables. Many derivative instruments contain multiple underlying risks. The fair value amounts below represent the value of derivative contracts prior to taking into account the netting effects of master netting agreements and cash collateral. This netting impact results in total derivative assets of \$3,266 million and \$1,906 million as of December 31, 2021 and 2020, respectively, and total derivative liabilities of \$2,278 million and \$792 million as of December 31, 2021 and 2020, respectively, reflected in the Consolidated Statements of Financial Position.

Primary Underlying Risk/ Instrument Type	December 31, 2021			December 31, 2020		
	Gross	Fair Value		Gross	Fair Value	
	Notional	Assets	Liabilities	Notional	Assets	Liabilities
	(in millions)					
<b>Derivatives Designated as Hedge Accounting Instruments:</b>						
<b>Interest Rate</b>						
Interest Rate Swaps	\$ 3,591	\$ 805	\$ (69)	\$ 3,065	\$ 978	\$ (90)
Interest Rate Forwards	248	15	(2)	249	0	(8)
<b>Foreign Currency</b>						
Foreign Currency Forwards	4,789	62	(107)	2,577	68	(116)
<b>Currency/Interest Rate</b>						
Foreign Currency Swaps	21,272	1,151	(193)	22,642	878	(1,037)
<b>Total Derivatives Designated as Hedge Accounting Instruments</b>	<u>\$ 29,900</u>	<u>\$ 2,033</u>	<u>\$ (371)</u>	<u>\$ 28,533</u>	<u>\$ 1,924</u>	<u>\$ (1,251)</u>
<b>Derivatives Not Qualifying as Hedge Accounting Instruments:</b>						
<b>Interest Rate</b>						
Interest Rate Swaps	\$196,124	\$10,515	\$(14,430)	\$178,803	\$17,174	\$(13,172)
Interest Rate Futures	17,429	76	(9)	15,778	99	(5)
Interest Rate Options	15,353	710	(265)	14,593	914	(233)
Interest Rate Forwards	4,709	41	(11)	2,910	25	0
<b>Foreign Currency</b>						
Foreign Currency Forwards	28,235	1,046	(1,209)	35,478	764	(647)
Foreign Currency Options	0	0	0	0	0	0
<b>Currency/Interest Rate</b>						
Foreign Currency Swaps	12,683	751	(216)	13,661	537	(601)
<b>Credit</b>						
Credit Default Swaps	3,489	128	(1)	3,360	63	(28)
<b>Equity</b>						
Equity Futures	6,178	1	(10)	5,668	10	(25)
Equity Options	60,057	2,065	(2,640)	36,250	1,731	(1,028)
Total Return Swaps	13,850	49	(430)	22,489	32	(1,277)
<b>Other</b>						
Other(1)	1,255	0	0	1,262	0	0
<b>Synthetic GICs</b>	<u>81,984</u>	<u>1</u>	<u>0</u>	<u>86,264</u>	<u>0</u>	<u>0</u>
<b>Total Derivatives Not Qualifying as Hedge Accounting Instruments</b>	<u>\$441,346</u>	<u>\$15,383</u>	<u>\$(19,221)</u>	<u>\$416,516</u>	<u>\$21,349</u>	<u>\$(17,016)</u>
<b>Total Derivatives(2)(3)(4)</b>	<u>\$471,246</u>	<u>\$17,416</u>	<u>\$(19,592)</u>	<u>\$445,049</u>	<u>\$23,273</u>	<u>\$(18,267)</u>

- (1) "Other" primarily includes derivative contracts used to improve the balance of the Company's tail longevity and mortality risk. Under these contracts, the Company's gains (losses) are capped at the notional amount.
- (2) Excludes embedded derivatives and associated reinsurance recoverables which contain multiple underlying risks. The fair value of these embedded derivatives was a net liability of \$10,245 million and \$20,119 million as of December 31, 2021, and 2020, respectively, primarily included in "Future policy benefits."
- (3) Recorded in "Other invested assets" and "Other liabilities" on the Consolidated Statements of Financial Position.
- (4) Excludes "Assets held-for-sale" with fair value of \$1,643 million and "Liabilities held-for-sale" with fair value of \$1,503 million with outstanding gross notional amounts of \$41,179 million as of December 31, 2021. See Note 1 for additional information on the pending dispositions.

# PRUDENTIAL FINANCIAL, INC.

## Notes to Consolidated Financial Statements

As of December 31, 2021, the following amounts were recorded on the 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	December 31, 2021		December 31, 2020	
	Carrying Amount of the Hedged Assets (Liabilities)	Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets (Liabilities)(1)	Carrying Amount of the Hedged Assets (Liabilities)	Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets (Liabilities)(1)
		(in millions)		
Fixed maturities, available-for-sale, at fair value . . .	\$ 641	\$ 63	\$ 402	\$ 79
Commercial mortgage and other loans . . . . .	\$ 17	\$ 1	\$ 20	\$ 2
Policyholders' account balances . . . . .	\$(1,552)	\$(170)	\$(1,627)	\$(303)
Future policy benefits . . . . .	\$(3,001)	\$(279)	\$(1,585)	\$(372)

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

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

### Offsetting Assets and Liabilities

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

	December 31, 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)		
<b>Offsetting of Financial Assets:(2)</b>					
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>
<b>Offsetting of Financial Liabilities:(2)</b>					
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>

**PRUDENTIAL FINANCIAL, INC.**  
**Notes to Consolidated Financial Statements**

December 31, 2020

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

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

(2) Excludes “Assets held-for-sale” with fair value of \$1,643 million and “Liabilities held-for-sale” with fair value of \$1,503 million. See Note 1 for additional information on the pending dispositions.

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

***Cash Flow, Fair Value and Net Investment Hedges***

The primary 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, and equity derivatives in any of its fair value, cash flow or net investment hedge accounting relationships.

**PRUDENTIAL FINANCIAL, INC.**

**Notes to Consolidated Financial Statements**

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

	Year Ended December 31, 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)						
<b>Derivatives Designated as Hedge Accounting Instruments:</b>							
<b>Fair value hedges</b>							
Gains (losses) on derivatives designated as hedge instruments:							
Interest Rate .....	\$ 20	\$ (9)	\$ 0	\$0	\$ (98)	\$(73)	\$ 0
Currency .....	(8)	0	0	0	0	6	0
Total gains (losses) on derivatives designated as hedge instruments .....	12	(9)	0	0	(98)	(67)	0
Gains (losses) on the hedged item:							
Interest Rate .....	(24)	16	0	0	133	96	0
Currency .....	7	2	0	0	0	(6)	0
Total gains (losses) on hedged item .....	(17)	18	0	0	133	90	0
Amortization for Gain (Loss) Excluded from Assessment of the Effectiveness .....							
Currency .....	0	0	0	0	0	(6)	(46)
Total Amortization for Gain (Loss) Excluded from Assessment of the Effectiveness .....	0	0	0	0	0	(6)	(46)
Total gains (losses) on fair value hedges net of hedged item .....	(5)	9	0	0	35	17	(46)
<b>Cash flow hedges</b>							
Interest Rate .....	(2)	2	0	0	0	0	(13)
Currency .....	(4)	0	0	0	0	0	48
Currency/Interest Rate .....	105	271	181	0	0	0	1,152
Total gains (losses) on cash flow hedges .....	99	273	181	0	0	0	1,187
<b>Net investment hedges</b>							
Currency .....	0	0	0	0	0	0	(9)
Currency/Interest Rate .....	0	0	0	0	0	0	0
Total gains (losses) on net investment hedges .....	0	0	0	0	0	0	(9)
<b>Derivatives Not Qualifying as Hedge Accounting Instruments:</b>							
Interest Rate .....	(1,875)	0	0	0	0	0	0
Currency .....	(364)	0	(3)	0	0	0	0
Currency/Interest Rate .....	802	0	5	0	0	0	0
Credit .....	61	0	0	0	0	0	0
Equity .....	(2,600)	0	0	0	0	0	0
Other .....	1	0	0	0	0	0	0
Embedded Derivatives .....	5,674	0	0	0	0	0	0
Total gains (losses) on derivatives not qualifying as hedge accounting instruments .....	1,699	0	2	0	0	0	0
<b>Total</b> .....	\$ 1,793	\$282	\$183	\$0	\$ 35	\$ 17	\$1,132

**PRUDENTIAL FINANCIAL, INC.**  
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Year Ended December 31, 2020

	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)						
<b>Derivatives Designated as Hedge Accounting Instruments:</b>							
<b>Fair value hedges</b>							
Gains (losses) on derivatives designated as hedge instruments:							
Interest Rate .....	\$ (17)	\$ (8)	\$ 0	\$ 0	\$ 236	\$ 186	\$ 0
Currency .....	0	0	0	0	0	46	0
Total gains (losses) on derivatives designated as hedge instruments .....	(17)	(8)	0	0	236	232	0
Gains (losses) on the hedged item:							
Interest Rate .....	16	18	0	0	(196)	(155)	0
Currency .....	0	1	0	0	0	(46)	0
Total gains (losses) on hedged item .....	16	19	0	0	(196)	(201)	0
Amortization for Gain (Loss) Excluded from Assessment of the Effectiveness .....							
Currency .....	0	0	0	0	0	(1)	10
Total Amortization for Gain (loss) Excluded from Assessment of the Effectiveness .....	0	0	0	0	0	(1)	10
Total gains (losses) on fair value hedges net of hedged item .....	(1)	11	0	0	40	30	10
<b>Cash flow hedges</b>							
Interest Rate .....	40	1	0	(1)	0	0	7
Currency .....	5	0	0	0	0	0	(69)
Currency/Interest Rate .....	99	314	(303)	0	0	0	(938)
Total gains (losses) on cash flow hedges .....	144	315	(303)	(1)	0	0	(1,000)
<b>Net investment hedges</b>							
Currency .....	(7)	0	126	0	0	0	(128)
Currency/Interest Rate .....	0	0	0	0	0	0	0
Total gains (losses) on net investment hedges .....	(7)	0	126	0	0	0	(128)
<b>Derivatives Not Qualifying as Hedge Accounting Instruments:</b>							
Interest Rate .....	5,800	0	0	0	0	0	0
Currency .....	100	0	(1)	0	0	0	0
Currency/Interest Rate .....	(188)	0	(4)	0	0	0	0
Credit .....	(56)	0	0	0	0	0	0
Equity .....	(5,623)	0	0	0	0	0	0
Other .....	2	0	0	0	0	0	0
Embedded Derivatives .....	(4,882)	0	0	0	0	0	0
Total gains (losses) on derivatives not qualifying as hedge accounting instruments .....	(4,847)	0	(5)	0	0	0	0
<b>Total</b> .....	<b>\$(4,711)</b>	<b>\$326</b>	<b>\$(182)</b>	<b>\$ (1)</b>	<b>\$ 40</b>	<b>\$ 30</b>	<b>\$(1,118)</b>



PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

Year Ended December 31, 2019

	Year Ended December 31, 2019						
	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)						
<b>Derivatives Designated as Hedge Accounting Instruments:</b>							
<b>Fair value hedges</b>							
Gains (losses) on derivatives designated as hedge instruments:							
Interest Rate . . . . .	\$ (14)	\$ (7)	\$ 0	\$0	\$ 194	\$ 155	\$ 0
Currency . . . . .	0	0	0	0	0	0	0
Total gains (losses) on derivatives designated as hedge instruments . . . . .	(14)	(7)	0	0	194	155	0
Gains (losses) on the hedged item:							
Interest Rate . . . . .	11	20	0	0	(186)	(140)	0
Currency . . . . .	1	3	0	0	0	0	0
Total gains (losses) on hedged item . . . . .	12	23	0	0	(186)	(140)	0
Total gains (losses) on fair value hedges net of hedged item . . . . .	(2)	16	0	0	8	15	0
<b>Cash flow hedges</b>							
Interest Rate . . . . .	58	0	0	0	0	0	(25)
Currency . . . . .	6	0	0	0	0	0	(62)
Currency/Interest Rate . . . . .	130	282	(97)	0	0	0	99
Total gains (losses) on cash flow hedges . . . . .	194	282	(97)	0	0	0	12
<b>Net investment hedges</b>							
Currency . . . . .	0	0	0	0	0	0	4
Currency/Interest Rate . . . . .	0	0	0	0	0	0	0
Total gains (losses) on net investment hedges . . . . .	0	0	0	0	0	0	4
<b>Derivatives Not Qualifying as Hedge Accounting Instruments:</b>							
Interest Rate . . . . .	4,533	0	0	0	0	0	0
Currency . . . . .	14	0	5	0	0	0	0
Currency/Interest Rate . . . . .	394	0	0	0	0	0	0
Credit . . . . .	123	0	0	0	0	0	0
Equity . . . . .	(4,057)	0	0	0	0	0	0
Other . . . . .	0	0	0	0	0	0	0
Embedded Derivatives . . . . .	(2,705)	0	0	0	0	0	0
Total gains (losses) on derivatives not qualifying as hedge accounting instruments . . . . .	(1,698)	0	5	0	0	0	0
<b>Total</b> . . . . .	<b>\$(1,506)</b>	<b>\$298</b>	<b>\$(92)</b>	<b>\$0</b>	<b>\$ 8</b>	<b>\$ 15</b>	<b>\$16</b>

- (1) Excluding changes related to net investment hedges using non-derivative instruments of \$25 million for year ended December 31, 2021, \$(21) million for year ended December 31, 2020, and \$0 million for year ended December 31, 2019.

**PRUDENTIAL FINANCIAL, INC.**  
**Notes to Consolidated Financial Statements**

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

	(in millions)
<b>Balance, December 31, 2018</b> .....	<u>\$ 811</u>
Cumulative effect adjustment from the adoption of ASU 2017-12 .....	9
Amount recorded in AOCI	
Interest Rate .....	33
Currency .....	(56)
Currency/Interest Rate .....	414
<b>Total amount recorded in AOCI</b> .....	<u>391</u>
Amount reclassified from AOCI to income	
Interest Rate .....	(58)
Currency .....	(6)
Currency/Interest Rate .....	(315)
<b>Total amount reclassified from AOCI to income</b> .....	<u>(379)</u>
<b>Balance, December 31, 2019</b> .....	<u>\$ 832</u>
Amount recorded in AOCI	
Interest Rate .....	47
Currency .....	(64)
Currency/Interest Rate .....	(828)
<b>Total amount recorded in AOCI</b> .....	<u>(845)</u>
Amount reclassified from AOCI to income	
Interest Rate .....	(40)
Currency .....	(5)
Currency/Interest Rate .....	(110)
<b>Total amount reclassified from AOCI to income</b> .....	<u>(155)</u>
<b>Balance, December 31, 2020</b> .....	<u>\$ (168)</u>
Amount recorded in AOCI	
Interest Rate .....	(13)
Currency .....	44
Currency/Interest Rate .....	1,709
<b>Total amount recorded in AOCI</b> .....	<u>1,740</u>
Amount reclassified from AOCI to income	
Interest Rate .....	0
Currency .....	4
Currency/Interest Rate .....	(557)
<b>Total amount reclassified from AOCI to income</b> .....	<u>(553)</u>
<b>Balance, December 31, 2021</b> .....	<u>\$1,019</u>

The changes in fair value of cash flow hedges are deferred in AOCI and are included in “Net unrealized investment gains (losses)” in the Consolidated Statements of Comprehensive Income; these amounts are then reclassified to earnings when the hedged item affects earnings. Using December 31, 2021 values, it is estimated that a pre-tax gain of approximately \$289 million is expected to be reclassified from AOCI to earnings during the subsequent twelve months ending December 31, 2022.

The exposures the Company is hedging with these qualifying cash flow hedges include the variability of future cash flows from forecasted transactions denominated in foreign currencies, the purchases of invested assets, and the receipt or payment of variable interest on existing financial instruments. The maximum length of time over which the Company is hedging its exposure to the variability in future cash flows for forecasted transactions is 30 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,

# PRUDENTIAL FINANCIAL, INC.

## Notes to Consolidated Financial Statements

before applicable taxes, recorded in the cumulative translation adjustment within AOCI were \$16 million for the year ended December 31, 2021, \$(149) million for the year ended December 31, 2020, and \$4 million for the year ended December 31 2019.

### Credit Derivatives

The following table provides 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 26 years for index references.

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
(in millions)													
Single name reference(2) ....	\$ 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
Total .....	\$49	\$0	\$0	\$0	\$2,397	\$41	\$0	\$0	\$0	\$0	\$928	\$87	\$3,374

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

- (1) The NAIC rating designations are based on availability and the lowest ratings among Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Rating Services ("S&P") and Fitch Ratings Inc. ("Fitch"). If no rating is available from a rating agency, a NAIC 6 rating is used.
- (2) Single name credit default swaps may reference 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 and "Liabilities held-for-sale" with fair value of \$0 million. See Note 1 for additional information on the pending dispositions.

In addition to writing credit protection, the Company has purchased credit protection using credit derivatives in order to hedge specific credit exposures in the Company's investment portfolio. As of December 31, 2021 and 2020, the Company had \$115 million and \$307 million of outstanding notional amounts, reported at fair value as a liability of \$1 million and \$28 million, respectively.

### Counterparty Credit Risk

The Company is exposed to losses in the event of non-performance by counterparties to financial derivative transactions with a positive fair value. The Company manages credit risk by: (i) entering into derivative transactions with highly rated major international financial institutions and other creditworthy counterparties governed by master netting agreements, as applicable; (ii) trading through central clearing and 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 December 31, 2021, there were no net liability derivative positions with counterparties with credit risk-related contingent features. All derivatives have been appropriately collateralized by the Company or the counterparty in accordance with the terms of the derivative agreements.

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**Notes to Consolidated Financial Statements**

**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. The Company's Level 1 assets and liabilities primarily include certain cash equivalents and short-term investments, equity securities and derivative contracts that trade on an active exchange market.

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

Level 3—Fair value is based on at least one significant unobservable input for the asset or liability. The assets and liabilities in this category may require significant judgment or estimation in determining the fair value. The Company's Level 3 assets and liabilities primarily include: certain private fixed maturities and equity securities, certain manually priced public equity securities and fixed maturities, certain highly structured OTC derivative contracts, certain consolidated real estate funds for which the Company is the general partner and embedded derivatives resulting from certain products with guaranteed benefits.

# PRUDENTIAL FINANCIAL, INC.

## Notes to Consolidated Financial Statements

**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 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

**PRUDENTIAL FINANCIAL, INC.**  
**Notes to Consolidated Financial Statements**

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

- (1) Excludes amounts for financial instruments reclassified to "Assets held-for-sale" of \$129,579 million and "Liabilities held-for-sale" of \$6,214 million. Assets held-for-sale and liabilities held-for-sale are valued on a basis consistent with similar instruments described herein. See Note 1 for additional information on the pending dispositions.
- (2) "Netting" amounts represent cash collateral of \$(3,164) million and \$3,892 million as of December 31, 2021 and 2020, respectively.
- (3) Excludes notes with fair value of \$5,995 million (carrying amount of \$5,941 million) and \$6,100 million (carrying amount of \$5,966 million) as of December 31, 2021 and 2020, respectively, which have been offset with the associated payables under a netting agreement.
- (4) Includes credit-tranched securities collateralized by syndicated bank loans, sub-prime mortgages, auto loans, credit cards, education loans and other asset types.
- (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. At December 31, 2021 and 2020, the fair values of such investments were \$4,290 million and \$4,136 million respectively.
- (7) Separate account assets included in the fair value hierarchy exclude investments in entities that calculate NAV per share (or its equivalent) as a practical expedient. Such investments excluded from the fair value hierarchy include investments in real estate, hedge funds and other invested assets. At December 31, 2021 and 2020, the fair value of such investments were \$26,174 million and \$23,007 million, respectively.
- (8) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in the Company's Consolidated Statements of Financial Position.
- (9) 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. As of December 31, 2020, the net embedded derivative liability position of \$18,879 million includes \$520 million of embedded derivatives in an asset position and \$19,399 million of embedded derivatives in a liability position.



## PRUDENTIAL FINANCIAL, INC.

### Notes to Consolidated Financial Statements

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

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

Internally-developed valuations or indicative broker quotes are also used to determine fair value in circumstances where vendor pricing is not available, or where the Company ultimately concludes that pricing information received from the independent pricing services is not reflective of market activity. If the Company concludes the values from both pricing services and brokers are not reflective of market activity, it may override the information with an internally-developed valuation. As of December 31, 2021 and 2020, overrides on a net basis were not material. Pricing service overrides, internally-developed valuations and indicative broker quotes are generally included in Level 3 in the fair value hierarchy.

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

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

**Assets Supporting Experience-Rated Contractholder Liabilities**—Assets supporting experience-rated contractholder liabilities consist primarily of fixed maturity securities, equity securities and derivatives whose fair values are determined consistent with similar instruments described above under “Fixed Maturity Securities” and below under “Equity Securities” and “Derivative Instruments.”

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

**Commercial Mortgage and Other Loans**—The fair value of loans held and accounted for using the fair value option is determined utilizing pricing indicators from the whole loan market, where investors are committed to purchase these loans at a predetermined price, which is considered the principal exit market for these loans. The Company evaluates the valuation inputs used for these assets, including the existence of predetermined exit prices, the terms of the loans, prevailing interest rates and credit risk, and deems the primary pricing inputs are Level 2 inputs in the fair value hierarchy.

**Other Invested Assets**—Other invested assets primarily include investments in LPs/LLCs, derivatives and certain limited partnerships which are consolidated because the Company is either deemed to exercise control or considered the primary beneficiary of a variable interest entity. These entities are primarily investment companies and follow specialized industry accounting whereby their assets are carried at fair value. The investments held by these entities include various feeder fund investments in underlying master funds (whose underlying holdings generally include public fixed maturities, equity securities and mutual funds), as well as wholly-owned real estate held within other investment funds. For the unconsolidated fund investments, the fair value is primarily determined by the fund managers and is measured at NAV as a practical expedient.

**PRUDENTIAL FINANCIAL, INC.**  
**Notes to Consolidated Financial Statements**

**Other Assets**—Other assets reflected in Level 3 primarily include reinsurance recoverables which are carried at fair value and relate to the reinsurance of the Company's living benefit guarantees on certain variable annuity contracts. The methods and assumptions used to estimate the fair value are consistent with those described below under "Future Policy Benefits."

**Derivative Instruments**—Derivatives are recorded at fair value either as assets, within "Other invested assets" or as liabilities, within "Other liabilities," except for embedded derivatives which are recorded with the associated host contract. The fair values of derivative contracts can be affected by changes in interest rates, foreign exchange rates, commodity prices, credit spreads, market volatility, expected returns, NPR, liquidity and other factors. For derivative positions included within Level 3 of the fair value hierarchy, liquidity valuation adjustments are made to reflect the cost of exiting significant risk positions, and consider the bid-ask spread, maturity, complexity and other specific attributes of the underlying derivative position.

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

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

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

The majority of the Company's derivative agreements are with highly rated major international financial institutions. To reflect the market's perception of its own and the counterparty's NPR, the Company incorporates additional spreads over LIBOR into the discount rate used in determining the fair value of OTC derivative assets and liabilities after netting of collateral.

Derivatives classified as Level 3 include look-back equity options and other structured products. These derivatives are valued based upon models, such as Monte Carlo simulation models and other techniques that utilize significant unobservable inputs. Level 3 methodologies are validated through periodic comparison of the Company's fair values to external broker-dealer values.

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

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

**Future Policy Benefits**—The liability for future policy benefits is related to guarantees primarily associated with the living benefit features of certain variable annuity contracts offered by the Company's Individual Annuities segment, including guaranteed minimum accumulation benefits ("GMAB"), guaranteed withdrawal benefits ("GMWB") and guaranteed minimum income and withdrawal benefits ("GMIWB"), accounted for as embedded derivatives. The fair values of these liabilities are calculated as the present value of future expected benefit payments to customers less the present value of future expected rider fees attributable to the embedded derivative feature. This methodology could result in either a liability or asset balance, given changing capital market conditions and various actuarial assumptions. Since there is no observable active market for the transfer of these obligations, the valuations are calculated using internally-developed models with option pricing techniques. The models are based on a risk neutral valuation framework and incorporate premiums for risks inherent in valuation techniques, inputs, and the general uncertainty around the timing and amount of future cash flows. The determination of these risk premiums requires the use of management's judgment.

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

## PRUDENTIAL FINANCIAL, INC.

### Notes to Consolidated Financial Statements

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

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

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

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

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

**Other Liabilities**—Other liabilities include certain derivative instruments and the contingent consideration liability associated with the acquisition of Assurance IQ. The fair values of derivative instruments are primarily determined consistent with those described above under "Derivative Instruments." For the contingent consideration liability, see Note 1 for additional information.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

**Notes issued by Consolidated VIEs**—These notes are based on the fair values of corresponding bank loan collateral. Since the notes are valued based on reference collateral, they are classified as Level 3. See Note 4 and “Fair Value Option” below for additional information.

**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 December 31, 2021							
	Fair Value	Valuation	Unobservable Inputs	Minimum	Maximum	Weighted	Impact of
	(in millions)	Techniques				Average	Increase in
							Input on
							Fair
							Value(1)
<b>Assets:</b>							
Corporate securities(2)(3)	\$4,800	Discounted cash flow(5)	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
<b>Liabilities:</b>							
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%	6%		Decrease
			Spread over				
			LIBOR(10)	0.03%	1.14%		Decrease
			Mortality rate(13)	0%	23%		Decrease
			Equity volatility				
			curve	12%	27%		Increase

**PRUDENTIAL FINANCIAL, INC.**  
**Notes to Consolidated Financial Statements**

As of December 31, 2020

	Fair Value (in millions)	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Weighted Average	Impact of Increase in Input on Fair Value(1)
<b>Assets:</b>							
Corporate securities(2)(3)	\$3,697	Discounted cash flow(5) Market comparables Liquidation	Discount rate EBITDA multiples(4) Liquidation value	0.40% 7.0X 12.13%	25% 15.0X 15.00%	4.28% 9.0X 13.02%	Decrease Increase Increase
Equity securities	\$195	Discounted cash flow(5) Market comparables Net Asset Value	Discount rate EBITDA multiples(4) Share price	0.5% 1X \$1	20% 8.8X \$1,414		Decrease Increase Increase
Separate account assets-commercial mortgage loans(6)	\$775	Discounted cash flow	Spread	1.60%	2.98%	1.80%	Decrease
<b>Liabilities:</b>							
Future policy benefits(7)	\$18,879	Discounted cash flow	Lapse rate(9) Spread over LIBOR(10) Utilization rate(11) Withdrawal rate Mortality rate(13) Equity volatility curve	1%  0.06%  39%  0%  18%	20%  1.17%  96% See table footnote (12) below. 15%		Decrease  Decrease Increase  Decrease
Policyholders' account balances(8)	\$1,914	Discounted cash flow	Lapse rate(9) Spread over LIBOR(10) Mortality rate(13) Equity volatility curve	1%  0.06% 0%  6%	42%  1.17% 24%  42%		Decrease  Decrease Decrease 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) Includes certain investments where enterprise value is less than the amount needed to support senior and subordinated claims. These investments typically use a range of discount rates (10% to 20%), therefore presenting a range, rather than a weighted average, is a more meaningful representation of the unobservable inputs used in the valuation.
- (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 Consolidated Statements of Financial Position. As a result, changes in value associated with these investments are not reflected in the Company's 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 a 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 a 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 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 LIBOR swap curve represents the premium added to the proxy for the risk-free rate (LIBOR) to reflect the Company's estimates of rates that a market participant would use to value the living benefits in both the accumulation and payout phases and index-linked interest crediting guarantees. This spread includes an estimate of NPR, which is the risk that the obligation will not be fulfilled by the Company. NPR is primarily estimated by utilizing the credit spreads associated with issuing funding agreements, adjusted for any illiquidity risk premium. In order to reflect the financial strength ratings of the Company, credit spreads associated with funding agreements, as opposed to credit spread associated with debt, are utilized in developing this estimate because funding agreements, living benefit guarantees, and index-linked interest crediting guarantees are insurance liabilities and are therefore senior to debt.

## PRUDENTIAL FINANCIAL, INC.

### Notes to Consolidated Financial Statements

- (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 both December 31, 2021 and 2020, the minimum withdrawal rate assumption is 76% and 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.

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

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



## Notes to Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

Year Ended December 31, 2020

	Fair Value, beginning of period	Total realized and unrealized gains (losses)	Purchases	Sales	Issuances	Settlements	Other(1)	Transfers into Level 3	Transfers out of Level 3	Fair Value, end of period	Unrealized gains (losses) for assets still held(3)
(in millions)											
<b>Fixed maturities, available-for-sale:</b>											
U.S. government	\$ 105	\$ 0	\$ 45	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 150	\$ 0
U.S. states	4	0	0	0	0	0	0	0	0	4	0
Foreign government	22	0	0	0	0	0	0	1	(12)	11	0
Corporate securities(4)	3,236	274	1,144	(127)	0	(1,021)	(16)	2,178	(333)	5,335	203
Structured securities(5)	948	(8)	685	(18)	0	(547)	156	178	(851)	543	(11)
<b>Assets supporting experience-rated contractholder liabilities:</b>											
Foreign government	24	0	0	0	0	(5)	0	0	0	19	0
Corporate securities(4)	637	(17)	6	(9)	0	(182)	(19)	99	(33)	482	(25)
Structured securities(5)	69	(1)	191	0	0	(33)	0	1	(113)	114	3
Equity securities	0	0	0	0	0	0	0	0	0	0	0
All other activity	0	0	134	0	0	(5)	(2)	0	(107)	20	0
<b>Other assets:</b>											
Fixed maturities, trading	287	(24)	33	(33)	0	0	9	19	(48)	243	(24)
Equity securities	633	14	59	(50)	0	(6)	11	0	(1)	660	11
Other invested assets	567	7	209	0	4	(5)	(415)	8	(9)	366	7
Short-term investments	155	1	327	0	0	(115)	(48)	0	(143)	177	(1)
Cash equivalents	131	0	0	0	0	0	(130)	0	0	1	0
Other assets	113	87	69	0	0	(1)	0	0	0	268	88
Separate account assets(6)	1,717	143	242	(71)	0	(84)	0	43	(169)	1,821	157
<b>Liabilities:</b>											
Future policy benefits	(12,831)	(4,837)	0	0	(1,304)	0	93	0	0	(18,879)	(5,263)
Policyholders' account balances(7)	(1,316)	(228)	0	0	(370)	0	0	0	0	(1,914)	(155)
Other liabilities	(105)	105	0	0	0	0	0	0	0	0	105
Notes issued by consolidated VIEs	(800)	25	0	0	0	0	775	0	0	0	25

Year Ended December 31, 2020

	Total realized and unrealized gains (losses)					Unrealized gains (losses) for assets still held(3)			
	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (losses)	Net investment income	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (losses)(8)
(in millions)									
<b>Fixed maturities, available-for-sale</b>	\$(111)	\$ 0	\$ 0	\$368	\$9	\$ (139)	\$ 0	\$ 0	\$331
<b>Assets supporting experience-rated contractholder liabilities</b>	0	(22)	0	0	4	0	(22)	0	0
<b>Other assets:</b>									
Fixed maturities, trading	0	(25)	0	0	1	0	(24)	0	0
Equity securities	0	14	0	0	0	0	11	0	0
Other invested assets	0	7	0	0	0	0	7	0	0
Short-term investments	1	0	0	0	0	(1)	0	0	0
Cash equivalents	0	0	0	0	0	0	0	0	0
Other assets	87	0	0	0	0	88	0	0	0
Separate account assets(6)	0	0	143	0	0	0	0	157	0
<b>Liabilities:</b>									
Future policy benefits	(4,837)	0	0	0	0	(5,263)	0	0	0
Policyholders' account balances	(228)	0	0	0	0	(155)	0	0	0
Other liabilities	0	105	0	0	0	0	105	0	0
Notes issued by consolidated VIEs	0	25	0	0	0	0	25	0	0

# PRUDENTIAL FINANCIAL, INC.

## Notes to Consolidated Financial Statements

The following tables summarize the portion of changes in fair values of Level 3 assets and liabilities included in earnings and OCI for the year ended December 31, 2019, 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 as of December 31, 2019:

Year Ended December 31, 2019								
	Total realized and unrealized gains (losses)					Unrealized gains (losses) for assets still held(3)		
	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (losses)	Net investment income	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances
	(in millions)							
<b>Fixed maturities, available-for-sale</b> .....	\$(67)	\$ 0	\$ 0	\$86	\$18	\$ (98)	\$ 0	\$ 0
<b>Assets supporting experience-rated contractholder liabilities</b> .....	0	(4)	0	0	9	0	(5)	0
<b>Other assets:</b>								
Fixed maturities, trading .....	0	(27)	0	0	1	0	(27)	0
Equity securities .....	0	42	0	0	0	0	34	0
Other invested assets .....	(1)	12	0	0	0	(1)	0	0
Short-term investments .....	0	0	0	0	0	0	0	0
Cash equivalents .....	0	0	0	0	0	0	0	0
Other assets .....	44	0	0	0	0	44	0	0
Separate account assets(6) .....	0	0	180	0	4	0	0	170
<b>Liabilities:</b>								
Future policy benefits .....	(2,685)	0	0	0	0	(2,999)	0	0
Policyholders' account balances .....	(933)	0	0	0	0	(917)	0	0
Other liabilities .....	0	(5)	0	0	0	0	(5)	0
Notes issued by consolidated VIEs .....	15	0	0	0	0	15	0	0

- (1) "Other," for the periods ended December 31, 2021 and 2020, primarily represent deconsolidation of VIE, reclassifications of certain assets between reporting categories and foreign currency translation.
- (2) Transfers out of level 3 for the period ended December 31, 2021, included \$218 million of corporate securities and \$79 million of structured securities reclassified from Fixed maturities, available for sale to "Assets held-for-sale", and \$4,162 million of Future Policy Benefits and \$2,040 million of Policyholders' account balances reclassified to "Liabilities held-for-sale". See Note 1 for additional information on the pending dispositions.
- (3) Unrealized gains or losses related to assets still held at the end of the period do not include amortization or accretion of premiums and discounts.
- (4) Includes U.S. corporate public, U.S. corporate private, foreign corporate public and foreign corporate private securities.
- (5) Includes asset-backed, commercial mortgage-backed and residential mortgage-backed securities.
- (6) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in the Company's Consolidated Statements of Financial Position.
- (7) Issuances and settlements for Policyholders' account balances are presented net in the rollforward. Prior period amounts have been updated to conform to current period presentation.
- (8) Effective January 1, 2020, the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period were added prospectively due to adoption of ASU 2018-13. *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*.

**PRUDENTIAL FINANCIAL, INC.**  
**Notes to Consolidated Financial Statements**

**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 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 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
Commodity	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
Commodity	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>

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

- (1) “Netting” amounts represent cash collateral and the impact of offsetting asset and liability positions held with the same counterparty, subject to master netting agreement.
- (2) Excludes “Assets held-for-sale” with fair value of \$1,643 million and “Liabilities held-for-sale” with fair value of \$1,503 million. See Note 1 for additional information on the pending dispositions.

# PRUDENTIAL FINANCIAL, INC.

## Notes to Consolidated Financial Statements

**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:

Year Ended December 31, 2021											
	Fair Value, beginning of period	Total realized and unrealized gains (losses)(4)	Purchases	Sales	Issuances	Settlements	Other(1)	Transfers into Level 3 (2)	Transfers out of Level 3 (2)	Fair Value, end of period	Unrealized gains (losses) for assets still held(4)
(in millions)											
Net Derivative—Equity .....	\$0	\$1	\$1	\$0	\$0	\$(1)	\$0	\$0	\$0	\$1	\$1
Net Derivative—Interest Rate .....	0	1	0	0	0	0	0	0	0	1	1

Year Ended December 31, 2020											
	Fair Value, beginning of period	Total realized and unrealized gains (losses)(4)	Purchases	Sales	Issuances	Settlements	Other(1)	Transfers into Level 3 (2)	Transfers out of Level 3 (2)	Fair Value, end of period	Unrealized gains (losses) for assets still held(4)
(in millions)											
Net Derivative—Equity .....	\$0	\$ 0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Derivative—Interest Rate .....	1	(1)	0	0	0	0	0	0	0	0	0

Year Ended December 31, 2019											
	Fair Value, beginning of period	Total realized and unrealized gains (losses)(4)	Purchases	Sales	Issuances	Settlements	Other(3)	Transfers into Level 3 (2)	Transfers out of Level 3 (2)	Fair Value, end of period	Unrealized gains (losses) for assets still held(4)
(in millions)											
Net Derivative—Equity .....	\$0	\$ 0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Derivative—Interest Rate .....	2	(1)	0	0	0	0	0	0	0	1	(2)

- (1) Represents conversion of warrants to equity shares.
- (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.
- (3) Related to warrants received in restructuring a certain asset that resulted in reclassification of reporting category.
- (4) 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.”

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

Year Ended December 31,			
	2021	2020	2019
(in millions)			
Realized gains (losses) net:			
Commercial mortgage loans(1) .....	\$ 0	\$ 0	\$ 2
Mortgage servicing rights(2) .....	\$ 6	\$(25)	\$11
Investment real estate .....	\$ (15)	\$(24)	\$ 0
Goodwill Impairment(3) .....	\$(1,060)	\$ 0	\$ 0

Year Ended December 31,		
	2021	2020
(in millions)		
Carrying value after measurement as of period end		
Commercial mortgage loans(1): .....	\$ 0	\$ 0
Mortgage servicing rights(2): .....	\$ 75	\$307
Investment real estate .....	\$ 326	\$ 31
Goodwill(3) .....	\$1,080	\$ 0

**PRUDENTIAL FINANCIAL, INC.**  
**Notes to Consolidated Financial Statements**

- (1) Commercial mortgage loans are valued based on discounted cash flows utilizing market rates or the fair value of the underlying real estate collateral.
- (2) Mortgage servicing rights are valued using a discounted cash flow model. The model incorporates assumptions for servicing revenues, which are adjusted for expected prepayments, delinquency rates, escrow deposit income and estimated loan servicing expenses. The discount rates incorporated into the model are determined based on the estimated returns a market participant would require for this business plus a liquidity and risk premium. This estimate includes available relevant data from any active market sales of mortgage servicing rights.
- (3) Based on the goodwill impairment test performed as of December 31, 2021, the Company recognized a goodwill impairment charge for Assurance IQ. The fair value was determined using weighting of both market approach valuation techniques, based on both sales and EBITDA forward multiples, and discounted cash flow approach valuation techniques. The valuation included unobservable inputs such as forward market multiples of comparable peer companies and an implied control premium under the market approaches, as well as forecasted cash flows, discount rate applied, expected synergies and growth rate assumptions under the discounted cash flow approaches. The inputs and assumptions applied are consistent with how a market participant would value Assurance IQ and the related goodwill. See Note 10 for more information on the valuation of Assurance IQ and the resulting impairment charge.

### 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:

	<b>Year Ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
	<b>(in millions)</b>		
Liabilities:			
Notes issued by consolidated VIEs:			
Changes in fair value .....	\$0	\$(25)	\$(15)
	<b>Year Ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
	<b>(in millions)</b>		
Commercial mortgage and other loans:			
Interest income .....	\$15	\$17	\$20
Notes issued by consolidated VIEs:			
Interest expense .....	\$ 0	\$32	\$45
	<b>Year Ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	
	<b>(in millions)</b>		
Commercial mortgage and other loans(1):			
Fair value as of period end .....	\$1,263	\$1,092	
Aggregate contractual principal as of period end .....	\$1,253	\$1,073	
Other assets:			
Fair value as of period end .....	\$ 59	\$ 10	
Notes issued by consolidated VIEs:			
Fair value as of period end .....	\$ 0	\$ 0	
Aggregate contractual principal as of period end .....	\$ 0	\$ 0	

- (1) As of December 31, 2021, for loans for which the fair value option has been elected, there were no loans in non-accrual status and none of the loans were more than 90 days past due and still accruing.



# PRUDENTIAL FINANCIAL, INC.

## Notes to Consolidated Financial Statements

### Fair Value of Financial Instruments

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

	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

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

**PRUDENTIAL FINANCIAL, INC.**  
**Notes to Consolidated Financial Statements**

- (1) Excludes amounts for financial instruments reclassified to “Assets held-for-sale” of \$6,936 million or “Liabilities held-for-sale” of \$101,992 million. See Note 1 for additional information on the pending dispositions.
- (2) Carrying values presented herein differ from those in the Company’s Consolidated Statements of Financial Position because certain items within the respective financial statement captions are not considered financial instruments or out of scope under authoritative guidance relating to disclosures of the fair value of financial instruments.
- (3) Excludes notes with fair value of \$5,394 million (carrying amount of \$4,750 million) and \$5,821 million (carrying amount of \$4,998 million) as of December 31, 2021 and 2020, respectively, which have been offset with the associated payables under a netting agreement.
- (4) Includes notes with fair value of \$11,389 million (carrying amount of \$10,691 million) and \$11,921 million (carrying amount of \$10,964 million) as of December 31, 2021 and 2020, respectively, which have been offset with the associated receivables under a netting agreement.

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

***Fixed Maturities, Held-to-Maturity***

The fair values of public fixed maturity securities are generally based on prices from third-party pricing services, which are reviewed for reasonableness; however, for certain public fixed maturity securities and investments in private placement fixed maturity securities, this information is either not available or not reliable. For these public fixed maturity securities, the fair value is based on indicative broker quotes, if available, or determined using a discounted cash flow model or other internally-developed models. For private fixed maturities, fair value is determined using a discounted cash flow model. In determining the fair value of certain fixed maturity securities, the discounted cash flow model may also use unobservable inputs, which reflect the Company’s own assumptions about the inputs market participants would use in pricing the security.

***Commercial Mortgage and Other Loans***

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

***Policy Loans***

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

***Short-Term Investments, Cash and Cash Equivalents, Accrued Investment Income and Other Assets***

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

***Policyholders’ Account Balances—Investment Contracts***

Only the portion of policyholders’ account balances related to products that are investment contracts (those without significant mortality or morbidity risk) are reflected in the table above. For fixed deferred annuities, single premium endowments, payout annuities and other similar contracts without life contingencies, fair values are generally derived using discounted projected cash flows based on interest rates that are representative of the Company’s financial strength ratings, and hence reflect the Company’s NPR. For GICs, funding agreements, structured settlements without life contingencies and other similar products, fair values are generally derived using discounted projected cash flows based on interest rates being offered for similar contracts with maturities consistent with those of the contracts being valued. For those balances that can be withdrawn by the customer at any time without prior notice or penalty, the fair value is the amount estimated to be payable to the customer as of the reporting date, which is generally the carrying value. For defined contribution and defined benefit contracts and certain other products, the fair value is the market value of the assets supporting the liabilities.

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**Notes to Consolidated Financial Statements**

***Securities Sold Under Agreements to Repurchase***

The Company receives collateral for selling securities under agreements to repurchase, or pledges collateral under agreements to resell. Repurchase and resale agreements are also generally short-term in nature and, therefore, the carrying amounts of these instruments approximate fair value.

***Cash Collateral for Loaned Securities***

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

***Debt***

The fair value of short-term and long-term debt, as well as notes issued by consolidated VIEs, is generally determined by either prices obtained from independent pricing services, which are validated by the Company, or discounted cash flow models. With the exception of the notes issued by consolidated VIEs for which recourse is limited to the assets of the respective VIE and does not extend to the general credit of the Company, the fair values of these instruments consider the Company's NPR. Discounted cash flow models predominately use market observable inputs such as the borrowing rates currently available to the Company for debt and financial instruments with similar terms and remaining maturities. For commercial paper issuances and other debt with a maturity of less than 90 days, the carrying value approximates fair value.

***Other Liabilities***

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

***Separate Account Liabilities—Investment Contracts***

Only the portion of separate account liabilities related to products that are investment contracts are reflected in the table above. Separate account liabilities are recorded at the amount credited to the contractholder, which reflects the change in fair value of the corresponding separate account assets including contractholder deposits less withdrawals and fees; therefore, carrying value approximates fair value.

**7. DEFERRED POLICY ACQUISITION COSTS**

The balances of and changes in DAC as of and for the years ended December 31, are as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
	(in millions)		
Balance, beginning of period	\$19,027	\$19,912	\$20,058
Capitalization of commissions, sales and issue expenses	2,548	2,763	2,966
Amortization—Impact of assumption and experience unlocking and true-ups	35	(36)	(164)
Amortization—All other	(2,132)	(2,185)	(2,168)
Change due to unrealized investment gains and losses	717	(379)	(713)
Foreign currency translation	(457)	142	(8)
Reclassified to "Assets held-for-sale"(1)	(1,197)	0	0
Other(2)	(349)	(1,190)	(59)
Balance, end of period	<u>\$18,192</u>	<u>\$19,027</u>	<u>\$19,912</u>

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

(2) "Other" for 2021 represents the sale of The Prudential Life Insurance Company of Taiwan Inc. "Other" for 2020 primarily represents the impact related to the sale of The Prudential Life Insurance Company of Korea, Ltd. of \$(1,193) million. "Other" for 2019 primarily represents the impact related to the sale of the Company's Pramerica of Italy subsidiary of \$(46) million and DAC ceded to a third-party reinsurer of \$(14) million.

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**8. VALUE OF BUSINESS ACQUIRED**

The balances of and changes in VOBA as of and for the years ended December 31, are as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
	(in millions)		
Balance, beginning of period	\$1,103	\$1,110	\$1,850
Amortization—Impact of assumption and experience unlocking and true-ups	5	(317)	(139)
Amortization—All other	(124)	(212)	(235)
Change due to unrealized investment gains and losses	67	418	(478)
Interest	25	56	64
Foreign currency translation	(90)	48	10
Reclassified to “Assets held-for-sale”(1)	(215)	0	0
Other	0	0	38
Balance, end of period	<u>\$ 771</u>	<u>\$1,103</u>	<u>\$1,110</u>

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

The following table provides VOBA balances for the year ended December 31, 2021:

	<u>VOBA Balance</u>
	(in millions)
CIGNA	\$ 29
Gibraltar Life	740
Gibraltar BSN Life Berhad	2
Total(1)	<u>\$771</u>

(1) Excludes “Assets held-for-sale” of \$215 million as of December 31, 2021. See Note 1 for additional information on the pending dispositions.

The following table provides estimated future amortization, net of interest, for the periods indicated:

	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>Thereafter</u>	<u>Total</u>
	(in millions)						
Estimated future VOBA amortization(1)	\$73	\$66	\$61	\$56	\$52	\$463	\$771

(1) VOBA classified as “Assets held-for-sale” of \$215 million as of December 31, 2021 is excluded from the estimated future amortization amounts. See Note 1 for additional information on the pending dispositions.

**9. INVESTMENTS IN OPERATING JOINT VENTURES**

The Company has made investments in certain joint ventures that are strategic in nature and made other than for the sole purpose of generating investment income. These investments are primarily accounted for under the equity method of accounting and are included in “Other assets” in the Company’s Consolidated Statements of Financial Position. The earnings from these investments are primarily included on an after-tax basis in “Equity in earnings of operating joint ventures, net of taxes” in the Company’s Consolidated Statements of Operations. The summarized financial information for the Company’s operating joint ventures has been included in the summarized combined financial information for all significant equity method investments shown in Note 3.

# PRUDENTIAL FINANCIAL, INC.

## Notes to Consolidated Financial Statements

The following table sets forth information related to the Company's investments in operating joint ventures as of and for the years ended December 31:

	2021(1)	2020	2019
	(in millions)		
Investment in operating joint ventures	\$1,317	\$1,394	\$1,309
Dividends received from operating joint ventures	\$ 116	\$ 60	\$ 70
After-tax equity in earnings of operating joint ventures	\$ 87	\$ 96	\$ 100

(1) In March of 2021, the Company sold its 35% ownership stake in Pramerica SGR, an asset management joint venture within PGIM. See Note 1 for additional information on the disposition.

For the years ended December 31, 2021, 2020 and 2019, the Company recognized \$11 million, \$30 million and \$29 million, respectively, of asset management fee income for services the Company provided to these operating joint ventures.

## 10. GOODWILL AND OTHER INTANGIBLES

The changes in the carrying value of goodwill by reportable segment are as follows:

	PGIM	Assurance IQ	International Businesses	Corporate and Other(1)	Other(1)	Total
	(in millions)					
Goodwill balance, December 31, 2018:	\$233	\$ 0	\$164	\$ 456	\$10	\$ 863
Acquisitions	22	2,128	0	0	0	2,150
Foreign currency translation	(1)	0	1	0	0	0
Goodwill balance, December 31, 2019:	254	2,128	165	456	10	3,013
Foreign currency translation and other(2)	4	12	(21)	27	0	22
Goodwill balance, December 31, 2020:	258	2,140	144	483	10	3,035
Acquisitions(3)	304	0	0	0	0	304
Impairments	0	(1,060)	0	0	0	(1,060)
Foreign currency translation	(4)	0	(14)	(2)	0	(20)
Reclassified to "Assets held-for-sale"(4)	0	0	0	(455)	0	(455)
Goodwill balance, December 31, 2021:	\$558	\$ 1,080	\$130	\$ 26	\$10	\$ 1,804

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

(2) The goodwill associated with Assurance IQ includes a measurement period adjustment made during 2020. The goodwill reclassification between International Businesses and Corporate and Other relates to an operation that became classified as a divested business and transferred to Corporate and Other during 2020.

(3) During 2021, PGIM completed the acquisitions of Montana Capital Partners, a European-based private equity secondaries asset manager, and Green Harvest Asset Management LLC, a separately managed account platform providing customized solutions for the high net worth market.

(4) The Full Service Retirement business has been classified as divested business and transferred to Corporate and Other, and its assets, including goodwill, are reclassified to "Assets held-for-sale" as of December 31, 2021. See Note 1 for more information on this pending disposition.

The Company tests goodwill for impairment annually, as of December 31, and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount, as discussed in further detail in Note 2.

The Company performed the annual goodwill impairment test using the quantitative approach for all reporting units at December 31, 2021. While the estimated fair value of PGIM and Gibraltar and Other, within the International Businesses segment, significantly exceeded their carrying value as of December 31, 2021, the test resulted in a \$1,060 million pre-tax (\$837 million after-tax) non-cash impairment charge, related to the goodwill assigned to Assurance IQ. The annual quantitative goodwill impairment test for Assurance IQ estimated the fair value of the businesses by weighting the results from discounted cash flow valuation techniques and market valuation techniques based on both sales and EBITDA forward multiples. The decline in the estimated fair value of Assurance IQ below its carrying value as of December 31, 2021 was driven by a combination of factors as discussed below.

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The estimated fair value of Assurance IQ as of December 31, 2021 was significantly impacted by the decline in the value of comparable publicly traded companies, particularly during the last three months of the year, as the market multiples are utilized in both the market approaches and in estimating the terminal value under the discounted cash flow approaches. The deterioration in the peer valuations was mainly driven by sector-wide concerns attributed to margin compression and increased customer attrition, among other factors. In addition, revisions to the business long-term forecasts following the annual Medicare enrollment period in the fourth quarter of 2021, reflected lower growth rates in Medicare sales driven by slower agent growth, and increased operating expenses, along with other changes in business plans, including shifts in the product mix. The long-term forecasts also incorporated changes in the expected synergies to be realized and were reflective of the current and expected industry and market conditions and trends. These revisions led to declines in the cash flow projections, used as part of the discounted cash flow approaches, consistent with how a market participant would assess the outlook of the business. The combination of the decline in peer valuations with the revisions to the business forecast, caused the estimated fair value of Assurance IQ to decline below its carrying value as of December 31, 2021 and resulted in a non-cash goodwill impairment charge of \$1,060 million pre-tax, or \$837 million after-tax.

Estimating the fair value of reporting units is a subjective process that involves the use of significant estimates by management. For all reporting units tested, unanticipated changes in business performance or regulatory environment, market declines or other events impacting the fair value of these businesses, including changes in market multiples, discount rates, interest rates and growth rates assumptions or increases in the level of equity required to support these businesses, could cause additional goodwill impairment charges in future periods.

### Other Intangibles

Other intangible balances at December 31, are as follows:

	2021			2020		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(in millions)					
Subject to amortization:						
Mortgage servicing rights	\$864	\$(543)	\$321	\$819	\$(512)	\$307
Customer relationships	308	(194)	114	247	(175)	72
Software and other	200	(84)	116	192	(60)	132
Not subject to amortization	68	N/A	68	69	N/A	69
Total(1)			<u>\$619</u>			<u>\$580</u>

(1) Includes "Assets held-for-sale" of \$39 million as of December 31, 2021. See Note 1 for more information on the pending dispositions.

The fair values of net mortgage servicing rights were \$324 million and \$309 million at December 31, 2021 and 2020, respectively. Amortization expense for other intangibles was \$110 million, \$102 million and \$65 million for the years ending December 31, 2021, 2020 and 2019, respectively. The amortization expense amounts for 2021, 2020 and 2019 do not include impairments recorded for mortgage servicing rights or other intangibles. See the nonrecurring fair value measurements section of Note 6 for more information regarding these impairments.

The following table provides estimated future amortization for the periods indicated:

	2022	2023	2024	2025	2026
	(in millions)				
Estimated future amortization expense of other intangibles	\$104	\$88	\$81	\$70	\$46



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**11. LEASES**

The Company occupies leased office space and other facilities in many locations under various long-term leases and has entered into numerous leases covering the long-term use of computers and other equipment. The leases, depending on their specific terms, are classified as either operating or finance with the vast majority of leases falling under the operating classification. The leases in the Company's portfolio have remaining lease terms from less than one year to 27 years, some of which include options to extend the leases for up to 20 years, and some of which include options to terminate the leases within 4 years. An analysis of all economic and non-economic factors associated with leases containing certain options, including factors such as the existence of cancellation penalties, leasehold improvements made to the underlying assets and location of the underlying assets, is conducted to determine whether those leases are reasonably certain to renew, and hence, should be included in the lease term that is used to establish the right-of-use assets and lease liabilities for those arrangements.

The Company does not have residual guarantees associated with its lessee arrangements, nor are there any restrictions or covenants associated with its lease arrangements.

***Lessee***

Supplemental balance sheet information related to leases where the Company is the lessee is included below. Right-of-use assets and lease liabilities are included within "Other assets" and "Other liabilities" respectively.

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(\$ in millions)</b>	
<b>Operating Leases:</b>		
Right-of-use assets	\$ 395	\$ 466
Lease liabilities	\$ 432	\$ 511
Weighted average remaining lease term	6 years	6 years
Weighted average discount rate	2.25%	2.22%

Maturities of operating lease liabilities are as follows:

	<b>December 31, 2021</b>
	<b>(in millions)</b>
2022	\$129
2023	100
2024	84
2025	59
2026	28
Thereafter	69
Total lease payments	469
Less imputed interest	(37)
Total	<u>\$432</u>

As of December 31, 2021, the Company has an additional \$192 million of payments on operating leases that have not yet commenced, primarily for properties to be used by various domestic operations. These operating leases will commence between 2022 and 2023 with lease terms from 5 years to 15 years.

Lease expense is included in "General and administrative expenses," which consisted of operating lease and short-term costs. Operating lease costs were \$153 million, \$156 million, and \$138 million for the years ended December 31, 2021, 2020, and 2019, respectively. Short-term lease costs were \$96 million, \$104 million, and \$101 million for the years ended December 31, 2021, 2020, and 2019, respectively. Short-term lease costs relate to those leases with terms of twelve months or less that do not include an option to purchase the underlying asset that is reasonably certain of exercise.

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***Lessor***

The Company directly owns real estate properties within its investment portfolio. Such real estate is leased to third-parties, with the Company serving as the lessor. The terms of the leases vary depending on property type (e.g., commercial or residential). In most cases, the lessee has an option to renew the lease contract based on market rates but does not have an option to purchase the property. The terms of the leases may also include provisions for the use of common areas. Such non-lease components are not separately accounted for by the Company, as a result of applying the practical expedient discussed in Note 2. Lease income included in “Net investment income” were \$115 million, \$161 million, and \$182 million for the years ended December 31, 2021, 2020, and 2019, respectively.

**12. POLICYHOLDERS’ LIABILITIES**

***Future Policy Benefits***

Future policy benefits at December 31 for the years indicated are as follows:

	<b>2021</b>	<b>2020</b>
	<b>(in millions)</b>	
Life insurance .....	\$188,777	\$195,245
Individual and group annuities and supplementary contracts .....	77,779	77,254
Other contract liabilities .....	25,695	30,873
Included in “Liabilities held-for-sale”(1) .....	(4,662)	0
Subtotal future policy benefits excluding unpaid claims and claim settlement expenses .....	287,589	303,372
Unpaid claims and claim settlement expenses .....	3,195	2,971
Total future policy benefits .....	<u>\$290,784</u>	<u>\$306,343</u>

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

Life insurance liabilities include reserves for death, endowment, and other policy benefits. Individual and group annuities and supplementary contracts liabilities include reserves for life contingent individual immediate annuities and life contingent group annuities. Other contract liabilities include liabilities for variable annuity living benefit guarantees and certain other reserves for long-term care, group, annuities and individual life and health products.

Future policy benefits for individual participating traditional life insurance are based on the net level premium method, calculated using the guaranteed mortality and nonforfeiture interest rates which range from 2.5% to 7.5%. Participating insurance represented 2% and 3% of direct individual life insurance in force as of December 31, 2021 and 2020, respectively, and 10%, 10%, and 11% of direct individual life insurance premiums for 2021, 2020, and 2019, respectively.

Future policy benefits for individual non-participating traditional life insurance policies, group life policies, group and individual long-term care policies and individual health insurance policies are generally equal to the present value of future benefit payments and related expenses, less the present value of future net premiums. Assumptions as to mortality, morbidity and persistency are based on the Company’s experience, industry data, and/or other factors, when the basis of the reserve is established. Interest rates used in the determination of the present values range from (0.1)% to 7.8%.

Future policy benefits for individual and group annuities and supplementary contracts with life contingencies are generally equal to the present value of expected future payments. Assumptions as to mortality are based on the Company’s experience, industry data, and/or other factors, when the basis of the reserve is established. The interest rates used in the determination of the present values range from (0.2)% to 12.1%; less than 1% of the reserves are based on an interest rate in excess of 8%.

Future policy benefits for other contract liabilities are generally equal to the present value of expected future payments based on the Company’s experience, except for example, certain group insurance coverages for which future policy benefits are equal to gross unearned premium reserves. The interest rates used in the determination of the present values range from 0.6% to 6.5%.

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## Notes to Consolidated Financial Statements

The Company's liability for future policy benefits is also inclusive of liabilities for guaranteed benefits related to certain long-duration life and annuity contracts. Liabilities for guaranteed benefits with embedded derivative features are primarily in "other contract liabilities" in the table above. The remaining liabilities for guaranteed benefits are primarily reflected with the underlying contract in the table above. See Note 13 for additional information regarding liabilities for guaranteed benefits related to certain long-duration life and annuity contracts.

Reserves for recognizing a premium deficiency included in "Future policy benefits" are established, if necessary, when the liability for future policy benefits plus the present value of expected future gross premiums are determined to be insufficient to provide for expected future policy benefits and expenses. Additionally, in certain instances the policyholder liability for a particular line of business may not be deficient in the aggregate to trigger loss recognition, but the pattern of earnings may be such that profits are expected to be recognized in earlier years followed by losses in later years. In these situations, accounting standards require that an additional PFL liability be recognized by an amount necessary to sufficiently offset the losses that would be recognized in later years. Premium deficiencies have been recognized in the past for the group single premium annuity business, which consists of limited-payment, long-duration traditional, non-participating annuities; structured settlements; single premium immediate annuities with life contingencies; long-term care; certain individual health policies; and certain interest-sensitive life products.

The Company's liability for future policy benefits is also inclusive of liabilities for claims reserves and unpaid claims and claim settlement expenses. Unpaid claims and claim settlement expenses primarily reflect the Company's present value of future disability claim payments and expenses as well as estimates of claims incurred but not yet reported as of the balance sheet date related to group disability products. Unpaid claim liabilities that are discounted use interest rates ranging from 1.8% to 6.4%. Claims reserves for claims reported but not yet paid and claims incurred but not yet reported are primarily reflected with the underlying contract in the table above.

### Policyholders' Account Balances

Policyholders' account balances at December 31 for the years indicated are as follows:

	2021	2020
	(in millions)	
Individual annuities .....	\$ 52,230	\$ 47,663
Group annuities .....	30,400	30,700
Guaranteed investment contracts and guaranteed interest accounts .....	13,717	14,071
Funding agreements .....	6,023	6,938
Interest-sensitive life contracts .....	41,283	41,711
Dividend accumulation and other deposit type funds .....	18,894	20,599
Included in "Liabilities held-for-sale"(1) .....	(39,914)	\$ 0
Total policyholders' account balances .....	<u>\$122,633</u>	<u>\$161,682</u>

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

Policyholders' account balances primarily represent an accumulation of account deposits plus credited interest less withdrawals, expense charges and mortality charges, if applicable. These policyholders' account balances also include provisions for benefits under non-life contingent payout annuities and certain unearned revenues. Policyholders' account balances also include amounts representing the fair value of embedded derivative instruments associated with the index-linked features of certain universal life and annuity products. See Note 6 for additional information on the fair value of these embedded derivative instruments. Included in "Funding agreements" at December 31, 2021 and 2020 are \$4,959 million and \$4,402 million, respectively, related to the Company's Funding Agreement Notes Issuance Program ("FANIP"). Under this program, which has a maximum authorized amount of \$15 billion of medium-term notes and \$3 billion of commercial paper, Delaware statutory trusts issue short-term commercial paper and/or medium-term notes to investors that are secured by funding agreements issued to the trusts by PICA. The outstanding commercial paper and notes have fixed or floating interest rates that range from 0.0% to 3.5% and original maturities ranging from one month to five years. Included in the amounts at December 31, 2021 and 2020 are funding agreements which secure the medium-term note liability, which are carried at amortized cost, of \$3,117 million and \$2,414 million, respectively, and short-term note liability of \$1,847 million and \$1,991 million, respectively.

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Also included in “Funding agreements” are collateralized funding agreements issued to the Federal Home Loan Bank of New York (“FHLB NY”) at December 31, 2021 and 2020 totaling \$1,050 million and \$2,522 million, respectively. These obligations, which are carried at amortized cost, have fixed interest rates that range from 0.620% to 1.925% and original maturities ranging from nine months to seven years. For additional details on the FHLB NY program, see Note 17.

Interest crediting rates range from 0% to 6.3% for interest-sensitive life contracts and from 0% to 13.3% for contracts other than interest-sensitive life. Less than 1% of policyholders’ account balances have interest crediting rates in excess of 8%.

### **13. CERTAIN LONG-DURATION CONTRACTS WITH GUARANTEES**

The Company issues variable annuity contracts through its separate accounts for which investment income and investment gains and losses accrue directly to, and investment risk is borne by, the contractholder. The Company also issued variable annuity contracts with general and separate account options where the Company contractually guarantees to the contractholder a return of no less than total deposits made to the contract adjusted for any partial withdrawals (“return of net deposits”). In certain of these variable annuity contracts, the Company also contractually guarantees to the contractholder a return of no less than (1) total deposits made to the contract adjusted for any partial withdrawals plus a minimum return (“minimum return”), and/or (2) the highest contract value on a specified date adjusted for any withdrawals (“contract value”). These guarantees include benefits that are payable in the event of death, annuitization or at specified dates during the accumulation period and withdrawal and income benefits payable during specified periods. The Company also issues annuity contracts and single premium life contracts with market value adjusted investment options (“MVAs”). Annuity contracts and single premium life contracts with MVAs provide for a return of principal plus a fixed rate of return if held-to-maturity, or, alternatively, a “market adjusted value” if surrendered prior to maturity or if funds are reallocated to other investment options. The market value adjustment may result in a gain or loss to the Company, depending on crediting rates or an indexed rate at surrender, as applicable. The Company also issues fixed deferred, fixed index, and immediate annuity contracts that have a guaranteed credited rate, annuity benefit, and withdrawal benefit. The Company also issues indexed variable annuity contracts for which the return is tied to the return of specific indices where the Company contractually guarantees to the contractholder a return of no less than total deposits made to the contract adjusted for any partial withdrawals upon death. In certain of these indexed variable annuity contracts, the Company also contractually guarantees to the contractholder withdrawal benefits payable during specific periods.

In addition, the Company issues certain variable life, variable universal life and universal life contracts where the Company contractually guarantees to the contractholder a death benefit even when there is insufficient value to cover monthly mortality and expense charges, whereas otherwise the contract would typically lapse (“no-lapse guarantee”). Variable life and variable universal life contracts are offered with general and separate account options.

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

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

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

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

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

The Company's contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed may not be mutually exclusive. The liabilities related to the net amount at risk are reflected within "Future policy benefits." As of December 31, 2021 and 2020, the Company had the following guarantees associated with these contracts, by product and guarantee type:

	December 31, 2021		December 31, 2020	
	In the Event of Death	At Annuitization / Accumulation(1)	In the Event of Death	At Annuitization / Accumulation(1)
	(\$ in millions)			
Annuity Contracts				
Return of net deposits				
Account value . . . . .	\$132,811	\$ 16	\$133,726	\$ 17
Net amount at risk . . . . .	\$ 200	\$ 0	\$ 214	\$ 0
Average attained age of contractholders . . . . .	69 years	76 years	68 years	75 years
Minimum return or contract value				
Account value . . . . .	\$ 30,527	\$ 147,924	\$ 31,157	\$ 148,841
Net amount at risk . . . . .	\$ 2,055	\$ 3,509	\$ 2,327	\$ 4,203
Average attained age of contractholders . . . . .	71 years	69 years	70 years	68 years
Average period remaining until earliest expected annuitization . . . . .	N/A	0.20 years	N/A	0.20 years

(1) Includes income and withdrawal benefits.

	December 31,	
	2021	2020
	In the Event of Death	
	(\$ in millions)	
Variable Life, Variable Universal Life and Universal Life Contracts		
Separate account value . . . . .	\$ 9,844	\$ 8,939
General account value . . . . .	\$ 19,789	\$ 19,279
Net amount at risk . . . . .	\$223,587	\$222,703
Average attained age of contractholders . . . . .	57 years	55 years

Account balances of variable annuity contracts with guarantees were invested in separate account investment options as follows:

	December 31,	
	2021	2020
	(in millions)	
Equity funds	\$ 95,594	\$ 94,270
Bond funds	59,241	62,549
Money market funds	4,812	3,156
Total	\$159,647	\$159,975

In addition to the amounts invested in separate account investment options above, \$7,159 million at December 31, 2021, and \$7,729 million at December 31, 2020, of account balances of variable annuity contracts with guarantees, inclusive of contracts with MVA features, were invested in general account investment options. For the years ended December 31, 2021, 2020 and 2019, there were no transfers of assets, other than cash, from the general account to any separate account, and accordingly no gains or losses recorded.

**PRUDENTIAL FINANCIAL, INC.**  
**Notes to Consolidated Financial Statements**

***Liabilities for Guarantee Benefits***

The table below summarizes the changes in general account liabilities for guarantees. The liabilities for GMDB and GMIB are included in “Future policy benefits” and the related changes in the liabilities are included in “Policyholders’ benefits.” GMAB, GMWB and GMIWB are accounted for as embedded derivatives and are recorded at fair value within “Future policy benefits.” Changes in the fair value of these derivatives, including changes in the Company’s own risk of non-performance, along with any fees attributed or payments made relating to the derivative, are recorded in “Realized investment gains (losses), net.” See Note 6 for additional information regarding the methodology used in determining the fair value of these embedded derivatives. The Company maintains a portfolio of derivative investments that serve as a partial hedge of the risks associated with these products, for which the changes in fair value are also recorded in “Realized investment gains (losses), net.” This portfolio of derivative investments does not qualify for hedge accounting treatment under U.S. GAAP. Additionally, the Company externally reinsures the guaranteed benefit features associated with certain contracts. See Note 14 for further information regarding the external reinsurance arrangement.

	<b>GMDB</b>		<b>GMIB</b>	<b>GMAB/GMWB/ GMIWB</b>
	<b>Variable Life, Variable Universal Life and Universal Life</b>	<b>Annuity</b>	<b>Annuity</b>	<b>Annuity</b>
		<b>(in millions)</b>		
Balance at December 31, 2018 .....	\$ 5,418	\$ 713	\$378	\$ 8,927
Incurred guarantee benefits(1) .....	1,492	82	(8)	3,905
Paid guarantee benefits .....	(111)	(69)	(4)	0
Change in unrealized investment gains and losses .....	805	27	(15)	0
Other(2) .....	(2)	0	4	(1)
Balance at December 31, 2019 .....	7,602	753	355	12,831
Incurred guarantee benefits(1) .....	1,389	162	12	6,103
Paid guarantee benefits .....	(126)	(89)	(4)	0
Change in unrealized investment gains and losses .....	721	38	(8)	0
Other(2)(3) .....	(77)	(1)	13	(53)
Balance at December 31, 2020 .....	9,509	863	368	18,881
Incurred guarantee benefits(1) .....	1,076	10	(24)	(5,638)
Paid guarantee benefits .....	(189)	(70)	0	0
Change in unrealized investment gains and losses .....	(326)	(55)	(17)	0
Reclassified to “Liabilities held-for-sale”(4) .....	0	(216)	(5)	(4,163)
Other(2)(5) .....	(9)	0	(89)	(12)
Balance at December 31, 2021 .....	\$10,061	\$ 532	\$233	\$ 9,068

- (1) Incurred guarantee benefits include the portion of assessments established as additions to reserves as well as changes in estimates affecting the reserves. Also includes changes in the fair value of features considered to be derivatives.
- (2) Other primarily represents foreign currency translation.
- (3) Includes the impact from the sale of POK.
- (4) See Note 1 for additional information on the pending dispositions.
- (5) Includes the impact from the sale of POT.

The GMDB, which includes the liability for no-lapse guarantees, and GMIB liability are established when associated assessments (which include all policy charges including charges for administration, mortality, expense, surrender, and other, regardless of how characterized) are recognized. This liability is established using current best estimate assumptions and is based on the ratio of the present value of total expected excess payments (e.g., payments in excess of account value) over the life of the contract divided by the present value of total expected assessments (i.e., benefit ratio). The liability equals the current benefit ratio multiplied by cumulative assessments recognized to date, plus interest, less cumulative excess payments to date. Similar to as described above for DAC, the reserves are subject to adjustments based on annual reviews of assumptions and quarterly adjustments for experience, including market performance. These adjustments reflect the impact on the benefit ratio of using actual historical experience from the issuance date to the balance sheet date plus updated estimates of future experience. The updated benefit ratio is then applied to all prior periods’ assessments to derive an adjustment to the reserve recognized through a benefit or charge to current period earnings.



## **PRUDENTIAL FINANCIAL, INC.**

### **Notes to Consolidated Financial Statements**

The GMAB features provide the contractholder with a guaranteed return of initial account value or an enhanced value if applicable. The most significant of the Company's GMAB features are the guaranteed return option features, which includes an automatic rebalancing element that reduces the Company's exposure to these guarantees. The GMAB liability is calculated as the present value of future expected payments in excess of the account balance less the present value of future expected rider fees attributable to the embedded derivative feature.

The GMWB features provide the contractholder with access to a guaranteed remaining balance if the account value is reduced to zero through a combination of market declines and withdrawals. The guaranteed remaining balance is generally equal to the protected value under the contract, which is initially established as the greater of the account value or cumulative deposits when withdrawals commence, less cumulative withdrawals. The contractholder also has the option, after a specified time period, to reset the guaranteed remaining balance to the then current account value, if greater. The contractholder accesses the guaranteed remaining balance through payments over time, subject to maximum annual limits. The GMWB liability is calculated as the present value of future expected payments to customers less the present value of future expected rider fees attributable to the embedded derivative feature.

The GMIWB features, taken collectively, provide a contractholder two optional methods to receive guaranteed minimum payments over time, a "withdrawal" option or an "income" option. The withdrawal option (which was available under only one of the GMIWBs and is no longer offered) guarantees that a contractholder can withdraw an amount each year until the cumulative withdrawals reach a total guaranteed balance. The income option (which varies among the Company's GMIWBs) in general guarantees the contractholder the ability to withdraw an amount each year for life (or for joint lives, in the case of any spousal version of the benefit) where such amount is equal to a percentage of a protected value under the benefit. The contractholder also has the potential to increase this annual amount, based on certain subsequent increases in account value that may occur. The GMIWB can be elected by the contractholder upon issuance of an appropriate deferred variable annuity contract or at any time following contract issue prior to annuitization. Certain GMIWB features include an automatic rebalancing element that reduces the Company's exposure to these guarantees. The GMIWB liability is calculated as the present value of future expected payments to customers less the present value of future expected rider fees attributable to the embedded derivative feature.

**PRUDENTIAL FINANCIAL, INC.**  
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**Sales Inducements**

The Company defers sales inducements and amortizes them over the anticipated life of the policy using the same methodology and assumptions used to amortize DAC. DSI is included in “Other assets.” The Company has offered various types of sales inducements including: (1) a bonus whereby the policyholder’s initial account balance is increased by an amount equal to a specified percentage of the customer’s initial deposit; (2) additional credits after a certain number of years a contract is held; and (3) enhanced interest crediting rates that are higher than the normal general account interest rate credited in certain product lines. Changes in DSI, reported as “Interest credited to policyholders’ account balances,” are as follows:

	<b>Sales Inducements (in millions)</b>
Balance at December 31, 2018 .....	\$1,024
Capitalization .....	1
Amortization—Impact of assumption and experience unlocking and true-ups .....	108
Amortization—All other .....	(163)
Change in unrealized investment gains and losses .....	(35)
Balance at December 31, 2019 .....	935
Capitalization .....	1
Amortization—Impact of assumption and experience unlocking and true-ups .....	104
Amortization—All other .....	(166)
Change in unrealized investment gains and losses .....	(54)
Balance at December 31, 2020 .....	820
Capitalization .....	1
Amortization—Impact of assumption and experience unlocking and true-ups .....	40
Amortization—All other .....	(166)
Change in unrealized investment gains and losses .....	76
Reclassified to “Assets held-for-sale”(1) .....	(295)
Other(2) .....	(2)
Balance at December 31, 2021 .....	<u>\$ 474</u>

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

(2) Represents the impact from the sale of POT.

**14. REINSURANCE**

The Company participates in reinsurance with third parties primarily to provide additional capacity for future growth, limit the maximum net loss potential arising from large risks and acquire or dispose of businesses.

Effective April 1, 2015, the Company entered into an agreement with Union Hamilton Reinsurance, Ltd. (“Union Hamilton”) an external counterparty, to reinsure approximately 50% of the Prudential Premier® Retirement Variable Annuity with Highest Daily Lifetime Income (“HDI”) v.3.0 business, a guaranteed benefit feature. This reinsurance agreement covered most new HDI v.3.0 variable annuity business issued between April 1, 2015 and December 31, 2016 on a quota share basis, with Union Hamilton’s cumulative quota share amounting to \$2.9 billion of new rider premiums as of December 31, 2016. Reinsurance on business subject to this agreement remains in force for the duration of the underlying annuity contracts. New sales subsequent to December 31, 2016 are not covered by this external reinsurance agreement. This reinsurance agreement is accounted for as an embedded derivative.

In January 2013, the Company acquired the Hartford Life Business through reinsurance transactions with three subsidiaries of Hartford Financial Services Group, Inc. (“Hartford Financial”). Under the related agreements, the Company provided reinsurance for approximately 700,000 life insurance policies with net retained face amount in force of approximately \$141 billion. The Company acquired the general account business through a coinsurance arrangement and, for certain types of general account policies, a modified coinsurance arrangement. The Company acquired the separate account business through a modified coinsurance arrangement. In May 2018, Hartford Financial sold a group of operating subsidiaries, which included two of the Company’s counterparties to these reinsurance arrangements, to Talcott Resolution Life Insurance Company (“Talcott Resolution”). Talcott Resolution was acquired by Sixth Street in July 2021. There was no impact to the terms, rights or obligations of the Company, or operation of these reinsurance arrangements, as a result of these changes in control of such counterparties.

Since 2011, the Company has entered into a number of reinsurance agreements to assume pension liabilities in the United Kingdom. Under these arrangements, the Company assumes the longevity risk, and in some arrangements, also the investment risk associated with the pension benefits of certain specified beneficiaries.

# PRUDENTIAL FINANCIAL, INC.

## Notes to Consolidated Financial Statements

In 2006, the Company acquired the variable annuity business of The Allstate Corporation (“Allstate”) through a reinsurance transaction. The reinsurance arrangements with Allstate include a coinsurance arrangement associated with the general account liabilities assumed and a modified coinsurance arrangement associated with the separate account liabilities assumed. The reinsurance payable, which represents the Company’s obligation under the modified coinsurance arrangement, is netted with the reinsurance receivable in the Consolidated Statements of Financial Position. During the fourth quarter of 2021, Allstate sold the two counterparties to the aforementioned variable annuity reinsurance transaction to third parties. The Company anticipates there will be no impact to the terms, rights or obligations of the Company, or operation of these reinsurance arrangements, as a result of this change in control of such counterparties.

In 2004, the Company acquired the retirement business of CIGNA and subsequently entered into various reinsurance arrangements. The Company still has indemnity coinsurance and modified coinsurance without assumption arrangements in effect related to this acquisition.

For the domestic business, life and disability reinsurance is accomplished through various plans of reinsurance, primarily yearly renewable term, per person excess, excess of loss, and coinsurance. On policies sold since 2000, the Company has reinsured a significant portion of the individual life mortality risk. Placement of reinsurance is accomplished primarily on an automatic basis with some specific risks reinsured on a facultative basis. The Company is authorized and has historically retained up to \$30 million per life, but reduced its operating retention limit to \$20 million per life in 2013. Retention in excess of the operating limit is on an exception basis.

The international business primarily uses reinsurance to obtain experience with respect to certain new product offerings and to a lesser extent, to mitigate mortality risk for certain protection products and for capital management purposes.

Reinsurance amounts included in the Consolidated Statements of Operations for premiums, policy charges and fee income, and policyholders’ benefits for the years ended December 31, are as follows:

	<b>2021</b>	<b>2020</b>	<b>2019</b>
	<b>(in millions)</b>		
Direct premiums	\$31,623	\$29,091	\$33,260
Reinsurance assumed	5,581	4,336	3,022
Reinsurance ceded	(2,377)	(2,287)	(2,080)
Premiums	<u>\$34,827</u>	<u>\$31,140</u>	<u>\$34,202</u>
Direct policy charges and fee income	\$ 5,261	\$ 5,341	\$ 5,252
Reinsurance assumed	1,204	1,192	1,181
Reinsurance ceded	(521)	(504)	(455)
Policy charges and fee income	<u>\$ 5,944</u>	<u>\$ 6,029</u>	<u>\$ 5,978</u>
Direct policyholders’ benefits	\$34,861	\$32,514	\$35,601
Reinsurance assumed	7,024	5,659	4,304
Reinsurance ceded	(3,427)	(3,114)	(3,085)
Policyholders’ benefits	<u>\$38,458</u>	<u>\$35,059</u>	<u>\$36,820</u>

**PRUDENTIAL FINANCIAL, INC.**  
**Notes to Consolidated Financial Statements**

Reinsurance recoverables at December 31, are as follows:

	<u>2021</u>	<u>2020</u>
	<u>(in millions)</u>	
Individual and group annuities(1) .....	\$ 185	\$ 273
Life insurance(2) .....	6,770	6,649
Other reinsurance .....	396	432
Total reinsurance recoverables(3)(4) .....	<u>\$7,351</u>	<u>\$7,354</u>

- (1) Primarily represents reinsurance recoverables established under the reinsurance agreement with Union Hamilton related to the ceding of certain embedded derivative liabilities associated with the Company's guaranteed benefits of \$110 million and \$204 million as of December 31, 2021 and 2020, respectively.
- (2) Includes reinsurance recoverables established under the reinsurance arrangements associated with the acquisition of the Hartford Life Business of \$2,178 million and \$2,245 million as of December 31, 2021 and 2020, respectively. The Company has also recorded reinsurance payables related to the Hartford Life Business acquisition of \$1,341 million and \$1,362 million as of December 31, 2021 and 2020, respectively.
- (3) Net of \$(10) million and \$(5) million of loss allowance as of December 31, 2021 and 2020, respectively.
- (4) Excludes reinsurance recoverables of \$30 million related to "Asset held-for-sale" operations as of December 31, 2021. See Note 1 for additional information on the pending dispositions.

Excluding the reinsurance recoverables associated with the acquisition of the Hartford Life Business, four major reinsurance companies account for approximately 61% of the reinsurance recoverables as of December 31, 2021. The Company periodically reviews the financial condition of its reinsurers, amounts recoverable therefrom, and unearned reinsurance premium, in order to reduce its exposure to loss from reinsurer insolvencies. Any expected credit losses are reflected in the CECL allowance, after considering any collateral the Company obtained in the form of a trust, letter of credit, or funds withheld arrangement. See Note 2 for additional details regarding CECL. Under the Company's international longevity reinsurance transactions, the Company obtains collateral from its counterparties to mitigate counterparty default risk.

## 15. CLOSED BLOCK

On December 18, 2001, the date of demutualization, 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. See Note 22 for financial information on the Closed Block. The insurance policies and annuity contracts comprising the Closed Block are managed in accordance with the Plan of Reorganization approved by the New Jersey Department of Banking and Insurance ("NJDOBI") on December 18, 2001, and PICA is directly obligated for the insurance policies and annuity contracts in the Closed Block.

The policies included in the Closed Block are specified individual life insurance policies and individual annuity contracts that were in force on the date of demutualization and for which PICA is currently paying or expects to pay experience-based policy dividends. Assets have been allocated to the Closed Block in an amount that has been determined to produce cash flows which, together with revenues from policies included in the Closed Block, are expected to be sufficient to support obligations and liabilities relating to these policies, including provision for payment of benefits, certain expenses and taxes and to provide for continuation of the policyholder dividend scales in effect in 2000, assuming experience underlying such scales continues. To the extent that, over time, cash flows from the assets allocated to the Closed Block and claims and other experience related to the Closed Block are, in the aggregate, more or less favorable than what was assumed when the Closed Block was established, total dividends paid to Closed Block policyholders may be greater than or less than the total dividends that would have been paid to these policyholders if the policyholder dividend scales in effect in 2000 had been continued. Any cash flows in excess of amounts assumed will be available for distribution over time to Closed Block policyholders and will not be available to shareholders. If the Closed Block has insufficient funds to make guaranteed policy benefit payments, such payments will be made from PICA's assets outside of the Closed Block. The Closed Block will continue in effect as long as any policy in the Closed Block remains in force unless, with the consent of the New Jersey insurance regulator, it is terminated earlier.

# PRUDENTIAL FINANCIAL, INC.

## Notes to Consolidated Financial Statements

The excess of Closed Block liabilities over Closed Block assets at the date of the demutualization (adjusted to eliminate the impact of related amounts in AOCI) represented the estimated maximum future earnings at that date from the Closed Block expected to result from operations attributed to the Closed Block after income taxes. In establishing the Closed Block, the Company developed an actuarial calculation of the timing of such maximum future earnings. If actual cumulative earnings of the Closed Block from inception through the end of any given period are greater than the expected cumulative earnings, only the expected earnings will be recognized in income. Any excess of actual cumulative earnings over expected cumulative earnings will represent undistributed accumulated earnings attributable to policyholders, which are recorded as a policyholder dividend obligation. The policyholder dividend obligation represents amounts to be paid to Closed Block policyholders as an additional policyholder dividend unless otherwise offset by future Closed Block performance that is less favorable than originally expected. If the actual cumulative earnings of the Closed Block from its inception through the end of any given period are less than the expected cumulative earnings of the Closed Block, the Company will recognize only the actual earnings in income.

As of December 31, 2021 and 2020, the Company recognized a policyholder dividend obligation of \$4,387 million and \$2,920 million, respectively, to Closed Block policyholders for the excess of actual cumulative earnings over the expected cumulative earnings. Additionally, accumulated net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block have been reflected as a policyholder dividend obligation of \$3,640 million and \$5,867 million at December 31, 2021 and 2020, respectively, to be paid to Closed Block policyholders unless offset by future experience, with a corresponding amount reported in AOCI.

In December 2019, PICA's Board of Directors acted to decrease the dividend scale on Closed Block policies. In December 2020, PICA's Board of Directors acted to decrease the dividend scale on Closed Block policies. In December 2021, PICA's Board of Directors approved a continuation of the dividend scale on Closed Block policies. The actions taken by PICA's Board of Directors resulted in decreases of approximately \$79 million, \$147 million and \$68 million for the years ended December 31, 2019, 2020 and 2021, respectively, in the liability for policyholders' dividends recognized.

Closed Block liabilities and assets designated to the Closed Block at December 31, as well as maximum future earnings to be recognized from these liabilities and assets, are as follows:

	2021	2020
	(in millions)	
<b>Closed Block liabilities</b>		
Future policy benefits	\$45,596	\$46,762
Policyholders' dividends payable	616	635
Policyholders' dividend obligation	8,027	8,787
Policyholders' account balances	4,737	4,874
Other Closed Block liabilities	3,107	3,141
Total Closed Block liabilities	<u>62,083</u>	<u>64,199</u>
<b>Closed Block assets</b>		
Fixed maturities, available-for-sale, at fair value	38,160	41,959
Fixed maturities, trading, at fair value	1,137	277
Equity securities, at fair value	2,288	2,345
Commercial mortgage and other loans	8,241	8,421
Policy loans	3,815	4,064
Other invested assets	4,358	3,610
Short-term investments	557	124
Total investments	<u>58,556</u>	<u>60,800</u>
Cash and cash equivalents	451	269
Accrued investment income	392	431
Other Closed Block assets	137	92
Total Closed Block assets	<u>59,536</u>	<u>61,592</u>
Excess of reported Closed Block liabilities over Closed Block assets	2,547	2,607
Portion of above representing accumulated other comprehensive income (loss):		
Net unrealized investment gains (losses)	3,535	5,810
Allocated to policyholder dividend obligation	<u>(3,640)</u>	<u>(5,867)</u>
Future earnings to be recognized from Closed Block assets and Closed Block liabilities	<u>\$ 2,442</u>	<u>\$ 2,550</u>

**PRUDENTIAL FINANCIAL, INC.**  
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Information regarding the policyholder dividend obligation is as follows:

	<u>2021</u>	<u>2020</u>
	<u>(in millions)</u>	
Balance, January 1 .....	\$ 8,787	\$6,149
Cumulative effect adjustment from the adoption of ASU 2016-13(1) .....	0	(13)
Impact from earnings allocable to policyholder dividend obligation .....	1,468	117
Change in net unrealized investment gains (losses) allocated to policyholder dividend obligation .....	(2,228)	2,534
Balance, December 31 .....	<u>\$ 8,027</u>	<u>\$8,787</u>

(1) See Note 2 for more information.

Closed Block revenues and benefits and expenses for the years ended December 31, are as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
	<u>(in millions)</u>		
<b>Revenues</b>			
Premiums .....	\$1,789	\$1,981	\$2,207
Net investment income .....	2,514	2,255	2,332
Realized investment gains (losses), net .....	807	182	521
Other income (loss) .....	880	362	589
Total Closed Block revenues .....	<u>5,990</u>	<u>4,780</u>	<u>5,649</u>
<b>Benefits and Expenses</b>			
Policyholders' benefits .....	2,557	2,758	2,906
Interest credited to policyholders' account balances .....	124	127	130
Dividends to policyholders .....	2,794	1,549	2,187
General and administrative expenses .....	312	327	351
Total Closed Block benefits and expenses .....	<u>5,787</u>	<u>4,761</u>	<u>5,574</u>
Closed Block revenues, net of Closed Block benefits and expenses, before income taxes .....	203	19	75
Income tax expense (benefit) .....	123	(43)	10
Closed Block revenues, net of Closed Block benefits and expenses and income taxes .....	<u>\$ 80</u>	<u>\$ 62</u>	<u>\$ 65</u>



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**16. INCOME TAXES**

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

	<b>Year Ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
	<b>(in millions)</b>		
Current tax expense (benefit):			
U.S. ....	\$ 1,094	\$ (571)	\$ 86
State and local ....	24	11	2
Foreign ....	770	848	879
Total current tax expense (benefit) ....	<u>1,888</u>	<u>288</u>	<u>967</u>
Deferred tax expense (benefit):			
U.S. ....	16	(362)	57
State and local ....	(1)	1	(1)
Foreign ....	(229)	(8)	(76)
Total deferred tax expense (benefit) ....	<u>(214)</u>	<u>(369)</u>	<u>(20)</u>
Total income tax expense (benefit) on income (loss) before equity in earnings of operating joint ventures ....	1,674	(81)	947
Income tax expense (benefit) on equity in earnings of operating joint ventures ....	33	47	43
Income tax expense (benefit) on discontinued operations ....	0	0	0
Income tax expense (benefit) reported in equity related to:			
Other comprehensive income (loss) ....	(2,314)	1,252	3,811
Total income taxes ....	<u>\$ (607)</u>	<u>\$1,218</u>	<u>\$4,801</u>

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

The differences between income taxes expected at the U.S. federal statutory income tax rate of 21% applicable for 2021, 2020 and 2019, and the reported income tax expense (benefit) are summarized as follows:

	<b>Year Ended December 31,</b>		
	<b>2021</b>	<b>2020(1)</b>	<b>2019</b>
	<b>(in millions)</b>		
Expected federal income tax expense (benefit) ....	\$1,970	\$ (68)	\$1,068
Non-taxable investment income ....	(292)	(228)	(270)
Foreign taxes at other than U.S. rate ....	149	250	234
Low-income housing and other tax credits ....	(126)	(112)	(118)
Changes in tax law ....	10	(192)	(2)
Sale of subsidiary ....	(26)	277	4
Non-controlling interest ....	(14)	(48)	(11)
Non-deductible expenses ....	11	14	23
Change in valuation allowance ....	13	17	(1)
State taxes ....	18	10	1
Other ....	(39)	(1)	19
Reported income tax expense (benefit) ....	<u>\$1,674</u>	<u>\$ (81)</u>	<u>\$ 947</u>
Effective tax rate ....	<u>17.8%</u>	<u>25.1%</u>	<u>18.6%</u>

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

## PRUDENTIAL FINANCIAL, INC.

### Notes to Consolidated Financial Statements

The effective tax rate is the ratio of “Total income tax expense (benefit)” divided by “Income before income taxes and equity in earnings of operating joint ventures.” The Company’s effective tax rate for fiscal years 2021, 2020 and 2019 was 17.8%, 25.1% and 18.6%, respectively. The following is a description of items that had a significant impact on the difference between the Company’s statutory U.S. federal income tax rate of 21% applicable for 2021, 2020 and 2019, and the Company’s effective tax rate during the periods presented:

**Non-Taxable Investment Income.** The U.S. Dividends Received Deduction (“DRD”) reduces the amount of dividend income subject to U.S. tax and is included in the non-taxable investment income shown in the table above. More specifically, the U.S. DRD constitutes \$115 million of the total \$292 million of 2021 non-taxable investment income, \$109 million of the total \$228 million of 2020 non-taxable investment income, and \$122 million of the total \$270 million of 2019 non-taxable investment income. The DRD for the current period was estimated using information from 2020, current year investment results, and current year’s equity market performance. The actual current year DRD can vary based on factors such as, but not limited to, changes in the amount of dividends received that are eligible for the DRD, changes in the amount of distributions received from fund investments, changes in the account balances of variable life and annuity contracts, and the Company’s taxable income before the DRD.

**Foreign Taxes at Other Than U.S. Rates.** The statutory income tax rate in the Company’s largest non-U.S. tax jurisdiction is approximately 28% in Japan as compared to the U.S. federal income tax rate of 21% applicable for 2021, 2020 and 2019.

**The 952 Election.** The Company made a tax election, effective for the 2017 and later tax years, to subject earnings from its insurance operations in Brazil to tax in the U.S. in the tax year earned, net of related foreign tax credits. This election has the effect of reducing the rate at which the Company will incur taxes on these earnings from the approximately 40% tax rate in Brazil to the 21% tax rate in the U.S. In conjunction with this election, the Company remeasured its related deferred tax assets from the previous 45% rate in Brazil to the new rate of 21% in the U.S., which resulted in additional income tax expense at the time of election. The net effect of the lower tax rate was a net increase (decrease) in income tax expense of \$(3) million in 2019, \$19 million in 2020, and \$(18) million in 2021. In October 2019, the IRS issued a legal memorandum, applicable to all taxpayers, in which the IRS argues that the election became inoperable in 1998. The Company disagrees with the IRS’s position and intends to defend its position. This matter has been assigned to the IRS Independent Office of Appeals, an independent dispute resolution function within the IRS. The Appeals process is intended to reach resolution without litigation, while the Company preserves all available legal remedies, including litigation, if it does not agree with the outcome at Appeals. If the Company is ultimately not successful, it will not be able to claim a U.S. tax credit for the Brazil taxes in excess of the U.S. tax rate, and thus will have a higher tax expense over time.

**Low-Income Housing and Other Tax Credits.** These amounts include incentives within the U.S. tax code for the development of affordable housing aiming at low-income Americans. The Company routinely makes such investments that generate a tax credit which reduces the Company’s effective tax rate.

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

**The CARES Act.** On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was enacted into law. One provision of the CARES Act amends the Tax Act of 2017 and allows companies with net operating losses (“NOLs”) originating in 2020, 2019 or 2018 to carry back those losses for up to five years. For 2020, the Company recorded an income tax benefit of \$149 million and \$51 million from carrying the estimated 2020 NOL and 2018 NOL back to tax years that have a 35% tax rate.

**Sale of Subsidiary.** This line item is primarily related to the difference between tax basis and GAAP basis for subsidiaries sold. See Note 1 for additional information on the sale of subsidiary-related items.

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

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

The Treasury Department and the IRS also issued Proposed Regulations on July 20, 2020 which would require that, if a high-tax exception election is made with respect to GILTI in any year, an election having the same effect must also be made with regard to income

# PRUDENTIAL FINANCIAL, INC.

## Notes to Consolidated Financial Statements

taxed under Subpart F of the Tax Code. Such an election under Subpart F of the Tax Code would apply to the Full Inclusion election made by the Company for its insurance operations in Brazil, thereby increasing the tax rate applied to our Brazil insurance operations. The Proposed Regulations will be effective for taxable years beginning after they are issued in final form.

### *Schedule of Deferred Tax Assets and Deferred Tax Liabilities*

	As of December 31,	
	2021	2020(1)
	(in millions)	
Deferred tax assets:		
Insurance reserves	\$ 296	\$ 1,693
Policyholders' dividends	1,741	1,901
Net operating and capital loss carryforwards	260	205
Employee benefits	617	929
Investments	398	0
Goodwill and other intangibles	149	0
Other	0	404
Deferred tax assets before valuation allowance	3,461	5,132
Valuation allowance	(147)	(143)
Deferred tax assets after valuation allowance	3,314	4,989
Deferred tax liabilities:		
Net unrealized investment gains	9,456	13,841
Deferred policy acquisition costs	3,307	3,430
Investments	0	43
Value of business acquired	261	270
Goodwill and other intangibles	0	29
Other	116	0
Deferred tax liabilities	13,140	17,613
Net deferred tax liability	<u>\$ (9,826)</u>	<u>\$ (12,624)</u>

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

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

A valuation allowance has been recorded against deferred tax assets related to federal, state and local taxes and foreign operations. Adjustments to the valuation allowance are made to reflect changes in management's assessment of the amount of the deferred tax asset that is realizable and the amount of deferred tax asset actually realized during the year. The valuation allowance includes amounts recorded in connection with deferred tax assets as follows:

	Federal	State	Foreign Operations	Total
	(in millions)			
Balance at January 1, 2019	\$ 0	\$106	\$11	\$117
Charged to costs and expenses	3	34	(5)	32
Other adjustments	0	(13)	0	(13)
Balance at December 31, 2019	3	127	6	136
Charged to costs and expenses	12	5	5	22
Other adjustments	0	(16)	1	(15)
Balance at December 31, 2020	15	116	12	143
Charged to costs and expenses	5	(8)	9	6
Other adjustments	0	(1)	(1)	(2)
Balance at December 31, 2021	<u>\$20</u>	<u>\$107</u>	<u>\$20</u>	<u>\$147</u>

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The following table sets forth the amount and expiration dates of federal, state and foreign operating, capital loss and tax credit carryforwards for tax purposes, as of the periods indicated:

	<b>As of December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in millions)</b>	
Federal net operating and capital loss carryforwards(1) .....	\$ 327	\$ 231
State net operating and capital loss carryforwards(2) .....	\$1,895	\$1,880
Foreign net operating and capital loss carryforwards(3) .....	\$ 268	\$ 136
Federal foreign tax credit carryforwards(4) .....	\$ 12	\$ 9
General business credits .....	\$ 0	\$ 82

(1) Unlimited carryforward.

(2) Certain state net operating loss carryforwards expire between 2022 and 2041, whereas others have an unlimited carryforward.

(3) \$52 million expires between 2022 and 2036 and \$195 million has an unlimited carryforward.

(4) Expires between 2028 and 2031. These relate to foreign non-general basket tax credits.

Consistent with the Tax Act of 2017, the Company provides applicable U.S. income tax for all unremitted earnings of the Company's foreign affiliates. For certain foreign affiliates organized in withholding tax jurisdictions, the Company considers the unremitted foreign earnings of those affiliates to be indefinitely reinvested, and therefore does not provide for the withholding tax when calculating its current and deferred tax obligations. For certain other foreign affiliates organized in withholding tax jurisdictions, the Company does not consider unremitted earnings indefinitely reinvested, and therefore provides for foreign withholding tax when calculating its current and deferred tax obligations. The following table summarizes the Company's indefinite reinvestment assertions for jurisdictions in which the Company operates that impose a withholding tax on dividends that is not eliminated by a tax treaty or may be subject to other foreign country tax upon a remittance:

**Unremitted earnings are indefinitely reinvested**

Insurance operations in Chile and China and non-insurance operations in Korea and certain operations in Luxembourg

**Unremitted earnings are not indefinitely reinvested**

Insurance operations in Argentina, India, Indonesia, Ghana and Kenya, and non-insurance operations in China, India and Taiwan

The Company made no changes with respect to its repatriation assumptions in 2019. During the second and third quarters of 2020, respectively, the Company determined that the earnings of its Korean and Taiwan insurance operations would be repatriated to the United States; accordingly, these earnings were not considered indefinitely reinvested, and the Company recognized an income tax expense of \$132 million in "Income (loss) before equity in earnings of operating joint ventures" during 2020. During the second quarter of 2020, the Company changed the permanent investment assertion for Europrisa Management Company S.A (Luxembourg) due to a plan to liquidate the company, which gave rise to an immaterial amount of income tax expense during 2020. The Company made no changes with respect to its repatriation assumptions in 2021.

The following table sets forth the undistributed earnings of foreign subsidiaries, where the Company assumes indefinite reinvestment of such earnings and for which, in 2021, 2020, and 2019, U.S. deferred taxes have not been provided, and for which foreign deferred withholding taxes have not been provided. The net tax liability that may arise if the 2021 earnings were remitted which includes any foreign exchange impacts, is immaterial.

	<b>At December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
	<b>(in millions)</b>		
Undistributed earnings of foreign subsidiaries (assuming indefinite reinvestment for U.S. tax purposes)(1) .....	N/A	N/A	N/A
Undistributed earnings of foreign subsidiaries (assuming indefinite reinvestment only for Withholding or other non-U.S. Taxes) ....	\$209	\$176	\$2,764

(1) Consistent with the Tax Act of 2017, the Company provides U.S. income tax for all unremitted earnings of the Company's foreign affiliates as of December 31, 2017.

The Company's "Income (loss) before income taxes and equity in earnings of operating joint ventures" includes income (loss) from domestic operations of \$7,575 million, \$(3,226) million and \$1,985 million, and income (loss) from foreign operations of \$1,806 million, \$2,903 million and \$3,101 million for the years ended December 31, 2021, 2020 and 2019, respectively.

***Tax Audit and Unrecognized Tax Benefits***

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

**PRUDENTIAL FINANCIAL, INC.**  
**Notes to Consolidated Financial Statements**

The following table reconciles the total amount of unrecognized tax benefits at the beginning and end of the periods indicated:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
	(in millions)		
Balance at January 1, .....	\$17	\$18	\$20
Increases in unrecognized tax benefits—prior years .....	4	0	0
(Decreases) in unrecognized tax benefits—prior years .....	(9)	(1)	(2)
Increases in unrecognized tax benefits—current year .....	0	0	0
(Decreases) in unrecognized tax benefits—current year .....	0	0	0
Settlements with taxing authorities .....	0	0	0
Balance at December 31, .....	<u>\$12</u>	<u>\$17</u>	<u>\$18</u>
Unrecognized tax benefits that, if recognized, would favorably impact the effective rate .....	<u>\$12</u>	<u>\$ 0</u>	<u>\$ 0</u>

The Company does not anticipate any significant changes within the next twelve months to its total unrecognized tax benefits related to tax years for which the statute of limitations has not expired.

The Company classifies all interest and penalties related to tax uncertainties as income tax expense (benefit). The amounts recognized in the consolidated financial statements for tax-related interest and penalties for the years ended December 31 are as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
	(in millions)		
Interest and penalties recognized in the Consolidated Statements of Operations .....	\$4	\$1	\$1
Interest and penalties recognized in liabilities in the Consolidated Statements of Financial Position .....		<u>2021</u>	<u>2020</u>
		(in millions)	
		\$7	\$3

Listed below are the tax years that remain subject to examination, by major tax jurisdiction, as of December 31, 2021:

<u>Major Tax Jurisdiction</u>	<u>Open Tax Years</u>
United States .....	2014-2021
Japan .....	Fiscal years ended March 31, 2017-2021
Korea .....	2016-2021

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

Some of the Company's affiliates in Japan file a consolidated tax return, while others file separate tax returns. The Company's affiliates in Japan are subject to audits by the local taxing authority. The general statute of limitations is five years from when the return is filed. The Japanese National Tax Service conducted tax audits of some non-insurance companies during the reporting period, which had no material impact on the Company's 2021, 2020 or 2019 results.

In August 2020, the Company sold an affiliate in South Korea that filed a separate tax return and was subject to audits by the local taxing authority. The general statute of limitations is five years from when the return is filed. During 2020, the Korean tax authority completed a routine tax audit of Prudential of Korea for 2017, 2016, and 2015 tax years. While these activities had no material impact on the Company's 2021, 2020 or 2019 results, the tax authority raised questions about the treatment of foreign tax credits. The Company is responsible via an indemnity for taxes and other costs that may arise from the dispute.

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**Notes to Consolidated Financial Statements**

**17. SHORT-TERM AND LONG-TERM DEBT**

***Short-term Debt***

The table below presents the Company's short-term debt at December 31, for the years indicated as follows:

	<u>2021</u>	<u>2020</u>
	<u>(\$ in millions)</u>	
Commercial paper:		
Prudential Financial	\$ 25	\$ 25
Prudential Funding, LLC	395	355
Subtotal commercial paper	420	380
Current portion of long-term debt:		
Senior Notes	0	399
Mortgage Debt	197	128
Surplus Notes subject to set-off arrangements(1)	500	500
Subtotal Current portion of long-term debt	697	1,027
Other(2)	105	18
Subtotal	1,222	1,425
Less: Assets under set-off arrangements(1)	500	500
Total short-term debt(3)	<u>\$ 722</u>	<u>\$ 925</u>
Supplemental short-term debt information:		
Portion of commercial paper borrowings due overnight	\$ 150	\$ 75
Daily average commercial paper outstanding for the quarter ended	\$1,414	\$1,602
Weighted average maturity of outstanding commercial paper, in days	16	18
Weighted average interest rate on outstanding commercial paper	0.08%	0.11%

- (1) The surplus notes have corresponding assets where rights to set-off exist, thereby reducing the amount of surplus notes.  
(2) Includes a \$98 million bridge loan and \$7 million drawn on a revolving line of credit held by a subsidiary at December 31, 2021.  
(3) Includes Prudential Financial debt of \$25 million and \$424 million at December 31, 2021 and 2020, respectively.

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

***Commercial Paper***

Prudential Financial has a commercial paper program with an authorized capacity of \$3.0 billion. Prudential Financial's commercial paper borrowings have generally been used to fund the working capital needs of its subsidiaries and provide short-term liquidity at Prudential Financial.

Prudential Funding, LLC ("Prudential Funding"), a wholly-owned subsidiary of PICA, has a commercial paper program, with an authorized capacity of \$7.0 billion. Prudential Funding commercial paper borrowings generally have served as an additional source of financing to meet the working capital needs of PICA and its subsidiaries. Prudential Funding also lends to other subsidiaries of Prudential Financial up to limits agreed with the NJDOBI. Prudential Funding maintains a support agreement with PICA whereby PICA has agreed to maintain Prudential Funding's tangible net worth at a positive level. Additionally, Prudential Financial has issued a subordinated guarantee covering Prudential Funding's \$7.0 billion commercial paper program.

***Federal Home Loan Bank of New York***

PICA is a member of the FHLBNY. Membership allows PICA access to the FHLBNY's financial services, including the ability to obtain collateralized loans and to issue collateralized funding agreements. Under applicable law, the funding agreements issued to the FHLBNY have priority claim status above debt holders of PICA. FHLBNY borrowings and funding agreements are collateralized by qualifying mortgage-related assets or U.S. Treasury securities, the fair value of which must be maintained at certain specified levels relative to outstanding borrowings. FHLBNY membership requires PICA to own member stock and borrowings require the purchase of activity-based stock in an amount equal to 4.5% of outstanding borrowings. Under FHLBNY guidelines, if any of PICA's financial strength ratings decline below A-/A3/A- Negative by S&P/Moody's/Fitch, respectively, and the FHLBNY does not receive written assurances from the NJDOBI regarding PICA's solvency, new borrowings from the FHLBNY would be limited to a term of 90 days or less. Currently there are no restrictions on the term of borrowings from the FHLBNY. All FHLBNY stock purchased by PICA is classified as restricted general account investments within "Other invested assets," and the carrying value of these investments was \$80.5 million and \$147.4 million as of December 31, 2021 and 2020, respectively.



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NJDOBI permits PICA to pledge collateral to the FHLBNY in an amount of up to 5% of its prior year-end statutory net admitted assets, excluding separate account assets. Based on PICA's statutory net admitted assets as of December 31, 2020, the 5% limitation equates to a maximum amount of eligible assets of \$7.7 billion and an estimated maximum borrowing capacity (after taking into account required collateralization levels) of approximately \$6.9 billion. Nevertheless, FHLBNY borrowings are subject to the FHLBNY's discretion and to the availability of qualifying assets at PICA.

In the first quarter of 2020, PICA issued \$3.6 billion in funding agreements under the FHLBNY facility. As of December 31, 2021, \$1.0 billion of funding agreements remain outstanding under this facility maturing in February 2027 with a rate of 1.925%. These funding agreements are reflected as "Policyholders' account balances" on the Consolidated Statements of Financial Position and as such are not included in the foregoing table.

### *Federal Home Loan Bank of Boston*

PRIAC is a member of the Federal Home Loan Bank of Boston ("FHLBB"). Membership allows PRIAC access to collateralized advances which will be classified in "Short-term debt" or "Long-term debt," depending on the maturity date of the obligation. PRIAC's membership in FHLBB requires the ownership of member stock and borrowings from FHLBB require the purchase of activity-based stock in an amount between 3.0% and 4.5% of outstanding borrowings, depending on the maturity date of the obligation. All FHLBB stock purchased by PRIAC is classified as restricted general account investments within "Other invested assets," and the carrying value of these investments was \$6 million as of both December 31, 2021 and 2020. As of December 31, 2021, PRIAC had no advances outstanding under the FHLBB facility.

Under Connecticut state insurance law, without the prior consent of the Connecticut Insurance Department, the amount of assets insurers may pledge to secure debt obligations is limited to the lesser of 5% of prior-year statutory admitted assets or 25% of prior-year statutory surplus, resulting in a maximum borrowing capacity for PRIAC under the FHLBB facility of approximately \$264 million as of December 31, 2021. As a result of the Company's agreement to sell its Full Service Retirement business to Great-West, which includes the sale of all of its outstanding equity interests in PRIAC, we expect that the Company will no longer be a member of the FHLBB as of the closing of the sale.

### *Credit Facilities*

As of December 31, 2021, the Company maintained syndicated, unsecured committed credit facilities as described below.

<u>Borrower</u>	<u>Original Term</u>	<u>Expiration Date</u>	<u>Capacity</u>	<u>Amount Outstanding</u>
				(in millions)
Prudential Financial and Prudential Funding .....	5 years	Jul 2026	\$4,000	\$0
Prudential Holdings of Japan, Inc. ....	5 years	Sep 2024	¥100,000	¥0

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

The ¥100 billion five-year facility was entered into by Prudential Holdings of Japan, Inc. ("PHJ") in September 2019. This facility also contains customary representations and warranties, covenants, and events of default and borrowings are not contingent on the borrower's credit ratings nor subject to material adverse change clauses.

Borrowings under each of these credit facilities may be used for general corporate purposes. As of December 31, 2021, the Company was in compliance with the covenants under each of these credit facilities.

**PRUDENTIAL FINANCIAL, INC.**  
**Notes to Consolidated Financial Statements**

In addition to the above credit facilities, the Company had access to \$205 million of certain other lines of credit at December 31, 2021, of which \$175 million was for the sole use of certain real estate separate accounts. The separate account facilities include loan-to-value ratio requirements and other financial covenants, and recourse on obligations under these facilities is limited to the assets of the applicable separate account. At December 31, 2021, \$55 million of these credit facilities were used. The Company also has access to uncommitted lines of credit from financial institutions.

***Agreements for Senior Notes Issuance***

In November 2013, Prudential Financial entered into a ten-year put option agreement with a Delaware trust upon the completion of the sale of \$1.5 billion of trust securities by that Delaware trust in a Rule 144A private placement. The trust invested the proceeds from the sale of the trust securities in a portfolio of principal and interest strips of U.S. Treasury securities. The put option agreement provides Prudential Financial the right to sell to the trust at any time up to \$1.5 billion of 4.419% senior notes due November 2023 and receive in exchange a corresponding amount of U.S. Treasury securities held by the trust. In return, the Company agreed to pay a semi-annual put premium to the trust at a rate of 1.777% per annum applied to the unexercised portion of the put option. The put option agreement with the trust provides Prudential Financial with a source of liquid assets.

The put option described above will be exercised automatically in full upon the Company's failure to make certain payments to the trust, such as paying the put option premium or reimbursing the trust for its expenses, if the Company's failure to pay is not cured within 30 days, and upon an event involving its bankruptcy. The Company is also required to exercise the put option if its consolidated stockholders' equity, calculated in accordance with U.S. GAAP but excluding AOCI, falls below \$7.0 billion, subject to adjustment in certain cases. The Company has a one-time right to unwind a prior voluntary exercise of the put option by repurchasing all of the senior notes then held by the trust in exchange for a corresponding amount of U.S. Treasury securities. Finally, Prudential Financial may redeem all but not less than all outstanding senior notes prior to their maturity at a redemption price equal to the greater of par or a make-whole price, following a voluntary exercise in full of the put option.

In May 2020, Prudential Financial entered into a ten-year facility agreement with a Delaware trust upon the completion of the sale of \$1.5 billion of trust securities by that Delaware trust in a Rule 144A private placement. The trust invested the proceeds from the sale of the trust securities in a portfolio of principal and/or interest strips of U.S. Treasury securities. The facility agreement provides Prudential Financial the right to issue and sell to the trust from time to time up to \$1.5 billion of 2.850% senior notes due May 15, 2030 and receive in exchange a corresponding amount of the U.S. Treasury securities held by the trust. In return, the Company agreed to pay a semi-annual facility fee to the trust at a rate of 2.175% per annum applied to the maximum amount of senior notes that the Company could issue and sell to the trust. Similar to the Company's put option agreement, the facility agreement with the trust provides Prudential Financial with a source of liquid assets.

The right to issue senior notes described above will be exercised automatically in full upon the Company's failure to make certain payments to the trust, such as paying the facility fee or reimbursing the trust for its expenses, if the Company's failure to pay is not cured within 30 days, and upon an event involving its bankruptcy. The Company is also required to exercise this issuance right if its consolidated stockholders' equity, calculated in accordance with U.S. GAAP but excluding AOCI, falls below \$9.0 billion, subject to adjustment in certain cases. Prior to any involuntary exercise of the issuance right, the Company has the right to repurchase any of its senior notes then held by the trust in exchange for a corresponding amount of U.S. Treasury securities. Finally, Prudential Financial may redeem any outstanding senior notes, in whole or in part, prior to February 15, 2030, at a redemption price equal to the greater of par or a make-whole price, or thereafter, at par.

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**Notes to Consolidated Financial Statements**

**Long-term Debt**

The table below presents the Company's long-term debt at December 31, for the years indicated as follows:

	Maturity Dates	Rate(1)	December 31, 20212020	
			(\$ in millions)	
Fixed-rate notes:				
Surplus notes	2025	8.3%	\$ 344	\$ 343
Surplus notes subject to set-off arrangements	2023-2038	2.23%-5.26%	7,861	8,134
Senior notes	2023-2051	1.5%-6.75%	10,282	11,179
Mortgage debt	2027	3.85%	24	24
Floating-rate notes:				
Line of Credit	2024	1.33%-1.41%	300	300
Surplus notes subject to set-off arrangements	2024-2037	1.49%-1.64%	2,330	2,330
Mortgage debt(2)	2023-2024	1.57%-1.86%	54	257
Junior subordinated notes(3)	2042-2060	1.55%-5.88%	7,618	7,615
Subtotal			28,813	30,182
Less: assets under set-off arrangements(4)			10,191	10,464
Total long-term debt(5)			\$18,622	\$19,718

(1) Ranges of interest rates are for the year ended December 31, 2021.

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

(3) Includes Prudential Financial debt of \$7,564 million and subsidiary debt of \$54 million denominated in foreign currency at December 31, 2021.

(4) Assets under set-off arrangements represent a reduction in the amount of surplus notes included in long-term debt, resulting from an arrangement where valid rights of set-off exist and it is the intent of both parties to settle on a net basis under legally enforceable arrangements. These assets include available-for-sale securities that are reported at fair value.

(5) Includes Prudential Financial debt of \$17,673 million and \$18,561 million at December 31, 2021 and 2020, respectively.

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

The following table presents the contractual maturities of the Company's long-term debt as of December 31, 2021:

	<b>Calendar Year</b>					<b>Total</b>
	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027 and thereafter</b>	
	<b>(in millions)</b>					
Long-term debt	\$203	\$324	\$345	\$500	\$17,250	\$18,622

**Senior Notes**

Under its shelf registration statement, the Company has issued Medium-Term Notes and InterNotes® Retail Notes. In addition, the Company completed a debt exchange offer in 2017, pursuant to which it issued two series of Senior Notes.

The table below presents the Company's balances related to these issuances, as well as its mortgage debt balance, as of December 31 for the years indicated as follows:

<b>Facility Name</b>	<b>Maturity Date Range</b>	<b>2021 Amount Outstanding</b>	<b>2020 Amount Outstanding</b>
<b>(\$ in millions)</b>			
Medium-Term Notes	2023-2051	\$ 8,544	\$ 9,847
Senior Notes	2047-2049	1,469	1,462
InterNotes® Retail Notes	2029-2045	269	270
Mortgage Debt(1)	2022-2027	274	409
<b>Total</b>		<u><b>\$10,556</b></u>	<u><b>\$11,988</b></u>

(1) Includes \$197 million of notes from current portion of long-term debt as of December 31, 2021.

# PRUDENTIAL FINANCIAL, INC.

## Notes to Consolidated Financial Statements

**Medium-Term Notes Program.** The outstanding balance of this program decreased by \$1.3 billion from December 31, 2020, primarily driven by \$910 million in debt redemptions and \$400 million in debt maturities. On August 30, 2021, the Company redeemed, at a make-whole redemption price, \$700 million principal amount of its 3.500% medium-term notes due in 2024 and \$210 million of the previously outstanding \$600 million principal amount of its 3.878% medium-term notes due in 2028. In addition to the total principal redemption of \$910 million, the Company made a make-whole payment of \$91 million, which is reflected in “General and administrative expenses”.

The weighted average interest rate on outstanding Senior Notes, Medium-Term Notes, and InterNotes® Retail Notes, including the effect of interest rate hedging activity, was 4.39% and 4.45% for the years ended December 31, 2021 and 2020, respectively, excluding the effect of debt issued to consolidated subsidiaries.

**Mortgage Debt.** Mortgage debt decreased by \$135 million from December 31, 2020, due to maturities and prepayments. This mortgage debt is issued by the Company’s subsidiaries and has recourse only to real estate property held for investment by those subsidiaries.

**Funding Agreement Notes Issuance Program (“FANIP”).** The Company maintains a FANIP in which statutory trusts issue medium-term notes and commercial paper secured by funding agreements issued to the trusts by PICA. These obligations are included in “Policyholders’ account balances” and not included in the foregoing table. See Note 12 for further discussion of these obligations.

### Surplus Notes

As of December 31, 2021, PICA had \$344 million of fixed-rate surplus notes outstanding. These notes are subordinated to other PICA borrowings and policyholder obligations, and the payment of interest and principal may only be made with the prior approval of the NJDOBI. The NJDOBI could prohibit the payment of the interest and principal on the surplus notes if certain statutory capital requirements are not met. At December 31, 2021 and 2020, the Company met these statutory capital requirements.

### Surplus Notes with Set-Off Arrangements

<u>Agreement Start Date</u>	<u>Maturity Years</u>	<u>Maximum Borrowing Capacity</u> (\$ in millions)	<u>2021 Amount Outstanding</u>	<u>2020 Amount Outstanding</u>
<b>Regulation XXX</b>				
2012-2021(1)(2) .....	2022-2036	\$ 1,750	\$ 1,600	\$ 1,750
2014-2017 .....	2024-2037	2,400	2,330	2,330
2018 .....	2038	1,600	920	1,070
<b>Guideline AXXX</b>				
2013(3) .....	2033	3,500	3,500	3,248
2017 .....	2037	2,000	1,466	1,466
2020 .....	2032	1,200	775	700
<b>Other Notes</b>				
2019 .....	2029	4,000	100	400
<b>Total</b> .....		<u>\$16,450</u>	<u>\$10,691</u>	<u>\$10,964</u>

- (1) Prudential has agreed to reimburse one of the external counterparties for any payment under the credit linked notes funded by it in an amount of up to \$0.5 billion.
- (2) Includes \$0.5 billion of notes from current portion of long-term debt.
- (3) The current financing capacity available under the facility is \$3.5 billion but can be increased to a maximum potential size of \$4.5 billion.

### Surplus Notes Supporting Regulation XXX and Guideline AXXX Reserves

As shown in the table above, the Company’s captive reinsurance subsidiaries maintain facilities with external counterparties providing for the issuance of surplus notes by the captive to finance reserves required under Regulation XXX and Guideline AXXX. Under these facilities, the captives receive in exchange for the surplus notes one or more credit-linked notes issued by special-purpose affiliates in aggregate principal amounts equal to the surplus notes issued. The captives hold the credit-linked notes as assets supporting the non-economic portion of the statutory reserves required to be held by the Company’s domestic insurance subsidiaries under Regulation XXX and Guideline AXXX in connection with the reinsurance of term life or universal life insurance policies through the captive. The non-economic portion of the statutory reserve equals the difference between the statutory reserve required under Regulation XXX and Guideline AXXX and the amount the Company considers necessary to maintain solvency for moderately adverse experience. The credit-linked notes are redeemable for cash upon the occurrence of a liquidity stress event affecting the captives and external counterparties have agreed to fund these payments in return for a fee. Under certain of these different transactions, Prudential Financial has agreed to reimburse the captive for investment losses in excess of specified amounts.

# PRUDENTIAL FINANCIAL, INC.

## Notes to Consolidated Financial Statements

For each of the above transactions, because valid rights of set-off exist, interest and principal payments on the surplus notes and on the related credit-linked notes are settled on a net basis, and the surplus notes are reflected in the Company's total consolidated borrowings on a net basis. The surplus notes for the captive reinsurance subsidiaries described above are subordinated to policyholder obligations, and the repayment of principal may only be made with prior approval of the Arizona Department of Insurance and Financial Institutions, the domiciliary insurance regulator of the captives. The payment of interest on the surplus notes has been approved by the Arizona Department of Insurance and Financial Institutions, subject to its ability to withdraw that approval.

### Other Surplus Notes

The surplus note facility listed under "Other Notes" in the table above reflects a financing facility that Prudential Legacy Insurance Company of New Jersey ("PLIC") has entered into with certain external counterparties and a special-purpose affiliate, pursuant to which PLIC may, at its option, issue and sell to the affiliate up to \$4.0 billion in aggregate principal amount of surplus notes, in return for an equal principal amount of credit-linked notes. The credit-linked notes are redeemable for cash upon the occurrence of a liquidity stress event affecting PLIC, and external counterparties have agreed to fund these payments in return for a fee. Upon issuance, PLIC would hold any credit-linked notes as assets to support future statutory surplus needs within PLIC.

### Junior Subordinated Notes

Prudential Financial's junior subordinated notes outstanding are considered hybrid securities that receive enhanced equity treatment from the rating agencies. These notes outstanding, along with their key terms, are as follows:

<u>Issue Date</u>	<u>Principal Amount</u> (\$ in millions)	<u>Initial Interest Rate</u>	<u>Investor Type</u>	<u>Optional Redemption Date</u>	<u>Interest Rate Subsequent to Optional Redemption Date</u>	<u>Maturity Date</u>
Aug-12 .....	\$1,000	5.88%	Institutional	9/15/2022	LIBOR + 4.18%	9/15/2042
Nov-12 .....	\$1,500	5.63%	Institutional	6/15/2023	LIBOR + 3.92%	6/15/2043
Mar-13 .....	\$ 500	5.20%	Institutional	3/15/2024	LIBOR + 3.04%	3/15/2044
May-15 .....	\$1,000	5.38%	Institutional	5/15/2025	LIBOR + 3.03%	5/15/2045
Sep-17 .....	\$ 750	4.50%	Institutional	9/15/2027	LIBOR + 2.38%	9/15/2047
Aug-18 .....	\$ 565	5.63%	Retail	8/15/2023	5.63%	8/13/2058
Sep-18 .....	\$1,000	5.70%	Institutional	9/15/2028	LIBOR + 2.67%	9/15/2048
Aug-20 .....	\$ 500	4.13%	Retail	9/1/2025	4.13%	9/1/2060
Aug-20 .....	\$ 800	3.70%	Institutional	10/1/2030	US Treasury + 3.04%	10/1/2050

The Company has the right to defer interest payments on these notes for specified periods, typically 5 to 10 years without resulting in a default, during which time interest will be compounded. On or after the optional redemption dates, Prudential Financial may redeem the notes at par plus accrued and unpaid interest. Prior to those optional redemption dates, redemptions generally are subject to a make-whole price; however, the Company may redeem the notes prior to these dates at par upon the occurrence of certain events, such as a future change in the regulatory capital treatment of the notes with respect to the Company.

### Limited Recourse Notes

In 2014, the Company entered into financing transactions pursuant to which it issued \$500 million of limited recourse notes and, in return, obtained \$500 million of asset-backed notes issued by a designated series of a Delaware master trust and ultimately contributed the asset-backed notes to its subsidiary, PRIAC. The asset-backed notes mature from 2022 through 2027, with a portion of these notes having the option to extend through 2028, subject to conditions.

The master trust's payment obligations under each of the asset-backed notes are secured by corresponding payment obligations of a third-party financial institution and a portfolio of specified assets that have an aggregate value at least equal to the principal amount of the applicable asset-backed note. The principal amount of each asset-backed note is payable to PRIAC in cash at any time upon demand by PRIAC or, if not repaid earlier, at maturity. Each of the limited recourse notes obligates Prudential Financial to reimburse the applicable third-party financial institution for any principal payments received on the corresponding asset-backed note, but there is no obligation to reimburse any portion of a principal payment that is needed by PRIAC to pay then current claims to its policyholders. Each limited recourse note bears interest at a rate equal to the rate on the corresponding asset-backed note, plus an amount representing fees payable to the applicable third-party financial institution. As of December 31, 2021, no principal payments have been received or are currently due on the asset-backed notes and, as a result, there was no payment obligation under the limited recourse notes. Accordingly, the notes are not reflected in the Consolidated Financial Statements as of December 31, 2021. As a result of the Company's agreement to sell its Full Service Retirement business to Great-West, which includes the sale of all of its outstanding equity interests in PRIAC, we expect the \$500 million of limited-recourse notes will be canceled as of the closing of the sale.

**PRUDENTIAL FINANCIAL, INC.**  
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*Interest Expense*

In order to modify exposure to interest rate and currency exchange rate movements, the Company utilizes derivative instruments, primarily interest rate swaps, in conjunction with some of its debt issues. The impact of these derivative instruments is not reflected in the rates presented in the tables above. For those derivative instruments that qualify for hedge accounting, interest expense was \$2 million, \$2 million, and less than \$1 million for the years ended December 31, 2021, 2020 and 2019, respectively. See Note 5 for additional information on the Company's use of derivative instruments.

Interest expense for short-term and long-term debt was \$1,474 million, \$1,575 million and \$1,563 million for the years ended December 31, 2021, 2020 and 2019, respectively.

**18. 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"). At December 31, 2021, approximately 78% of the Company's Pension Benefits relate to its domestic qualified pension plan, which initially determined benefits based on the traditional formula. Effective January 1, 2001, active domestic employees covered under this plan were given the option to convert from the traditional formula to the cash balance formula, and all new domestic employees began accruing benefits under the cash balance formula. As of December 31, 2021, approximately 67% and 33% of the benefit obligation under this plan relates to participants under the traditional formula and cash balance formula, respectively. At December 31, 2021, the vast majority of active employees under this plan are accruing benefits under 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 are eligible to receive Other Postretirement Benefits if they retire after age 55 with at least 10 years of service or under certain circumstances after age 50 with at least 20 years of continuous service.

On November 30, 2021, the Company announced that it will modify the Retiree Medical Savings Account ("RMSA") plan, one of the components of Other Postretirement Benefits. The RMSA plan will no longer be offered to new employees effective January 1, 2022, while active employees will no longer receive service credits and retirees will no longer receive interest credits at some point after June 30, 2022. In addition, the Company added a 20-year time limit for retirees to utilize the RMSA plan (previously there was no time limit).



# PRUDENTIAL FINANCIAL, INC.

## Notes to Consolidated Financial Statements

Prepaid benefits costs and accrued benefit liabilities are included in “Other assets” and “Other liabilities,” respectively, in the Company’s Consolidated Statements of Financial Position. The status of these plans as of December 31, 2021 and 2020 is summarized below:

	Pension Benefits		Other Postretirement Benefits	
	2021	2020	2021	2020
	(in millions)			
<b>Change in benefit obligation</b>				
Benefit obligation at the beginning of period	\$(15,483)	\$(14,637)	\$(2,040)	\$(1,993)
Service cost	(328)	(321)	(27)	(24)
Interest cost	(364)	(429)	(49)	(64)
Plan participants' contributions	0	0	(23)	(22)
Medicare Part D subsidy receipts	0	0	(5)	(7)
Amendments	0	0	121	0
Curtailments	0	16	0	0
Actuarial gains (losses), net(1)(2)	310	(978)	55	(101)
Settlements	24	43	0	0
Special termination benefits	(1)	(7)	0	0
Benefits paid	868	878	173	171
Acquisition/Divestiture	13	46	0	0
Foreign currency changes and other	174	(94)	2	0
Benefit obligation at end of period	<u>\$(14,787)</u>	<u>\$(15,483)</u>	<u>\$(1,793)</u>	<u>\$(2,040)</u>
<b>Change in plan assets</b>				
Plan assets at beginning of period	\$ 14,897	\$ 13,906	\$ 1,589	\$ 1,557
Actual return on plan assets	1,059	1,740	174	171
Employer contributions	205	200	8	10
Plan participants' contributions	0	0	23	22
Disbursement for settlements	(24)	(43)	0	0
Benefits paid	(868)	(878)	(173)	(171)
Acquisition/Divestiture	(5)	(51)	0	0
Foreign currency changes and other	(22)	23	0	0
Plan assets at end of period	<u>\$ 15,242</u>	<u>\$ 14,897</u>	<u>\$ 1,621</u>	<u>\$ 1,589</u>
Funded status at end of period	<u>\$ 455</u>	<u>\$ (586)</u>	<u>\$ (172)</u>	<u>\$ (451)</u>
<b>Amounts recognized in the Statements of Financial Position</b>				
Prepaid benefit cost	\$ 3,272	\$ 2,426	\$ 0	\$ 0
Accrued benefit liability	(2,817)	(3,012)	(172)	(451)
Net amount recognized	<u>\$ 455</u>	<u>\$ (586)</u>	<u>\$ (172)</u>	<u>\$ (451)</u>
<b>Items recorded in "Accumulated other comprehensive income (loss)" not yet recognized as a component of net periodic (benefit) cost:</b>				
Prior service cost	\$ (5)	\$ (10)	\$ (69)	\$ 59
Net actuarial loss	3,131	3,972	211	354
Net amount not recognized	<u>\$ 3,126</u>	<u>\$ 3,962</u>	<u>\$ 142</u>	<u>\$ 413</u>
Accumulated benefit obligation	<u>\$(13,969)</u>	<u>\$(14,690)</u>	<u>\$(1,793)</u>	<u>\$(2,040)</u>

(1) For 2021, actuarial gains for pension and other postretirement benefits were primarily driven by an increase in the discount rate.

(2) For 2020, actuarial losses for pension and other postretirement benefits were primarily driven by a decrease in the discount rate.

In addition to the plan assets above, the Company in 2007 established an irrevocable trust, commonly referred to as a “rabbi trust,” for the purpose of holding assets of the Company to be used to satisfy its obligations with respect to certain non-qualified retirement plans (\$1,327 million and \$1,360 million benefit obligation at December 31, 2021 and 2020, respectively). Assets held in the rabbi trust are available to the general creditors of the Company in the event of insolvency or bankruptcy. The Company may from time to time in its discretion make contributions to the trust to fund accrued benefits payable to participants in one or more of the plans, and, in the case of a change in control of the Company, as defined in the trust agreement, the Company will be required to make contributions to the trust to fund the accrued benefits, vested and unvested, payable on a pre-tax basis to participants in the plans. The Company did not make any discretionary payments to the trust in 2021 and 2020. As of December 31, 2021 and 2020, the assets in the trust had a carrying value of \$1,109 million and \$1,044 million, respectively.

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**Notes to Consolidated Financial Statements**

The Company also maintains a separate rabbi trust for the purpose of holding assets of the Company to be used to satisfy its obligations with respect to certain other non-qualified retirement plans (\$73 million and \$77 million benefit obligation at December 31, 2021 and 2020, respectively), as well as certain cash-based deferred compensation arrangements. As of December 31, 2021 and 2020, the assets in the trust had a carrying value of \$102 million and \$111 million, respectively.

Pension benefits for foreign plans comprised 12% and 13% of the ending benefit obligation for both 2021 and 2020, respectively. Foreign pension plans comprised 4% of the ending fair value of plan assets for both 2021 and 2020, respectively. There are no material foreign postretirement plans.

***Information for pension plans with a projected benefit obligation in excess of plan assets***

	<b>2021</b>	<b>2020</b>
	<b>(in millions)</b>	
Projected benefit obligation	\$2,817	\$3,012
Fair value of plan assets	\$ 0	\$ 0

***Information for pension plans with an accumulated benefit obligation in excess of plan assets***

	<b>2021</b>	<b>2020</b>
	<b>(in millions)</b>	
Accumulated benefit obligation	\$2,620	\$2,834
Fair value of plan assets	\$ 0	\$ 0

***Components of Net Periodic Benefit Cost***

The Company uses market related value to determine components of net periodic (benefit) cost. Market related value recognizes certain changes in fair value of plan assets over a period of five years. Changes in the fair value of U.S. equities, international equities, real estate and other assets are recognized over a five year period. However, changes in the fair value for fixed maturity assets (including short-term investments) are recognized immediately for the purposes of market related value.

Net periodic (benefit) cost included in “General and administrative expenses” in the Company’s Consolidated Statements of Operations for the years ended December 31, includes the following components:

	<b>Pension Benefits</b>			<b>Other Postretirement Benefits</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
	<b>(in millions)</b>					
Service cost	\$ 328	\$ 321	\$ 291	\$ 27	\$ 24	\$ 22
Interest cost	364	429	489	49	64	78
Expected return on plan assets	(824)	(804)	(816)	(102)	(100)	(95)
Amortization of prior service cost	(3)	(4)	(4)	6	6	4
Amortization of actuarial (gain) loss, net	245	262	217	16	16	24
Settlements	5	9	59	0	0	0
Curtailments	1	0	0	0	0	0
Special termination benefits(1)(2)(3)	1	7	26	0	0	1
Net periodic (benefit) cost	<u>\$ 117</u>	<u>\$ 220</u>	<u>\$ 262</u>	<u>\$ (4)</u>	<u>\$ 10</u>	<u>\$ 34</u>

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

***Changes in Accumulated Other Comprehensive Income (Loss)***

The benefit obligation is based upon actuarial assumptions such as discount, termination, retirement, mortality and salary growth rates. Changes at year-end in these actuarial assumptions, along with experience changes based on updated participant census data are deferred in AOCI. Plan assets generate actuarial gains and losses when actual returns on plan assets differ from expected returns on plan assets, and these differences are also deferred in AOCI. The cumulative deferred gain (loss) within AOCI is amortized into earnings if it exceeds 10% of the greater of the benefit obligation or plan assets at the beginning of the year, and the amortization period is based upon the actuarially calculated expected future years of service for a given plan.

# PRUDENTIAL FINANCIAL, INC.

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The amounts recorded in AOCI as of the end of the period, which have not yet been recognized as a component of net periodic (benefit) cost, and the related changes in these items during the period that are recognized in “Other comprehensive income (loss)” are as follows:

	Pension Benefits		Other Postretirement Benefits	
	Prior Service Cost	Net Actuarial (Gain) Loss	Prior Service Cost	Net Actuarial (Gain) Loss
	(in millions)			
Balance, December 31, 2018	\$(15)	\$3,829	\$ 41	\$ 408
Amortization for the period	4	(217)	(4)	(24)
Deferrals for the period(1)	0	634	27	(45)
Impact of foreign currency changes and other	(1)	(55)	1	2
Balance, December 31, 2019	(12)	4,191	65	341
Amortization for the period	4	(262)	(6)	(16)
Deferrals for the period(2)	0	42	0	30
Impact of foreign currency changes and other	(2)	1	0	(1)
Balance, December 31, 2020	(10)	3,972	59	354
Amortization for the period	3	(245)	(6)	(16)
Deferrals for the period(3)	0	(545)	(121)	(127)
Impact of foreign currency changes and other	2	(51)	(1)	0
Balance, December 31, 2021	\$ (5)	\$3,131	\$ (69)	\$ 211

- (1) For 2019, deferred losses for pension were driven by a decrease in discount rate partially offset by favorable asset performance. Deferred gains for other postretirement benefits were driven by favorable asset performance partially offset by a decrease in discount rate.
- (2) For 2020, deferred losses for pension and other postretirement benefits were driven by a decrease in discount rate partially offset by favorable asset performance.
- (3) For 2021, deferred gains for pension and other postretirement benefits were driven by an increase in discount rate and favorable asset performance.

The Company’s assumptions related to the calculation of the domestic benefit obligation (end of period) and the determination of net periodic (benefit) cost (beginning of period) are presented in the table below:

	Pension Benefits			Other Postretirement Benefits		
	2021	2020	2019	2021	2020	2019
<b>Weighted average assumptions</b>						
Discount rate (beginning of period)	2.55%	3.30%	4.30%	2.40%	3.25%	4.30%
Discount rate (end of period)	2.85%	2.55%	3.30%	2.75%	2.40%	3.25%
Rate of increase in compensation levels (beginning of period)	4.50%	4.50%	4.50%	N/A	N/A	N/A
Rate of increase in compensation levels (end of period)	4.50%	4.50%	4.50%	N/A	N/A	N/A
Expected return on plan assets (beginning of period)	5.75%	6.00%	6.50%	6.75%	6.75%	7.00%
Interest crediting rate (beginning of period)	4.25%	4.30%	4.30%	N/A	N/A	N/A
Interest crediting rate (end of period)	4.25%	4.25%	4.30%	N/A	N/A	N/A
Health care cost trend rates (beginning of period)	N/A	N/A	N/A	6.25%	6.25%	6.00%
Health care cost trend rates (end of period)	N/A	N/A	N/A	6.00%	6.25%	6.25%
For 2021, 2020 and 2019, the ultimate health care cost trend rate after gradual decrease until:						
2028, 2028, 2024, (beginning of period)	N/A	N/A	N/A	4.50%	4.50%	5.00%
For 2021, 2020 and 2019, the ultimate health care cost trend rate after gradual decrease until:						
2028, 2028, 2028 (end of period)	N/A	N/A	N/A	4.50%	4.50%	4.50%

The domestic discount rate used to value the pension and postretirement obligations at December 31, 2021 and December 31, 2020 is based upon the value of a portfolio of Aa-rated investments whose cash flows would be available to pay the benefit obligation’s cash flows when due. The December 31, 2021 portfolio is selected from a compilation of approximately 420 Aa-rated bonds across the full range of maturities. Since yields can vary widely at each maturity point, the Company generally avoids using the highest and lowest yielding bonds at the maturity points, so as to avoid relying on bonds that might be mispriced or misrated. This refinement process generally results in having a distribution from the 10th to 90th percentile. The Aa-rated portfolio is then selected and, accordingly, its value is a measure of the benefit obligation. A single equivalent discount rate is calculated to equate the value of the Aa-rated portfolio to the cash flows for the benefit obligation. The result is rounded to the nearest 5 basis points and the benefit obligation is recalculated using the rounded discount rate.

The pension and postretirement expected long-term rates of return on plan assets for 2021 were determined based upon an approach that considered the allocation of plan assets as of December 31, 2020. Expected returns are estimated by asset class as noted in the discussion of investment policies and strategies below. Expected returns on asset classes are developed using a building-block approach

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that is forward looking and are not strictly based upon historical returns. The building blocks for equity returns include inflation, real return, a term premium, an equity risk premium, capital appreciation, expenses, the effect of active management and the effect of rebalancing. The building blocks for fixed maturity returns include inflation, real return, a term premium, credit spread, capital appreciation, effect of active management, expenses and the effect of rebalancing.

The Company applied the same approach to the determination of the expected rate of return on plan assets in 2022. The expected rate of return for 2022 is 6.00% and 7.00% for pension and postretirement, respectively.

The assumptions for foreign pension plans are based on local markets. There are no material foreign postretirement plans.

**Plan Assets**

The investment goal of the domestic pension plan assets is to generate an above benchmark return on a diversified portfolio of stocks, bonds and other investments. The cash requirements of the pension obligation, which include a traditional formula principally representing payments to annuitants and a cash balance formula that allows lump sum payments and annuity payments, are designed to be met by the bonds and short-term investments in the portfolio.

The investment goal of the domestic postretirement plan assets is to generate an above benchmark return on a diversified portfolio of stocks, bonds, and other investments, while meeting the cash requirements for the postretirement obligation that includes a medical benefit including prescription drugs, a dental benefit and a life benefit.

The pension and postretirement plans risk management practices include guidelines for asset concentration, credit rating, liquidity and tax efficiency. The pension and postretirement plans do not invest in leveraged derivatives. Derivatives such as futures contracts are used to reduce transaction costs and change asset concentration, while interest rate swaps and futures are used to adjust duration.

The plan fiduciaries for the Company's pension and postretirement plans have developed guidelines for asset allocations reflecting a percentage of total assets by asset class, which are reviewed on an annual basis. Asset allocation targets as of December 31, 2021 are as follows:

Asset Category	Pension		Postretirement	
	Minimum	Maximum	Minimum	Maximum
U.S. Equities	2%	6%	34%	74%
International Equities	3%	8%	2%	25%
Fixed Maturities	50%	65%	10%	43%
Short-term Investments	0%	13%	0%	26%
Real Estate	2%	16%	0%	0%
Other	5%	32%	0%	0%

To implement the investment strategy, plan assets are invested in funds that primarily invest in securities that correspond to one of the asset categories under the investment guidelines. However, at any point in time, some of the assets in a fund may be of a different nature than the specified asset category.

Assets held with PICA are in either pooled separate accounts or single client separate accounts. Assets held with a bank are either in common/collective trusts or single client trusts. Pooled separate accounts and common/collective trusts hold assets for multiple investors. Each investor owns a "unit of account." The asset allocation targets above include the underlying asset mix in the Pooled Separate Accounts and Common/Collective Trusts. Single client separate accounts or trusts hold assets for only one investor, the domestic qualified pension plan, and each security in the fund is treated as individually owned.

There were no investments in Prudential Financial Common Stock as of December 31, 2021 and December 31, 2020 for either the pension or postretirement plans.

The authoritative guidance around fair value established a framework for measuring fair value. Fair value is disclosed using a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, as described in Note 6.

The following describes the valuation methodologies used for pension and postretirement plans assets measured at fair value.

*Insurance Company Pooled Separate Accounts, Common/Collective Trusts, and United Kingdom Insurance Pooled Funds*—Insurance company pooled separate accounts are invested via group annuity contracts issued by PICA. Assets are represented by a "unit of account." The redemption value of those units is based on a per unit value whose value is the result of the accumulated values of underlying investments. The unit of account value is used as a practical expedient to estimate fair value.

*Equities*—See Note 6 for a discussion of the valuation methodologies for equity securities.

# PRUDENTIAL FINANCIAL, INC.

## Notes to Consolidated Financial Statements

*U.S. Government Securities (both Federal and State & Other), Non-U.S. Government Securities, and Corporate Debt*—See Note 6 for a discussion of the valuation methodologies for fixed maturity securities.

*Interest Rate Swaps*—See Note 6 for a discussion of the valuation methodologies for derivative instruments.

*Registered Investment Companies (Mutual Funds)*—Securities are priced at the NAV, which is the closing price published by the registered investment company on the reporting date.

*Short-term Investments*—Securities are valued initially at cost and thereafter adjusted for amortization of any discount or premium (i.e., amortized cost). Amortized cost approximates fair value.

*Partnerships*—The value of interests owned in partnerships is based on valuations of the underlying investments that include private placements, structured debt, real estate, equities, fixed maturities, commodities and other investments.

*Hedge Funds*—The value of interests in hedge funds is based on the underlying investments that include equities, debt and other investments.

*Variable Life Insurance Policies*—These assets are held in group and individual variable life insurance policies issued by PICA. Group policies are invested in Insurance Company Pooled Separate Accounts. Individual policies are invested in Registered Investment Companies (Mutual Funds). The value of interest in these policies is the cash surrender value (contract value) of the policies based on the underlying investments. The variable life insurance policies are valued at contract value which approximates fair value.

Pension plan asset allocations in accordance with the investment guidelines are as follows:

	As of December 31, 2021				As of December 31, 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(in millions)							
Fixed Maturities:								
U.S. government securities (federal):								
Mortgage-backed	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1	\$ 0	\$ 1
Other U.S. government securities	0	1,081	0	1,081	0	985	0	985
U.S. government securities (state & other)	0	518	0	518	0	588	0	588
Non-U.S. government securities	0	114	0	114	0	103	0	103
Corporate Debt:								
Corporate bonds	0	3,809	0	3,809	0	4,290	0	4,290
Asset-backed	0	23	0	23	0	25	0	25
Collateralized mortgage obligations	0	570	0	570	0	614	0	614
Collateralized loan obligations	0	502	0	502	0	441	0	441
Interest rate swaps(1)	0	(1)	0	(1)	0	0	0	0
Registered investment companies	85	0	0	85	96	0	0	96
Other(2)	11	4	42	57	33	2	35	70
Subtotal fixed maturities	96	6,620	42	6,758	129	7,049	35	7,213
Real Estate:								
Partnerships	0	0	998	998	0	0	838	838
Other:								
Partnerships	0	0	1,800	1,800	0	0	1,234	1,234
Hedge funds	0	0	1,304	1,304	0	0	1,327	1,327
Subtotal other	0	0	3,104	3,104	0	0	2,561	2,561
Net assets in the fair value hierarchy	\$96	\$6,620	\$4,144	\$10,860	\$129	\$7,049	\$3,434	\$10,612
Investments Measured at Net Asset Value, as a Practical Expedient(3):								
Pooled separate accounts				\$ 2,554				\$ 2,659
Common/collective trusts				1,643				1,440
United Kingdom insurance pooled funds				185				186
Net assets at fair value				\$15,242				\$14,897

(1) Interest rate swaps notional amount is \$433 million and \$13 million for the years ended December 31, 2021 and 2020, respectively.

(2) This category primarily consists of cash and cash equivalents, short-term investments, payables and receivables, and open future contract positions (including fixed income collateral).

(3) The pension plan excludes from the fair value hierarchy investments that are measured at NAV per share (or its equivalent) as a practical expedient to estimate fair value.

**PRUDENTIAL FINANCIAL, INC.**  
**Notes to Consolidated Financial Statements**

**Changes in Fair Value of Level 3 Pension Assets**

	<u>Fixed Maturities</u>	<u>Real Estate</u>	<u>Other</u>	
	<u>Other</u>	<u>Partnerships</u>	<u>Partnerships</u>	<u>Hedge Fund</u>
	(in millions)			
Fair Value, January 1, 2020 .....	\$44	\$688	\$ 973	\$1,312
Actual Return on Assets:				
Relating to assets still held at the reporting date .....	0	11	161	116
Relating to assets sold during the period .....	0	0	0	0
Purchases, sales and settlements .....	(9)	139	100	(101)
Transfers in and/or out of Level 3 .....	0	0	0	0
Fair Value, December 31, 2020 .....	<u>\$35</u>	<u>\$838</u>	<u>\$1,234</u>	<u>\$1,327</u>
Actual Return on Assets:				
Relating to assets still held at the reporting date .....	0	128	639	98
Relating to assets sold during the period .....	0	0	0	0
Purchases, sales and settlements .....	7	32	(73)	(121)
Transfers in and/or out of Level 3 .....	0	0	0	0
Fair Value, December 31, 2021 .....	<u>\$42</u>	<u>\$998</u>	<u>\$1,800</u>	<u>\$1,304</u>

Postretirement plan asset allocations in accordance with the investment guidelines are as follows:

	<u>As of December 31, 2021</u>				<u>As of December 31, 2020</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3(3)</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(in millions)							
Equities:								
U.S. equities(1) .....	\$ 0	\$40	\$0	\$ 40	\$ 0	\$36	\$0	\$ 36
International equities .....	0	10	0	10	0	9	0	9
Subtotal equities .....	0	50	0	50	0	45	0	45
Fixed Maturities:								
U.S. government securities (federal):								
Other U.S. government securities .....	0	0	0	0	0	9	0	9
Non-U.S. government securities .....	0	0	0	0	0	1	0	1
Corporate Debt:								
Corporate bonds .....	0	0	0	0	0	7	0	7
Asset-backed .....	0	0	0	0	0	2	0	2
Collateralized mortgage obligations .....	0	0	0	0	0	3	0	3
Collateralized loan obligations .....	0	0	0	0	0	4	0	4
Registered investment companies .....	0	0	0	0	19	0	0	19
Subtotal fixed maturities .....	0	0	0	0	19	26	0	45
Short-term Investments:								
Registered investment companies .....	114	0	0	114	165	0	0	165
Net assets in the fair value hierarchy .....	<u>\$114</u>	<u>\$50</u>	<u>\$0</u>	<u>\$ 164</u>	<u>\$184</u>	<u>\$71</u>	<u>\$0</u>	<u>\$ 255</u>
Investments Measured at Net Asset Value, as a Practical Expedient(2):								
Common/collective trusts .....				\$ 294				\$ 279
Net assets at fair value .....				458				534
Variable Life Insurance Policies at contract value .....				1,163				1,055
Total net assets .....				<u>\$1,621</u>				<u>\$1,589</u>

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

(2) The postretirement plan excludes from the fair value hierarchy investments that are measured at NAV per share (or its equivalent) as a practical expedient to estimate fair value.

(3) There were no changes in the fair value of Level 3 postretirement assets from December 31, 2020 through December 31, 2021.



# PRUDENTIAL FINANCIAL, INC.

## Notes to Consolidated Financial Statements

The expected benefit payments for the Company's pension and postretirement plans, as well as the expected Medicare Part D subsidy receipts related to the Company's postretirement plan, for the years indicated are as follows:

	Pension Benefit Payments	Other Postretirement Benefit Payments	Other Postretirement Benefits— Medicare Part D Subsidy Receipts
		(in millions)	
2022 .....	\$ 823	\$ 160	\$ 6
2023 .....	852	161	6
2024 .....	859	160	6
2025 .....	890	155	6
2026 .....	898	150	6
2027-2031 .....	4,683	583	26
Total .....	<u>\$9,005</u>	<u>\$1,369</u>	<u>\$56</u>

The Company anticipates that it will make cash contributions in 2022 of approximately \$190 million to the pension plans and approximately \$10 million to the postretirement plans.

### Postemployment Benefits

The Company accrues postemployment benefits for income continuance and health and life benefits provided to former or inactive employees who are not retirees. The net accumulated liability for these benefits at December 31, 2021 and 2020 was \$34 million and \$15 million, respectively, and is included in "Other liabilities."

### Other Employee Benefits

The Company sponsors voluntary savings plans for employees (401(k) plans). The plans provide for salary reduction contributions by employees and matching contributions by the Company of up to 4% of annual salary. The matching contributions by the Company included in "General and administrative expenses" were \$80 million, \$82 million and \$84 million for the years ended December 31, 2021, 2020 and 2019, respectively.

## 19. EQUITY

### Preferred Stock

As of December 31, 2021, 2020 and 2019, the Company had 10,000,000 shares of preferred stock authorized but none issued or outstanding.

### Common Stock

On the date of demutualization in December 2001, Prudential Financial completed an initial public offering of its Common Stock. The shares of Common Stock issued were in addition to shares of Common Stock the Company distributed to policyholders as part of the demutualization. The Common Stock is traded on the New York Stock Exchange under the symbol "PRU". In the event of a liquidation, dissolution or winding-up of the Company, holders of Common Stock would be entitled to receive a proportionate share of the net assets of the Company that remain after paying all liabilities and the liquidation preferences of any preferred stock.

**PRUDENTIAL FINANCIAL, INC.**  
**Notes to Consolidated Financial Statements**

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

	<b>Common Stock</b>		
	<b>Issued</b>	<b>Held In Treasury</b>	<b>Outstanding</b>
	<b>(in millions)</b>		
<b>Balance, December 31, 2018</b> .....	660.1	249.4	410.7
Common Stock issued(2)(3) .....	6.2	(5.5)	11.7
Common Stock acquired .....	0.0	27.2	(27.2)
Stock-based compensation programs(1) .....	0.0	(3.6)	3.6
<b>Balance, December 31, 2019</b> .....	666.3	267.5	398.8
Common Stock issued .....	0.0	0.0	0.0
Common Stock acquired .....	0.0	6.7	(6.7)
Stock-based compensation programs(1) .....	0.0	(4.3)	4.3
<b>Balance, December 31, 2020</b> .....	666.3	269.9	396.4
Common Stock issued .....	0.0	0.0	0.0
Common Stock acquired .....	0.0	24.5	(24.5)
Stock-based compensation programs(1) .....	0.0	(4.4)	4.4
<b>Balance, December 31, 2021</b> .....	<u>666.3</u>	<u>290.0</u>	<u>376.3</u>

- (1) Represents net shares issued from treasury pursuant to the Company's stock-based compensation programs.
- (2) In August 2019, as a result of the note holders' exercise of the exchange option on \$500 million of surplus notes, the Company issued approximately 6.2 million shares of Common Stock at an exchange rate equal to 12.3877 shares of Common Stock per each \$1,000 principal amount of surplus notes. The Company's obligations under the surplus notes are now satisfied. For additional information, see Note 20.
- (3) In October 2019, the Company issued approximately 5.5 million shares of Common Stock as part of consideration paid for the Assurance IQ acquisition. For additional information about the acquisition, see Note 1.

***Additional paid-in capital***

"Additional paid-in capital" is primarily comprised of the cumulative excess between: (a) the total cash received by the Company in conjunction with past issuances of Common Stock shares or Common Stock shares reissued from treasury in conjunction with the Company's stock-based compensation program and (b) the total par value associated with those shares (\$.01 per share).

***Common stock held in treasury***

Common Stock held in treasury represents the Company's previously issued shares of stock which have been repurchased by the Company but not retired. These shares are accounted for at the cost at which they were acquired. Common Stock held in treasury is typically impacted by repurchases of shares under the Board of Directors approved share repurchase program and by reissuances of shares associated with our stock-based compensation programs, or for other purposes, which are accounted for at average cost upon reissuance. Gains resulting from the reissuance of Common Stock held in treasury are credited to "Additional paid-in capital". Losses resulting from the reissuance of Common Stock held in treasury are charged first to "Additional paid-in capital" to the extent the Company has previously recorded gains on treasury share transactions, then to "Retained earnings".

The Board of Directors may from time to time, at its discretion, authorize management to repurchase shares of Common Stock of the Company. 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 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 on the segments.

# PRUDENTIAL FINANCIAL, INC.

## Notes to Consolidated Financial Statements

The following table summarizes share repurchases for each of the past three years as well as the share repurchase authorization for 2022, which was approved by the Board of Directors in November 2021:

	January 1, 2022 - December 31, 2022	January 1, 2021 - December 31, 2021	January 1, 2020 - December 31, 2020(1)	January 1, 2019 - December 31, 2019
Total Board authorized share repurchase amount (\$ in billions) .....	\$ 1.5	\$ 2.5	\$2.0	\$ 2.5
Total number of shares repurchased under this authorization as of the period end (in millions) .....	N/A*	24.5	6.7	27.2

\* Share repurchase authorization for a future period.

(1) In April 2020, the Company suspended Common Stock repurchases under the 2020 share repurchase authorization and did not resume share repurchases for the remainder of the authorization period.

### Accumulated Other Comprehensive Income (Loss)

AOCI represents the cumulative OCI items that are reported separate from net income and detailed on the Consolidated Statements of Comprehensive Income. Each of the components that comprise OCI are described in further detail in Note 2 (Foreign Currency Translation Adjustment and Net Unrealized Investment Gains (Losses)) and Note 18 (Pension and Postretirement Unrecognized Net Periodic Benefit (Cost)). The balance of and changes in each component of AOCI as of and for the years ended December 31, are as follows:

Accumulated Other Comprehensive Income (Loss) 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)	
<b>Balance, December 31, 2018</b> .....	\$ (564)	\$14,745	\$(3,275)	\$10,906
Change in OCI before reclassifications .....	37	18,540	(563)	18,014
Amounts reclassified from AOCI .....	27	(1,345)	241	(1,077)
Income tax benefit (expense) .....	(36)	(3,835)	60	(3,811)
Cumulative effect of adoption of ASU 2017-12 .....	0	7	0	7
<b>Balance, December 31, 2019</b> .....	(536)	28,112	(3,537)	24,039
Change in OCI before reclassifications .....	455	8,112	(70)	8,497
Amounts reclassified from AOCI .....	57	(883)	280	(546)
Income tax benefit (expense) .....	76	(1,276)	(52)	(1,252)
<b>Balance, December 31, 2020</b> .....	52	34,065	(3,379)	30,738
Change in OCI before reclassifications .....	(1,058)	(9,226)	843	(9,441)
Amounts reclassified from AOCI .....	(65)	(2,486)	264	(2,287)
Income tax benefit (expense) .....	(79)	2,634	(241)	2,314
<b>Balance, December 31, 2021</b> .....	<u><u>\$(1,150)</u></u>	<u><u>\$24,987</u></u>	<u><u>\$(2,513)</u></u>	<u><u>\$21,324</u></u>

(1) Includes cash flow hedges of \$1,019 million, \$(168) million and \$832 million as of December 31, 2021, 2020, and 2019, respectively, and fair value hedges of \$(35) million, \$10 million, and \$0 million as of December 31, 2021, 2020, and 2019, respectively.

**PRUDENTIAL FINANCIAL, INC.**  
**Notes to Consolidated Financial Statements**

***Reclassifications out of Accumulated Other Comprehensive Income (Loss)***

	Years Ended December 31,			Affected line item in Consolidated Statements of Operations
	2021	2020	2019	
	(in millions)			
Amounts reclassified from AOCI(1)(2):				
Foreign currency translation adjustment:				
Foreign currency translation adjustment . . . . .	\$ 2	\$ 1	\$ (27)	Realized investment gains (losses), net
Foreign currency translation adjustment . . . . .	63	(58)	0	Other income (loss)
Total foreign currency translation adjustment . . . . .	65	(57)	(27)	
Net unrealized investment gains (losses):				
Cash flow hedges—Interest Rate . . . . .	0	40	58	(3)
Cash flow hedges—Currency . . . . .	(4)	5	6	(3)
Cash flow hedges—Currency/Interest rate . . . . .	557	110	315	(3)
Fair value hedges—Currency . . . . .	(6)	(1)	0	(3)
Net unrealized investment gains (losses) on available-for-sale securities . . . . .	1,939	729	966	Realized investment gains (losses), net
Total net unrealized investment gains (losses) . . . . .	2,486	883	1,345	(4)
Amortization of defined benefit items:				
Prior service cost . . . . .	(3)	(2)	0	(5)
Actuarial gain (loss) . . . . .	(261)	(278)	(241)	(5)
Total amortization of defined benefit items . . . . .	(264)	(280)	(241)	
Total reclassifications for the period . . . . .	\$2,287	\$ 546	\$1,077	

- (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 18 for information on employee benefit plans.

# PRUDENTIAL FINANCIAL, INC.

## Notes to Consolidated Financial Statements

### Net Unrealized Investment Gains (Losses)

Net unrealized investment gains (losses) on available-for-sale fixed maturity securities and certain other invested assets and other assets are included in the Company's Consolidated Statements of Financial Position as a component of AOCI. Changes in these amounts include reclassification adjustments to exclude from "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 OTTI loss had been previously recognized, an allowance for credit losses has been recorded, and all other net unrealized investment gains (losses), are as follows:

	Net Unrealized Gains (Losses) on Available-for-Sale Fixed Maturity Securities on which an OTTI Loss has been Recognized	Net Unrealized Gains (Losses) on 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  (in millions)	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)
<b>Balance, December 31, 2018</b>	\$ 189	\$ 0	\$ 22,531	\$ (739)	\$ (787)	\$ (917)	\$ (5,532)	\$ 14,745
Net investment gains (losses) on investments								
arising during the period	129		23,826				(5,311)	18,644
Reclassification adjustment for (gains) losses								
included in net income	(96)		(1,249)				298	(1,047)
Reclassification adjustment for OTTI losses								
excluded from net income	21		(21)				0	0
Impact of net unrealized investment (gains) losses				(846)	(2,122)	(2,449)	1,180	(4,237)
Cumulative effect of adoption of ASU 2017-12			9				(2)	7
<b>Balance, December 31, 2019</b>	243	0	45,096	(1,585)	(2,909)	(3,366)	(9,367)	28,112
Reclassification to all other due to implementation of ASU 2016-13(2)	(243)		243				0	0
Net investment gains (losses) on investments								
arising during the period		47	13,914				(2,665)	11,296
Reclassification adjustment for (gains) losses								
included in net income		25	(908)				168	(715)
Reclassification due to allowance for credit losses recorded during the period		(97)	97				0	0
Impact of net unrealized investment (gains) losses				356	(3,679)	(2,526)	1,221	(4,628)
<b>Balance, December 31, 2020</b>	0	(25)	58,442	(1,229)	(6,588)	(5,892)	(10,643)	34,065
Net investment gains (losses) on investments								
arising during the period		41	(15,505)				3,435	(12,029)
Reclassification adjustment for (gains) losses								
included in net income		10	(2,496)				552	(1,934)
Reclassification due to allowance for credit losses recorded during the period		(3)	3				0	0
Impact of net unrealized investment (gains) losses				686	3,317	2,235	(1,353)	4,885
<b>Balance, December 31, 2021</b>	<u>\$ 0</u>	<u>\$ 23</u>	<u>\$ 40,444</u>	<u>\$ (543)</u>	<u>\$(3,271)</u>	<u>\$(3,657)</u>	<u>\$ (8,009)</u>	<u>\$ 24,987</u>

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

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

**PRUDENTIAL FINANCIAL, INC.**  
**Notes to Consolidated Financial Statements**

***Retained earnings***

Retained earnings primarily represents the cumulative net income earned by the Company that has been retained by the Company as of the reporting date. Other unique items, included but not limited to the adoption of new accounting standards updates, may also impact retained earnings. In any given period, retained earnings may increase due to net income and may decrease due to net losses or the declaration of dividends. The declaration and payment of dividends on the Common Stock is limited by New Jersey corporate law, pursuant to which Prudential Financial is prohibited from paying a Common Stock dividend if, after giving effect to that dividend, either (a) the Company would be unable to pay its debts as they become due in the usual course of its business or (b) the Company's total assets would be less than its liabilities. In addition, the terms of the Company's outstanding junior subordinated debt include a "dividend stopper" provision that restricts the payment of dividends on the Common Stock if interest payments are not made on the junior subordinated debt.

Other than the above limitations, the Company's Retained earnings balance is free of restrictions for the payment of Common Stock dividends; however, Common Stock dividends will be dependent upon financial conditions, results of operations, cash needs, future prospects and other factors, including cash available to Prudential Financial, the parent holding company. The principal sources of funds available to Prudential Financial are dividends and returns of capital from its subsidiaries, loans from its subsidiaries, repayments of operating loans from its subsidiaries, and cash and other highly liquid assets. The primary uses of funds at Prudential Financial include servicing its debt, operating expenses, capital contributions and loans to subsidiaries, the payment of declared shareholder dividends and repurchases of outstanding shares of Common Stock if executed under Board authority. As of December 31, 2021, Prudential Financial had highly liquid assets (excluding amounts held in an intercompany liquidity account) of \$3,553 million predominantly including cash, short-term investments, U.S. Treasury securities, obligations of other U.S. government authorities and agencies, and/or foreign government bonds.

Future cash available at Prudential Financial to support the payment of future Common Stock dividends is dependent on the receipt of dividends or other funds from its subsidiaries, the majority of which are subject to comprehensive regulation, including limitations on their payment of dividends and other transfers of funds, which are discussed in this Note further below.

***Non-controlling interests***

For certain subsidiaries, the Company owns a controlling interest that is less than 100% ownership of the subsidiary but must consolidate 100% of the subsidiary's financial statements in accordance with U.S. GAAP. Non-controlling interests represent the portion of equity ownership in a consolidated subsidiary that is not attributable to the Company.

***Insurance Subsidiaries—Statutory Financial Information and Restrictions on Payments of Dividends***

**U.S. Insurance Subsidiaries—Statutory Financial Information**

The Company's domestic insurance subsidiaries are required to prepare statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the insurance department of the state of domicile. Statutory accounting practices primarily differ from U.S. GAAP by charging policy acquisition costs to expense as incurred, establishing future policy benefit liabilities using different actuarial assumptions as well as valuing investments and certain assets and accounting for deferred taxes on a different basis.

The risk-based capital ("RBC") ratio is a primary measure by which the Company and its insurance regulators evaluate the capital adequacy of PICA and the Company's other domestic insurance subsidiaries. RBC is determined by NAIC-prescribed formulas that consider, among other things, risks related to the type and quality of the invested assets, insurance-related risks associated with an insurer's products and liabilities, interest rate risks and general business risks. Insurers that have less statutory capital than required are considered to have inadequate capital and are subject to varying degrees of regulatory action depending upon the level of capital inadequacy. The Company expects to report RBC ratios as of December 31, 2021 above the regulatory required minimums that would require corrective action and above our "AA" financial strength target levels for both PICA and PALAC.

The following table summarizes certain statutory financial information for the Company's two largest U.S. insurance subsidiaries for the periods indicated:

In millions and presented as of or for the year ended	PICA			PALAC		
	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2021	December 31, 2020	December 31, 2019
Statutory net income (loss)(1) .....	\$ 966	\$ 1,770	\$ (169)	\$2,045	\$ (768)	\$(2,052)
Statutory capital and surplus(1) .....	\$19,123	\$11,597	\$11,483	\$1,014	\$6,131	\$ 4,748

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



## PRUDENTIAL FINANCIAL, INC.

### Notes to Consolidated Financial Statements

#### U.S. Insurance Subsidiaries—Restrictions on Payment of Dividends to Prudential Financial, the Parent Holding Company

With respect to PICA, a New Jersey domiciled insurance subsidiary which is also the Company's primary domestic insurance subsidiary, New Jersey insurance law provides that, except in the case of extraordinary dividends (as described below), all dividends or other distributions paid by PICA may be paid only from unassigned surplus, as determined pursuant to statutory accounting principles, less cumulative unrealized investment gains and losses and revaluation of assets as of the prior calendar year-end. As of December 31, 2021, PICA's unassigned surplus less applicable adjustments for cumulative unrealized investment gains was \$8,934 million. PICA must give prior notification to the NJDOBI of its intent to pay any such dividend or distribution. Also, if any dividend, together with other dividends or distributions made within the preceding twelve months, exceeds the greater of (i) 10% of statutory capital and surplus as of the preceding December 31 or (ii) its statutory net gain from operations excluding realized investment gains and losses for the twelve-month period ending on the preceding December 31, the dividend is considered to be an "extraordinary dividend" and requires the prior approval of the NJDOBI. Under New Jersey insurance law, PICA is permitted to pay an ordinary dividend of up to \$1,912 million in 2022, without prior approval of the NJDOBI. Of the \$1,912 million, \$812 million is permitted to be paid prior to December 13, 2022, and the remaining \$1,100 million is permitted to be paid after December 13, 2022.

The laws regulating dividends of the states where the Company's other domestic insurance subsidiaries are domiciled are similar, but not identical, to New Jersey. With respect to PALAC, an Arizona domiciled insurance subsidiary of the Company, Arizona insurance law provides that if any dividend, together with other dividends or distributions made within the preceding twelve months, exceeds the lesser of (i) 10% of statutory capital and surplus as of the preceding December 31 or (ii) its statutory net gain from operations excluding realized investment gains and losses for the twelve month period ending on the preceding December 31, the dividend is considered to be an "extraordinary dividend" and requires prior approval of the Arizona Department of Insurance. Under Arizona law, PALAC has no ordinary dividend capacity during 2022. All dividends will be considered extraordinary and will require prior approval from the Arizona Department of Insurance.

#### International Insurance Subsidiaries—Statutory Financial Information

The Company's international insurance subsidiaries prepare financial statements in accordance with local regulatory requirements. These statutory accounting practices differ from U.S. GAAP primarily by charging policy acquisition costs to expense as incurred and establishing future policy benefit liabilities using different actuarial assumptions, as well as valuing investments and certain assets and accounting for deferred taxes on a different basis.

The Japan Financial Services Agency ("FSA") utilizes a solvency margin ratio to evaluate the capital adequacy of Japanese insurance companies. The solvency margin ratio considers the level of solvency margin capital to a solvency margin risk amount, which is calculated in a similar manner to RBC. As of December 31, 2021, the Company expects The Prudential Life Insurance Company Ltd. ("Prudential of Japan") and Gibraltar Life both had solvency margin capital in excess of 3.5 times the regulatory required minimums that would require corrective action.

All of the Company's domestic and international insurance subsidiaries have capital and surplus levels that exceed their respective regulatory minimum requirements, and none utilized prescribed or permitted practices that vary materially from the practices prescribed by the NAIC or equivalent regulatory bodies for results reported as of December 31, 2021 and 2020, respectively, or for the years ended December 31, 2021, 2020 and 2019, respectively.

#### International Insurance Subsidiaries—Restrictions on Payment of Dividends to Prudential Financial, the Parent Holding Company

The Company's international insurance operations are subject to dividend restrictions from the regulatory authorities in the jurisdictions in which they operate. With respect to Prudential of Japan and Gibraltar Life, the Company's most significant international insurance subsidiaries, both of which are domiciled in Japan, Japan insurance law provides that common stock dividends may be paid in an amount of up to 83% of prior fiscal year statutory after-tax earnings, after certain reserving thresholds are met, including providing for policyholder dividends. If statutory retained earnings exceed 100% of statutory paid-in capital, 100% of prior year statutory after-tax earnings may be paid, after reserving thresholds are met. Dividends in excess of these amounts and other forms of capital distribution require the prior approval of the FSA. Additionally, Prudential of Japan and Gibraltar Life must give prior notification to the FSA of their intent to pay any dividend or distribution.

For the year ended December 31, 2021, Prudential Financial received \$1,184 million from its international insurance subsidiaries, which includes \$994 million of in-kind dividends in the form of extinguishment of debt held by international insurance subsidiaries. In addition to paying Common Stock dividends, the Company's international insurance operations may return capital to Prudential Financial through, or facilitated 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. The Company's Japan insurance operations have entered into reinsurance agreements with Gibraltar Re, the Company's Bermuda-based reinsurance affiliate, to reinsure the mortality and morbidity risk associated with a portion of the in-force contracts as well as newly-issued contracts for certain products. The Company expects these transactions will allow it to more efficiently manage its capital and risk profile. The current regulatory fiscal year

**PRUDENTIAL FINANCIAL, INC.**  
**Notes to Consolidated Financial Statements**

end for both Prudential of Japan and Gibraltar Life is March 31, 2022, after which time the common stock dividend amount permitted to be paid without prior approval from the FSA can be determined.

In addition, although prior regulatory approval may not be required by law for the payment of dividends up to the limitations described above, in practice, the Company would typically discuss any dividend payments with the applicable regulatory authority prior to payment. Additionally, the payment of dividends by the Company's subsidiaries is subject to declaration by their Board of Directors and may be affected by market conditions and other factors.

## 20. 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 years ended December 31, is as follows:

	2021			2020			2019		
	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount
	(in millions, except per share amounts)								
<b>Basic earnings per share</b>									
Net income (loss) .....	\$7,794			\$(146)			\$4,238		
Less: Income (loss) attributable to noncontrolling interests .....	70			228			52		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards .....	115			21			46		
Net income (loss) attributable to Prudential Financial available to holders of Common Stock .....	<u>\$7,609</u>	<u>387.2</u>	<u>\$19.65</u>	<u>\$(395)</u>	<u>395.8</u>	<u>\$(1.00)</u>	<u>\$4,140</u>	<u>404.8</u>	<u>\$10.23</u>
<b>Effect of dilutive securities and compensation programs</b>									
Add: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Basic .....	\$ 115			\$ 21			\$ 46		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Diluted .....	115			21			45		
Stock options .....		0.7			0.0			1.1	
Deferred and long-term compensation programs .....		2.2			0.0			1.4	
Exchangeable Surplus Notes .....	<u>0</u>	<u>0.0</u>		<u>0</u>	<u>0.0</u>		<u>12</u>	<u>3.6</u>	
<b>Diluted earnings per share(1)</b>									
Net income (loss) attributable to Prudential Financial available to holders of Common Stock .....	<u>\$7,609</u>	<u>390.1</u>	<u>\$19.51</u>	<u>\$(395)</u>	<u>395.8</u>	<u>\$(1.00)</u>	<u>\$4,153</u>	<u>410.9</u>	<u>\$10.11</u>

(1) For the year ended December 31, 2020, weighted average shares for basic earnings per share is also used for calculating diluted earnings per share because dilutive shares and dilutive earnings per share are not applicable when a net loss is reported. As a result of the net loss attributable to Prudential Financial available to holders of Common Stock for the year ended December 31, 2020, all potential stock options and compensation programs were considered antidilutive.

Unvested share-based payment awards that contain nonforfeitable rights to dividends are participating securities and included in the computation of earnings per share pursuant to the two-class method. Under this method, earnings attributable to Prudential Financial are allocated between Common Stock and the participating awards, as if the awards were a second class of stock. During periods of net income available to holders of Common Stock, the calculation of earnings per share excludes the income attributable to participating securities in the numerator and the dilutive impact of these securities from the denominator. In the event of a net loss available to holders of Common Stock, undistributed earnings are not allocated to participating securities and the denominator excludes the dilutive impact of these securities as they do not share in the losses of the Company. Undistributed earnings allocated to participating unvested share-based payment awards for the years ended December 31, 2021, 2020 and 2019, as applicable, were based on 5.8 million, 4.9 million and 4.6 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 years ended December 31, the number of

# PRUDENTIAL FINANCIAL, INC.

## Notes to Consolidated Financial Statements

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:

	2021		2020		2019	
	Shares	Exercise Price Per Share	Shares	Exercise Price Per Share	Shares	Exercise Price Per Share
	(in millions, except per share amounts, based on weighted average)					
Antidilutive stock options based on application of the treasury stock method . . . . .	1.0	\$102.54	3.3	\$82.06	1.2	\$102.84
Antidilutive stock options due to net loss available to holders of Common Stock . . . . .	0.0		0.4		0.0	
Antidilutive shares based on application of the treasury stock method . . . . .	0.0		0.2		0.0	
Antidilutive shares due to net loss available to holders of Common Stock . . . . .	0.0		1.6		0.0	
Total antidilutive stock options and shares . . . . .	<u>1.0</u>		<u>5.5</u>		<u>1.2</u>	

In September 2009, the Company issued \$500 million of surplus notes with an interest rate of 5.36% per annum which were exchangeable at the option of the note holders for shares of Common Stock. In August 2019, as a result of the note holders' exercise of the exchange option, the Company issued approximately 6.2 million shares of Common Stock at an exchange rate equal to 12.3877 shares of Common Stock per each \$1,000 principal amount of surplus notes. The Company's obligations under the surplus notes are now satisfied. In calculating diluted earnings per share under the if-converted method, for the year ended December 31, 2019, the potential shares that would be issued assuming a hypothetical exchange, weighted for the period the notes were outstanding, are added to the denominator, and the related interest expense, net of tax, is excluded from the numerator, if the overall effect is dilutive.

## 21. SHARE-BASED PAYMENTS

### *Omnibus Incentive Plan*

Prudential Financial, Inc.'s Omnibus Incentive Plan provides stock-based awards including stock options, stock appreciation rights, restricted stock shares, restricted stock units, stock settled performance shares, and cash settled performance units. Dividend equivalents are generally provided on restricted stock shares and restricted stock units outstanding as of the record date. Dividend equivalents are generally accrued on target performance shares and units outstanding as of the record date. These dividend equivalents are paid only on the performance shares and units released up to a maximum of the target number of shares and units awarded. Generally, the requisite service period is the vesting period. There were 12,362,031 authorized shares available for grant under the Omnibus Incentive Plan as of December 31, 2021.

### *Assurance IQ Acquisition*

The Company acquired Assurance IQ on October 10, 2019. The terms of the acquisition included compensation awards that involved share-based payment arrangements that are linked to retention and therefore fall under the reporting requirements of ASC 718, Stock Compensation. These compensation awards include stock options, restricted stock units and performance shares.

### *Compensation Costs*

Compensation cost for restricted stock units, performance shares and performance units granted to employees is measured by the share price of the underlying Common Stock at the date of grant.

Compensation cost for employee stock options is based on the fair values estimated on the grant date. Under the Omnibus Incentive Plan, the fair value of each stock option award is estimated using a binomial option pricing model on the date of grant for stock options issued to employees. For the awards related to the Assurance IQ acquisition, the fair value of each stock option award is based on its intrinsic value on the date of grant.

The weighted average grant date assumptions used in the binomial option valuation model are as follows:

	2020	2019
Expected volatility . . . . .	33.99%	34.63%
Expected dividend yield . . . . .	4.59%	4.26%
Expected term . . . . .	5.60 years	5.54 years
Risk-free interest rate . . . . .	1.42%	2.50%

There were no stock options granted in 2021.

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Expected volatility is based on historical volatility of Prudential Financial's Common Stock and implied volatility from traded options on Prudential Financial's Common Stock. The Company uses historical data and expectations of future exercise patterns to estimate option exercises and employee terminations within the valuation model. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods associated with the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The following table summarizes the compensation cost recognized and the related income tax benefit for stock options, restricted stock units, performance shares and performance units for the years ended December 31:

	2021		2020		2019	
	Total Compensation Cost Recognized(1)	Income Tax Benefit	Total Compensation Cost Recognized(1)	Income Tax Benefit	Total Compensation Cost Recognized(1)	Income Tax Benefit
<b>Omnibus Incentive Plan:</b>						
	(in millions)					
Employee stock options . . . . .	\$ 2	\$ 0	\$ 11	\$ 3	\$ 11	\$ 3
Employee restricted stock units . . . . .	178	\$41	162	38	149	35
Employee performance shares and performance units . . . . .	88	\$20	53	12	71	17
Total . . . . .	<u>\$268</u>	<u>\$61</u>	<u>\$226</u>	<u>\$53</u>	<u>\$231</u>	<u>\$55</u>

(1) Compensation costs related to retirement eligible participants are recorded on the grant date (typically in the first quarter of every year).

	2021		2020	
	Total Compensation Cost Recognized	Income Tax Benefit	Total Compensation Cost Recognized	Income Tax Benefit
<b>Assurance IQ Acquisition:</b>				
	(in millions)			
Employee stock options . . . . .	\$14	\$3	\$14	\$4
Employee restricted stock units . . . . .	2	0	2	1
Employee performance shares . . . . .	0	0	0	0
Total . . . . .	<u>\$16</u>	<u>\$3</u>	<u>\$16</u>	<u>\$5</u>

Compensation costs related to stock-based compensation plans capitalized in deferred acquisition costs for the years ended December 31, 2021, 2020 and 2019 were de minimis.

### Stock Options

Each stock option granted under the Omnibus Incentive Plan has an exercise price at the fair market value of Prudential Financial's Common Stock on the date of grant and has a maximum term of 10 years. Generally, one third of the option grant vests in each of the first three years. Options granted related to the Assurance IQ acquisition have an exercise price based on the original strike price of the Assurance IQ options that they replaced and have a maximum term of 10 years from the date the Assurance IQ options were originally granted. Options granted related to the Assurance IQ acquisition generally vest quarterly over three years.

A summary of the status of the Company's stock option grants is as follows:

	Employee Stock Options			
	Omnibus Incentive Plan		Assurance IQ Acquisition	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2020 . . . . .	4,563,852	\$81.21	394,266	\$1.60
Granted . . . . .	0	0.00	0	0.00
Exercised . . . . .	(1,505,572)	68.33	(155,818)	0.93
Forfeited . . . . .	(8,057)	95.11	(26,927)	1.38
Expired . . . . .	(16,120)	85.31	(59)	0.81
Outstanding at December 31, 2021 . . . . .	<u>3,034,103</u>	<u>\$87.54</u>	<u>211,462</u>	<u>\$2.12</u>
Exercisable at December 31, 2021 . . . . .	2,445,731	\$85.72	54,618	\$4.91

The weighted average grant date fair value of employee stock options granted under the Omnibus Incentive Plan during the years ended December 31, 2020 and 2019 was \$18.00 and \$20.02, respectively. For the Assurance IQ acquisition related awards, the weighted

# PRUDENTIAL FINANCIAL, INC.

## Notes to Consolidated Financial Statements

average grant date fair value of employee stock options granted during the year ended December 31, 2019 was \$86.31. No Assurance IQ acquisition related options were granted in 2020 or 2021.

The total intrinsic value (i.e., market price of the stock less the option exercise price) of employee stock options exercised during the years ended December 31, 2021, 2020 and 2019 was \$48 million, \$13 million, and \$21 million, respectively. For the Assurance IQ acquisition related awards, the total intrinsic value of employee stock options exercised during the years ended December 31, 2021, 2020 and 2019 was \$15 million, \$10 million and \$3 million, respectively.

The weighted average remaining contractual term and the aggregate intrinsic value of stock options outstanding and exercisable as of December 31, 2021 is as follows:

	Employee Stock Options			
	Omnibus Incentive Plan		Assurance IQ Acquisition	
	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(in years)	(in millions)	(in years)	(in millions)
Outstanding .....	4.32	\$64	6.61	\$22
Exercisable .....	3.69	\$56	7.05	\$ 6

### Restricted Stock Units, Performance Share Awards and Performance Unit Awards

A restricted stock unit is an unfunded, unsecured right to receive a share of Prudential Financial's Common Stock at the end of a specified period of time, which is subject to forfeiture and transfer restrictions. Generally, the restrictions will lapse on the third anniversary of the date of grant. Performance shares and performance units are awards denominated in Prudential Financial's Common Stock. The number of units is determined over the performance period and may be adjusted based on the satisfaction of certain performance goals for the Company. Performance share awards are payable in Prudential Financial's Common Stock. Performance unit awards are payable in cash. Effective October 2019, the Company modified certain provisions of its long term compensation plan to settle the performance units component in Prudential Financial Common Stock. As a result, outstanding performance units were converted to performance shares except for certain employee directed deferrals in the deferred compensation plan which remain as performance units for the full life of the grant. Beginning in 2020, the Company no longer grants performance unit awards.

A summary of the Company's restricted stock units, performance shares and performance unit awards under the Omnibus Incentive Plan is as follows:

	Restricted Stock Units	Weighted Average Grant Date Fair Value	Performance Share and Performance Unit Awards(1)	Weighted Average Grant Date Fair Value
Restricted at December 31, 2020(2) .....	4,758,239	\$ 96.87	1,905,640	\$92.07
Granted(2) .....	2,601,617	81.82	867,578	81.43
Forfeited .....	(278,416)	88.41	(41,356)	97.42
Performance adjustment(3) .....	0	0.00	17,692	89.70
Released .....	(1,278,051)	105.52	(590,064)	89.84
Restricted at December 31, 2021(2) .....	<u>5,803,389</u>	<u>\$ 88.62</u>	<u>2,159,490</u>	<u>\$88.46</u>

- (1) Performance share and performance unit awards reflect the target units awarded, reduced for forfeitures and releases to date. The actual number of units to be awarded at the end of each performance period will range between 0% and 150% of the target number of units granted, based upon a measure of the reported performance for the Company relative to stated goals. Performance awards granted to senior management in 2021 include a stated goal related to diversity & inclusion that can modify the performance result by +/- 10%.
- (2) Effective October 1, 2019, the Company modified existing performance share and performance unit awards to remove features of the grants that prevent having a mutual understanding of the key terms and conditions of the award between the employee and employer until the grants vested. Consequently, the weighted average grant date fair value as of December 31, 2021 is the closing stock price of Prudential Financial's common stock as of September 30, 2019 for performance shares that were outstanding on September 30, 2019. The weighted average grant date fair value for performance shares granted after September 30, 2019 is the closing stock price of Prudential Financial's common stock on the date the awards were granted.
- (3) Represents the difference between the target units granted and the actual units awarded based upon the attainment of performance goals for the Company.

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A summary of the Company's restricted stock units and performance share awards related to the Assurance IQ acquisition is as follows:

	<b>Restricted Stock Units</b>	<b>Weighted Average Grant Date Fair Value</b>	<b>Performance Share Awards(1)</b>	<b>Weighted Average Grant Date Fair Value</b>
Restricted at December 31, 2020 .....	72,697	\$87.67	2,065,995	\$88.43
Granted .....	0	0.00	0	0.00
Forfeited .....	(6,415)	87.67	(738,059)	88.22
Performance adjustment(2) .....	0	0.00	0	0.00
Released .....	(29,470)	87.67	0	0.00
Restricted at December 31, 2021 .....	<u>36,812</u>	\$87.67	<u>1,327,936</u>	\$88.50

- (1) Performance share awards related to the Assurance IQ acquisition reflect the maximum number of units that have been awarded under the terms of the acquisition. The actual number of units that will be awarded at the end of the performance period will range between 0% and 100% of the number of units granted, based upon a predetermined formula for achieving certain targets for gross revenues, net of associated selling expenses, between \$900 million and \$1,300 million.
- (2) Represents the difference between the target units granted and the actual units awarded based upon the attainment of performance goals for the Company.

The fair market value of restricted stock units, performance shares and performance units released under the Omnibus Incentive Plan for the years ended December 31, 2021, 2020 and 2019 was \$155 million, \$191 million and \$255 million, respectively. The fair market value of restricted stock units for the Assurance IQ acquisition related awards under the Omnibus Incentive Plan for the year ended December 31, 2021 and 2020 was \$3 million and \$2 million.

The weighted average grant date fair value for restricted stock units granted under the Omnibus Incentive Plan during the years ended December 31, 2021, 2020 and 2019 was \$81.82, \$93.88 and \$93.35, respectively. The weighted average grant date fair value for performance shares and performance units granted under the Omnibus Incentive Plan during the years ended December 31, 2021, 2020 and 2019 was \$81.43, \$95.42 and \$90.68, respectively. The weighted average grant date fair value for restricted stock units granted for the Assurance IQ acquisition during the year ended December 31, 2019 was \$87.67. No restricted units were granted in 2020 or 2021. The weighted average grant date fair value for performance shares granted for the Assurance IQ acquisition during the years ended December 31, 2020 and 2019 was \$63.30 and \$89.91 respectively.

### ***Unrecognized Compensation Cost***

Unrecognized compensation cost for stock options under the Omnibus Incentive Plan as of December 31, 2021 was \$1 million with a weighted average recognition period of 1.06 years. Unrecognized compensation cost for restricted stock units, performance shares and performance units under the Omnibus Incentive Plan as of December 31, 2021 was \$170 million with a weighted average recognition period of 1.76 years. Unrecognized compensation cost for stock options related to the Assurance IQ acquisition as of December 31, 2021 was \$13 million with a weighted average recognition period of 1.24 years. Unrecognized compensation cost for restricted stock units and performance shares related to the Assurance IQ acquisition as of December 31, 2021 was \$3.98 million with a weighted average recognition period of 2.17 years.

### ***Tax Benefits Realized***

The Company's tax benefit realized for exercises of stock options under the Omnibus Incentive Plan during the years ended December 31, 2021, 2020 and 2019 was \$12 million, \$3 million and \$5 million, respectively. The tax benefit realized for exercises of stock options related to the Assurance IQ acquisition during the years ended December 31, 2021, 2020 and 2019 were \$4 million, \$3 million and \$2 million, respectively.

The Company's tax benefit realized upon vesting of restricted stock units, performance shares and performance units under the Omnibus Incentive Plan for the years ended December 31, 2021, 2020 and 2019 was \$30 million, \$44 million and \$52 million, respectively. The tax benefit realized upon vesting of restricted stock units and performance shares related to the Assurance IQ acquisition during the year ended December 31, 2021 and 2020 were \$1 million and \$1 million, respectively. There were no vested restricted stock units or performance shares related to the Assurance IQ acquisition for the year ended December 31, 2019.

### ***Settlement of Awards***

The Company's policy is to issue shares from Common Stock held in treasury upon exercise of stock options, the release of restricted stock units and performance shares. The Company uses cash to settle performance units. The amount of cash used to settle performance units during the years ended December 31, 2021, 2020 and 2019 was \$1 million, \$2 million and \$32 million, respectively.



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## **22. SEGMENT INFORMATION**

### ***Segments***

The Company operates through eight segments: PGIM (our global investment management business); Retirement, Group Insurance, Individual Annuities, Individual Life, and Assurance IQ (collectively referred to as the U.S. Businesses); International Businesses; and Closed Block. In addition, the Company reports certain of its results of operations in its Corporate and Other operations.

The PGIM segment provides investment management services and solutions related to public fixed income, public equity, real estate debt and equity, private credit and other alternatives, and multi-asset class strategies, to institutional and retail clients globally, as well as the Company's general account.

The U.S. Businesses offer a broad range of products and solutions that cover protection, retirement, savings, income and investment needs. The U.S. Businesses are organized into five segments:

- The Retirement segment provides a broad range of retirement investment and income products and services to retirement plan sponsors in the public, private and not-for-profit sectors.
- The Group Insurance segment provides a full range of group life, long-term and short-term group disability, and group corporate-, bank- and trust-owned life insurance in the U.S. primarily to institutional clients for use in connection with employee and membership benefits plans.
- The Individual Annuities segment develops and distributes individual variable and fixed annuity products, primarily to the U.S. mass affluent and affluent markets.
- The Individual Life segment develops and distributes individual variable life, term life and universal life insurance products primarily to the U.S. mass middle, mass affluent and affluent markets.
- The Assurance IQ segment leverages data science and technology to primarily distribute third-party products (such as Medicare, life, health, and property and casualty products) and a proprietary term life product directly to retail shoppers, primarily through its digital and agent channels. Additionally, Assurance IQ may help customers fulfill financial wellness needs by matching them with other product providers or intermediaries.

The International Businesses develops and distributes life insurance, retirement products and certain accident and health products with fixed benefits to mass affluent and affluent customers through our Life Planner operations in Japan, Brazil, Argentina and Mexico. Our Gibraltar Life and Other operations also provide similar products to broad middle income and mass affluent customers across Japan, and through our joint ventures in Chile, China, India and Indonesia, and our strategic investments in Ghana and Kenya through multiple distribution channels (including banks, independent agencies and Life Consultants).

The Closed Block division includes certain in-force participating insurance and annuity products and corresponding assets that are used for the payment of benefits, expenses and policyholders' dividends related to these products, as well as certain related assets and liabilities. In connection with demutualization, the Company ceased offering these participating products. 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 the Company's Corporate and Other operations. See Note 15 for additional information on the Closed Block.

Corporate and Other Operations consists primarily of: (1) capital that is not deployed in any business segment; (2) investments not allocated to business segments, including debt-financed investment portfolios, and tax credit and other tax-enhanced investments financed by business segments; (3) capital debt, including any related interest expense and financing costs, that is used or will be used to meet the capital requirements of the Company; (4) our qualified and non-qualified pension and other employee benefit plans, after allocations to business segments; (5) corporate-level activities, after allocations to business segments, including strategic expenditures, acquisition and disposition costs, corporate governance, corporate advertising, philanthropic activities, deferred compensation, and costs related to certain contingencies and legal matters; (6) expenses associated with the multi-year plan of programs that span across our businesses and the functional areas that support those businesses; (7) certain retained obligations relating to pre-demutualization policyholders; (8) impacts of risk management activities pursuant to our Risk Appetite Framework; (9) the foreign currency income hedging program used to hedge certain non-U.S. dollar denominated earnings in our International Businesses segment; (10) intercompany arrangements with our International Businesses and PGIM segments to translate non-U.S. dollar-denominated earnings at fixed currency exchange rates; and (11) transactions with and between other segments, including the elimination of intercompany transactions for consolidation purposes.

***Segment Accounting Policies.*** The accounting policies of the segments are the same as those described in Note 2. Results for each segment include earnings on attributed equity established at a level which management considers necessary to support each segment's risks. Operating expenses specifically identifiable to a particular segment are allocated to that segment as incurred. Operating expenses not identifiable to a specific segment that are incurred in connection with the generation of segment revenues are generally allocated based upon the segment's historical percentage of general and administrative expenses.

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For information related to significant acquisitions and dispositions, see Note 1. For information related to the adoption of new accounting pronouncements, see Note 2. The segments' results in prior years have been revised for these items, as applicable, to conform to the current year presentation.

### 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, which are described in greater detail below:

- 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.

### Realized investment gains (losses), net, and related adjustments

#### *Realized investment gains (losses), net*

Adjusted operating income excludes "Realized investment gains (losses), net," except for certain items described below. Significant activity excluded from adjusted operating income includes impairments and credit-related gains (losses) from sales of securities, the timing of which depends largely on market credit cycles and can vary considerably across periods, and interest rate-related gains (losses) from sales of securities, which are largely subject to the Company's discretion and influenced by market opportunities, as well as the Company's tax and capital profile. Additionally, adjusted operating income excludes realized investment gains (losses) from products that contain embedded derivatives, and from associated derivative portfolios that are part of an asset/liability management program related to the risk of those products.

The following table sets forth the significant components of "Realized investment gains (losses), net" that are included in adjusted operating income and, as a result, are reflected as adjustments to "Realized investment gains (losses), net" for purposes of calculating adjusted operating income:

	<b>Year Ended December 31,</b>		
	<b>2021</b>	<b>2020(1)</b>	<b>2019(1)</b>
	<b>(in millions)</b>		
Net gains (losses) from(2):			
Terminated hedges of foreign currency earnings	\$ 33	\$ 72	\$ 64
Current period yield adjustments	\$526	\$293	\$277
Principal source of earnings	\$ 96	\$ 57	\$(37)

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

(2) In addition to the items in the table above, "Realized investment gains (losses), net, and related charges and adjustments" also includes an adjustment to reflect "Realized investment gains (losses), net" related to Divested and Run-off Businesses. See "Divested and Run-off Businesses" discussed below.

**Terminated Hedges of Foreign Currency Earnings.** The amounts shown in the table above primarily reflect the impact of an intercompany arrangement between Corporate and Other operations and the International Businesses segment, pursuant to which the non-U.S. dollar-denominated earnings in all countries for a particular year, including its interim reporting periods, are translated at fixed currency exchange rates. The fixed rates are determined in connection with a currency hedging program designed to mitigate the risk that unfavorable rate changes will reduce the segment's U.S. dollar-equivalent earnings. Pursuant to this program, the Company's Corporate and Other operations may execute forward currency contracts with third-parties to sell the net exposure of projected earnings from the

# PRUDENTIAL FINANCIAL, INC.

## Notes to Consolidated Financial Statements

hedged currency in exchange for U.S. dollars at a specified exchange rate. The maturities of these contracts correspond with the future periods in which the identified non-U.S. dollar-denominated earnings are expected to be generated. These contracts do not qualify for hedge accounting under U.S. GAAP, so the resulting profits or losses are recorded in “Realized investment gains (losses), net.” When the contracts are terminated in the same period that the expected earnings emerge, the resulting positive or negative cash flow effect is included in adjusted operating income.

**Current Period Yield Adjustments.** The Company uses interest rate and currency swaps and other derivatives to manage interest and currency exchange rate exposures arising from mismatches between assets and liabilities, including duration mismatches. For derivative contracts that do not qualify for hedge accounting treatment, the periodic swap settlements, as well as certain other derivative related yield adjustments are recorded in “Realized investment gains (losses), net,” and are included in adjusted operating income to reflect the after-hedge yield of the underlying instruments. In certain instances, when these derivative contracts are terminated or offset before their final maturity, the resulting realized gains or losses are recognized in adjusted operating income over periods that generally approximate the expected terms of the derivatives or underlying instruments in order for adjusted operating income to reflect the after-hedge yield of the underlying instruments. Included in the amounts shown in the table above are gains (losses) on certain derivative contracts that were terminated or offset before their final maturity of \$66 million, \$45 million and \$44 million for the years ended 2021, 2020 and 2019, respectively. As of December 31, 2021, there was a \$1,099 million deferred net gain related to certain derivative contracts that were terminated or offset before their final maturity, primarily within the Individual Annuities segment and International Businesses. Also included in the amounts shown in the table above are fees related to synthetic GICs of \$111 million, \$113 million and \$125 million for the years ended 2021, 2020 and 2019, respectively. Synthetic GICs are accounted for as derivatives under U.S. GAAP and, therefore, these fees are recorded in “Realized investment gains (losses), net.” See Note 5 for additional information on synthetic GICs.

**Principal Source of Earnings.** The Company conducts certain activities for which realized investment gains (losses) are a principal source of earnings for its businesses and are therefore included in adjusted operating income, particularly within the Company’s PGIM segment. For example, PGIM’s strategic investing business makes investments for sale or syndication to other investors or for placement or co-investment in the Company’s managed funds and structured products. The realized investment gains (losses) associated with the sale of these strategic investments, as well as the majority of derivative results, are a principal activity for this business and included in adjusted operating income. In addition, the realized investment gains (losses) associated with loans originated by the Company’s commercial mortgage operations, as well as related derivative results and retained mortgage servicing rights, are a principal activity for this business and are therefore included in adjusted operating income.

### Adjustments related to Realized investment gains (losses), net

The following table sets forth certain other items excluded from adjusted operating income and reflected as an adjustment to “Realized investment gains (losses), net” for purposes of calculating adjusted operating income:

	Year Ended December 31,		
	2021	2020(1)	2019(1)
	(in millions)		
Net gains (losses) from(2):			
Investments carried at fair value through net income	\$(123)	\$149	\$488
Foreign currency exchange movements	\$ 22	\$(14)	\$ 30
Other activities	\$ (33)	\$(39)	\$(30)

- (1) Prior period amounts have been updated to conform to current period presentation.
- (2) Adjusted operating income excludes net investment gains (losses) on assets supporting experience-rated contractholder liabilities, related derivatives, and commercial mortgage and other loans. The activity for derivatives and commercial mortgage and other loans that support these experience-rated products are reported in “Realized investment gains (losses), net” and excluded from adjusted operating income.

**Investments carried at fair value through net income.** The Company has certain investments in its general account portfolios that are carried at fair value with changes in fair value reported in “Other income (loss).” Examples include the Company’s investments in equity securities and fixed maturities designated as trading. Consistent with the exclusion of realized investment gains (losses) with respect to other investments managed on a consistent basis, the net gains or losses on these investments are excluded from adjusted operating income.

**Foreign Currency Exchange Movements.** The Company has certain assets and liabilities for which, under U.S. GAAP, the changes in value, including those associated with changes in foreign currency exchange rates during the period, are recorded in “Other income (loss).” To the extent the foreign currency exposure on these assets and liabilities is economically hedged or considered part of the Company’s capital funding strategies for its international subsidiaries, the change in value included in “Other income (loss)” is excluded from adjusted operating income. The insurance liabilities are supported by investments denominated in corresponding currencies, including a significant portion designated as available-for-sale. While these non-yen denominated assets and liabilities are economically hedged, unrealized gains (losses) on available-for-sale investments, including those arising from foreign currency exchange rate movements, are recorded in AOCI under U.S. GAAP, while the non-yen denominated liabilities are remeasured for foreign currency exchange rate movements, with the related change in value recorded in earnings within “Other income (loss).” Due to this non-economic volatility that has been reflected in U.S. GAAP earnings, the change in value recorded within “Other income (loss)” is excluded from adjusted operating income.

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*Other Activities.* The Company excludes certain other items from adjusted operating income that are consistent with similar adjustments described above.

**Charges related to realized investment gains (losses), net**

Charges that relate to realized investment gains (losses) are also excluded from adjusted operating income, and include the following:

- The portion of the amortization of DAC, VOBA, unearned revenue reserves and DSI for certain products that is related to net realized investment gains (losses).
- Policyholder dividends and interest credited to policyholders' account balances that relate to certain life policies that pass back certain realized investment gains (losses) to the policyholder, and reserves for future policy benefits for certain policies that are affected by net realized investment gains (losses).
- Market value adjustments paid or received upon a contractholder's surrender of certain of the Company's annuity products as these amounts mitigate the net realized investment gains or losses incurred upon the disposition of the underlying invested assets.

**Market experience updates**

The Company had historically recognized the immediate impacts from changes in current market conditions on estimates of profitability in current period adjusted operating income. Beginning with the second quarter of 2019 these impacts are excluded from adjusted operating income, which the Company believes enhances the understanding of underlying performance trends. These amounts represent the impact of those changes on DAC and other costs and reserves, primarily related to variable annuity and variable and universal life products.

**Divested and Run-off Businesses**

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, are excluded from adjusted operating income as the results of Divested and Run-off Businesses are not considered relevant to understanding the Company's ongoing operating results.

The Closed Block division is accounted for as a divested business because it consists primarily of certain participating insurance and annuity products that the Company ceased selling at demutualization in 2001. See Note 15 for further information on the Closed Block.

**Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests**

Equity in earnings of operating joint ventures, on a pre-tax basis, are included in adjusted operating income as these results are a principal source of earnings. These earnings are reflected on a U.S. GAAP basis on an after-tax basis as a separate line on the Company's Consolidated Statements of Operations.

Earnings attributable to noncontrolling interests are excluded from adjusted operating income. Earnings attributable to noncontrolling interests represents the portion of earnings from consolidated entities that relates to the equity interests of minority investors, and are reflected on a U.S. GAAP basis as a separate line on the Company's Consolidated Statements of Operations.

**Other adjustments**

Other adjustments represent all other adjustments that are excluded from adjusted operating income. These primarily include losses related to the impairment of goodwill, as well as certain components of the consideration for business acquisitions, which are recognized as compensation expense over the requisite service periods, and changes in the fair value of contingent consideration. See Note 1 and Note 2 for additional information.

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**Notes to Consolidated Financial Statements**

**Reconciliation of adjusted operating income and net income (loss)**

The table below reconciles adjusted operating income before income taxes to income before income taxes and equity in earnings of operating joint ventures:

	<b>Year ended December 31,</b>		
	<b>2021</b>	<b>2020(1)</b>	<b>2019(1)</b>
	<b>(in millions)</b>		
Adjusted operating income before income taxes by segment:			
PGIM	\$ 1,643	\$ 1,262	\$ 998
U.S. Businesses:			
Retirement	2,178	1,385	1,238
Group Insurance	(455)	(16)	285
Individual Annuities(2)	1,901	1,470	1,843
Individual Life	393	(48)	87
Assurance IQ(3)	(142)	(88)	(9)
Total U.S. Businesses	3,875	2,703	3,444
International Businesses	3,390	2,952	3,112
Corporate and Other	(1,607)	(1,967)	(1,899)
Total segment adjusted operating income before income taxes	7,301	4,950	5,655
Reconciling Items:			
Realized investment gains (losses), net, and related adjustments	1,947	(4,140)	(876)
Charges related to realized investment gains (losses), net	(320)	(160)	(123)
Market experience updates	750	(640)	(449)
Divested and Run-off Businesses:			
Closed Block division	140	(24)	36
Other Divested and Run-off Businesses	716	(450)	992
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(41)	90	(103)
Other adjustments(4)	(1,112)	51	(47)
Consolidated income (loss) before income taxes and equity in earnings of operating joint ventures	\$ 9,381	\$ (323)	\$ 5,085

- (1) Effective third quarter of 2021, the results of the Full Service Retirement business are excluded from the Retirement segment and are included in Divested and Run-off Businesses. Prior period amounts have been updated to conform to current period presentation. See Note 1 to the Consolidated Financial Statements for additional information.
- (2) Individual Annuities segment results reflect DAC as if the Individual Annuities business is a stand-alone operation. The elimination of intersegment costs capitalized in accordance with this policy is included in consolidating adjustments within Corporate and Other operations.
- (3) Assurance IQ was acquired by the Company in October 2019. See Note 1 for additional information.
- (4) In the fourth quarter of 2021, the Company recognized a goodwill impairment of \$1,060 million related to Assurance IQ. See Note 2 and Note 10 for additional information.

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**Notes to Consolidated Financial Statements**

**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, and benefits and expenses by segment on an adjusted operating income basis, and the reconciliation of the segment totals to amounts reported in the Consolidated Financial Statements.

	<b>As of December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in millions)</b>	
<b>Assets by segment:</b>		
PGIM	\$ 53,566	\$ 48,680
U.S. Businesses:		
Retirement(1)	114,016	115,237
Group Insurance	43,286	45,601
Individual Annuities(2)	201,273	200,718
Individual Life	118,237	110,953
Assurance IQ	1,788	2,703
Total U.S. Businesses	478,600	475,212
International Businesses	222,736	231,128
Corporate and Other(1)(2)	122,701	123,613
Closed Block division	59,979	62,089
Total assets per Consolidated Statements of Financial Position	\$937,582	\$940,722

- (1) Effective third quarter of 2021, the results of the Full Service Retirement business are excluded from the Retirement segment and are included in the Divested and Run-off Businesses in Corporate and Other. Prior period amounts have been updated to conform to current period presentation. See Note 1 for additional information about these dispositions.
- (2) Certain assets are classified as "held-for-sale" as of December 31, 2021. See Note 1 for additional information about the pending dispositions.

	<b>Year Ended December 31, 2021</b>							
	<b>Total Revenues</b>	<b>Net Investment Income</b>	<b>Total Benefits and Expenses</b>	<b>Policyholders' Benefits</b>	<b>Interest Credited to Policyholders' Account Balances</b>	<b>Dividends to Policyholders</b>	<b>Interest Expense</b>	<b>Amortization of DAC</b>
<b>Revenues, and benefits and expenses on an adjusted operating income basis by segment</b>								
PGIM	\$ 4,493	\$ 157	\$ 2,850	\$ 0	\$ 0	\$ 0	\$ 25	\$ 6
U.S. Businesses:								
Retirement	15,298	3,921	13,120	12,525	348	0	14	22
Group Insurance	6,217	538	6,672	5,482	171	0	3	5
Individual Annuities	4,914	925	3,013	281	359	0	18	559
Individual Life	6,897	2,550	6,504	3,219	871	35	752	395
Assurance IQ	558	2	700	0	0	0	11	0
Total U.S. Businesses	33,884	7,936	30,009	21,507	1,749	35	798	981
International Businesses	21,915	5,403	18,525	13,804	799	46	6	1,148
Corporate and Other	(511)	664	1,096	(24)	135	0	645	(55)
Total revenues, and benefits and expenses on an adjusted operating income basis	59,781	14,160	52,480	35,287	2,683	81	1,474	2,080
<b>Reconciling items:</b>								
Realized investment gains (losses), net, and related adjustments	2,313	(40)	366	0	366	0	0	0
Charges related to realized investment gains (losses), net	(248)	0	72	(165)	84	0	0	153
Market experience updates	335	0	(415)	(200)	(45)	0	0	(163)
<b>Divested and Run-off Businesses:</b>								
Closed Block division	5,947	2,500	5,807	2,557	124	2,794	0	21
Other Divested and Run-off Businesses	2,903	1,667	2,187	979	270	(1)	4	6
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(97)	0	(56)	0	0	0	0	0
Other adjustments	0	0	1,112	0	0	0	0	0
Total revenue, and benefits and expenses per Consolidated Statements of Operations	\$70,934	\$18,287	\$61,553	\$38,458	\$3,482	\$2,874	\$1,478	\$2,097



**PRUDENTIAL FINANCIAL, INC.**

**Notes to Consolidated Financial Statements**

**Year Ended December 31, 2020(1)**

	<b>Total Revenues</b>	<b>Net Investment Income</b>	<b>Total Benefits and Expenses</b>	<b>Policyholders' Benefits</b>	<b>Interest Credited to Policyholders' Account Balances</b>	<b>Dividends to Policyholders</b>	<b>Interest Expense</b>	<b>Amortization of DAC</b>
<b>Revenues, and benefits and expenses on an adjusted operating income basis by segment</b>								
	<b>(in millions)</b>							
PGIM	\$ 4,153	\$ 304	\$ 2,891	\$ 0	\$ 0	\$ 0	\$ 19	\$ 8
U.S. Businesses:								
Retirement	10,051	3,446	8,666	8,009	410	0	20	16
Group Insurance	5,786	526	5,802	4,664	206	0	3	8
Individual Annuities	4,440	898	2,970	337	337	0	59	524
Individual Life	6,398	2,314	6,446	3,170	848	36	769	367
Assurance IQ	391	2	479	0	0	0	5	0
Total U.S. Businesses	27,066	7,186	24,363	16,180	1,801	36	856	915
International Businesses	21,576	4,982	18,624	13,714	851	40	8	1,204
Corporate and Other	(513)	660	1,454	30	129	0	668	(49)
Total revenues, and benefits and expenses on an adjusted operating income basis	52,282	13,132	47,332	29,924	2,781	76	1,551	2,078
Reconciling items:								
Realized investment gains (losses), net, and related adjustments	(4,072)	(39)	68	0	68	0	0	0
Charges related to realized investment gains (losses), net	(134)	0	26	0	(58)	0	0	(115)
Market experience updates	(196)	0	444	261	21	0	0	132
Divested and Run-off Businesses:								
Closed Block division	4,766	2,240	4,790	2,757	127	1,549	1	26
Other Divested and Run-off Businesses	4,420	2,077	4,870	2,117	1,599	0	8	100
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(138)	0	(228)	0	0	0	0	0
Other adjustments	105	0	54	0	0	0	0	0
Total revenue, and benefits and expenses per Consolidated Statements of Operations	\$57,033	\$17,410	\$57,356	\$35,059	\$4,538	\$1,625	\$1,560	\$2,221

**PRUDENTIAL FINANCIAL, INC.**  
**Notes to Consolidated Financial Statements**

Year Ended December 31, 2019(1)

Revenues, and benefits and expenses on an adjusted operating income basis by segment	Total Revenues	Net Investment Income	Total Benefits and Expenses	Policyholders' Benefits	Interest Credited to Policyholders' Account Balances	Dividends to Policyholders	Interest Expense	Amortization of DAC
	(in millions)							
PGIM	\$ 3,589	\$ 200	\$ 2,591	\$ 0	\$ 0	\$ 0	\$ 49	\$ 6
U.S. Businesses:								
Retirement	13,003	3,401	11,765	11,060	416	0	40	28
Group Insurance	5,750	624	5,465	4,257	286	0	2	7
Individual Annuities	4,995	856	3,152	435	334	0	122	513
Individual Life	6,115	2,247	6,028	2,778	830	38	774	577
Assurance IQ(2)	101	0	110	0	0	0	1	0
Total U.S. Businesses	29,964	7,128	26,520	18,530	1,866	38	939	1,125
International Businesses	20,936	4,944	17,824	12,925	876	46	25	1,116
Corporate and Other	(557)	701	1,342	36	125	0	518	(46)
Total revenues, and benefits and expenses on an adjusted operating income basis	53,932	12,973	48,277	31,491	2,867	84	1,531	2,201
Reconciling items:								
Realized investment gains (losses), net, and related adjustments	(609)	(34)	267	0	267	0	0	0
Charges related to realized investment gains (losses), net	(252)	0	(129)	(136)	(94)	0	0	(182)
Market experience updates	(79)	0	370	191	4	0	0	139
Divested and Run-off Businesses:								
Closed Block division	5,642	2,323	5,606	2,907	130	2,187	7	29
Other Divested and Run-off Businesses	6,324	2,323	5,332	2,367	1,706	3	13	145
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(146)	0	(43)	0	0	0	0	0
Other adjustments	(5)	0	42	0	0	0	0	0
Total revenue, and benefits and expenses per Consolidated Statements of Operations	\$64,807	\$17,585	\$59,722	\$36,820	\$4,880	\$2,274	\$1,551	\$2,332

- (1) Effective third quarter of 2021, the results of the Full Service Retirement business are excluded from the Retirement segment and are included in the Divested and Run-off Businesses in Corporate and Other. Prior period amounts have been updated to conform to current period presentation. See Note 1 for additional information about these dispositions.
- (2) Assurance IQ was acquired by the Company in October 2019. See Note 1 for additional information.

Revenues, calculated in accordance with U.S. GAAP, for the years ended December 31, include the following by geographic location that are 10 percent or more of the Company's total consolidated revenue:

	2021	2020(1)	2019(1)
	(in millions)		
United States	\$45,286	\$30,803	\$38,043
Japan	18,852	20,028	19,771
Other countries	6,796	6,202	6,993
Total PFI consolidated revenue	\$70,934	\$57,033	\$64,807

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

### 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, for the years ended December 31, as follows:

	2021	2020	2019
	(in millions)		
PGIM segment intersegment revenues	\$939	\$866	\$777

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## Notes to Consolidated Financial Statements

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:

	2021	2020	2019
	(in millions)		
Asset-based management fees	\$ 4,111	\$ 3,615	\$ 3,489
Performance-based incentive fees	147	193	169
Other fees	643	583	581
Total asset management and service fees	<u>\$ 4,901</u>	<u>\$ 4,391</u>	<u>\$ 4,239</u>

## 23. COMMITMENTS AND CONTINGENT LIABILITIES

### Commitments and Guarantees

#### Commercial Mortgage Loan Commitments

	December 31,	
	2021	2020
	(in millions)	
Total outstanding mortgage loan commitments(1)	\$ 2,300	\$ 2,357
Portion of commitment where prearrangement to sell to investor exists	\$ 1,102	\$ 882

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

In connection with the Company's commercial mortgage operations, it originates commercial mortgage loans. Commitments for loans that will be held for sale are recognized as derivatives and recorded at fair value. In certain of these transactions, the Company pre-arranges that it will sell the loan to an investor, including to government sponsored entities as discussed below, after the Company funds the loan. The above amount includes unfunded commitments that are not unconditionally cancellable. For related credit exposure, there was an allowance for credit losses of \$1 million and \$0 million as of December 31, 2021 and 2020, respectively. The change in allowance is \$0 million and a reduction of \$2 million for the years ended December 31, 2021 and 2020, respectively.

#### Commitments to Purchase Investments (excluding Commercial Mortgage Loans)

	December 31,	
	2021	2020
	(in millions)	
Expected to be funded from the general account and other operations outside the separate accounts(1)	\$10,347	\$9,567
Expected to be funded from separate accounts	\$ 236	\$ 336

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

The Company has other commitments to purchase or fund investments, some of which are contingent upon events or circumstances not under the Company's control, including those at the discretion of the Company's counterparties. The Company anticipates a portion of these commitments will ultimately be funded from its separate accounts. The above amount includes unfunded commitments that are not unconditionally cancellable. There were no related charges for credit losses for either the years ended December 31, 2021 or 2020.

#### Indemnification of Securities Lending and Securities Repurchase Transactions

	December 31,	
	2021	2020
	(in millions)	
Indemnification provided to certain clients for securities lending and securities repurchase transactions(1)	\$6,499	\$7,108
Fair value of related collateral associated with above indemnifications(2)	\$6,635	\$7,254
Accrued liability associated with guarantee	\$ 0	\$ 0

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

(2) Includes \$29 million and \$34 million related to securities repurchase transactions as of December 31, 2021 and 2020, respectively.

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**Notes to Consolidated Financial Statements**

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***

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in millions)</b>	
Guaranteed value of third parties’ assets .....	\$81,984	\$86,264
Fair value of collateral supporting these assets .....	\$83,609	\$90,612
Asset associated with guarantee, carried at fair value .....	\$ 1	\$ 0

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

***Indemnification of Serviced Mortgage Loans***

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in millions)</b>	
Maximum exposure under indemnification agreements for mortgage loans serviced by the Company .....	\$2,930	\$2,684
First-loss exposure portion of above .....	\$ 854	\$ 784
Accrued liability associated with guarantees(1) .....	\$ 41	\$ 41

(1) As of both December 31, 2021 and 2020, the accrued liability associated with guarantees includes an allowance for credit losses of \$20 million. The change in allowance is \$0 million and \$1 million as of December 31, 2021 and 2020, 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 \$22,963 million and \$21,465 million of mortgages subject to these loss-sharing arrangements as of December 31, 2021 and 2020, respectively, all of which are collateralized by first priority liens on the underlying multi-family residential properties. 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%. As of December 31, 2020, these mortgages had a weighted-average debt service coverage ratio of 1.99 times and a weighted-average loan-to-value ratio of 63%. The Company had \$2 million of losses related to indemnifications that were settled for the year ended December 31, 2021, and no losses for the years ended December 31, 2020 and 2019.

**PRUDENTIAL FINANCIAL, INC.**  
**Notes to Consolidated Financial Statements**

**Other Guarantees**

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in millions)</b>	
Other guarantees where amount can be determined .....	\$47	\$52
Accrued liability for other guarantees and indemnifications .....	\$34	\$ 0

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

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

**Insolvency Assessments**

Most of the jurisdictions in which the Company is admitted to transact business require insurers doing business within the jurisdiction to participate in guarantee associations, which are organized to pay contractual benefits owed pursuant to insurance policies issued by impaired, insolvent or failed insurers. These associations levy assessments, up to prescribed limits, on all member insurers in a particular state on the basis of the proportionate share of the premiums written by member insurers in the lines of business in which the impaired, insolvent or failed insurer engaged. Some states permit member insurers to recover assessments paid through full or partial premium tax offsets. In addition, Japan has established the Japan Policyholders Protection Corporation as a contingency to protect policyholders against the insolvency of life insurance companies in Japan through assessments to companies licensed to provide life insurance.

Assets and liabilities held for insolvency assessments were as follows:

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in millions)</b>	
Other assets:		
Premium tax offset for future undiscounted assessments .....	\$40	\$44
Premium tax offset currently available for paid assessments .....	2	3
Total .....	<u>\$42</u>	<u>\$47</u>
Other liabilities:		
Insolvency assessments .....	\$35	\$36

**Assurance IQ Contingent Consideration Liability**

In October 2019, the Company completed its acquisition of Assurance IQ. See Note 1 for additional information regarding the transaction, including the establishment of \$100 million of contingent consideration.

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 December 31, 2021 and December 31, 2020.

**Contingent Liabilities**

On an ongoing basis, the Company and its regulators review its operations including, but not limited to, sales and other customer interface procedures and practices, and procedures for meeting obligations to its customers and other parties. These reviews may result in the modification or enhancement of processes or the imposition of other action plans, including concerning management oversight, sales and other customer interface procedures and practices, and the timing or computation of payments to customers and other parties. In certain

## PRUDENTIAL FINANCIAL, INC.

### Notes to Consolidated Financial Statements

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 December 31, 2021, the aggregate range of reasonably possible losses in excess of accruals established for those litigation and regulatory matters for which such an estimate currently can be made is less than \$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.

#### Labor and Employment Matters

##### *Prudential of Brazil Labor and Employment Matters*

Prudential of Brazil ("POB") sells insurance products to consumers through life planner franchisees ("Life Planners"), who are engaged as independent life insurance brokers and not as employees. When a Life Planner's contractual relationship with POB is terminated, in many cases the Life Planner commences a labor suit against POB alleging entitlement to employment related benefits. POB is a defendant in numerous such lawsuits in Brazil brought by former Life Planners and has been subject to regulatory actions challenging the validity of POB's franchise model. POB has continued to receive additional labor suits and regulatory actions involving the operation of its franchise model notwithstanding steps that POB has taken to attempt to mitigate the labor risk by modifying its franchise model. POB continues to modify its franchise model to further mitigate this risk.

#### Individual Annuities, Individual Life and Group Insurance

##### *Behfarin v. Pruco Life*

In July 2017, a putative class action complaint entitled *Richard Behfarin v. Pruco Life Insurance Company* was filed in the United States District Court for the Central District of California, alleging that the Company imposes charges on owners of universal life policies to cure defaults and/or reinstate lapses, that are inconsistent with the applicable universal life policy. The complaint includes claims for breach of contract, breach of implied covenant of good faith and fair dealing, and violation of California law, and seeks unspecified damages along with declaratory and injunctive relief. In September 2017, the Company filed its answer to the complaint. In September 2018, plaintiff filed a motion for class certification. In October 2019, plaintiff filed: (1) the First Amended Complaint adding Prudential Insurance Company of America and Pruco Life Insurance Company of New Jersey as defendants; and (2) a motion seeking preliminary certification of a settlement class, appointment of a class representative and class counsel, and preliminary approval of the proposed class action settlement. In November 2019, the court issued an order granting the motion for preliminary approval of the settlement. In June 2020, the court issued an order: (i) granting plaintiffs' motion for certification of the settlement class; (ii) approving the proposed nationwide class settlement agreement; (iii) approving the class notice; (iv) awarding attorneys' fees and costs to plaintiffs and a reduced incentive award to Behfarin; and (v) dismissing the action with prejudice, but maintaining jurisdiction over the settlement. This matter is now closed.



**PRUDENTIAL FINANCIAL, INC.**  
**Notes to Consolidated Financial Statements**

*Moreland, Socorro v. PICA, et al.*

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

**Escheatment Litigation**

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

In December 2017, Total Asset Recovery Services, LLC, on behalf of the State of New York, filed a Second Amended Complaint in the Supreme Court of the State of New York, County of New York, against, among other 19 defendants, Prudential Financial, Inc., The Prudential Insurance Company of America and Prudential Insurance Agency, LLC, alleging that the Company failed to escheat life insurance proceeds in violation of the New York False Claims Act. The second amended complaint seeks injunctive relief, compensatory damages, civil penalties, treble damages, prejudgment interest, attorneys' fees and costs. In May 2018, defendants filed a motion to dismiss the Second Amended Complaint. In April 2019, defendants' motion to dismiss the Second Amended Complaint was granted and plaintiff subsequently filed a Notice of Appeal with the New York State Supreme Court, First Department. In December 2020, the New York Supreme Court, First Department, reversed and vacated the judgment of the trial court and granted leave to plaintiff to file a third amended complaint. In March 2021, the plaintiff filed a third amended complaint asserting claims against all defendants for violation of the New York False Claims Act, and seeking injunctive relief, compensatory and treble damages, attorneys' fees and costs.

**Securities Litigation**

*City of Warren v. PFI, et al.*

In November 2019, a putative class action complaint entitled *City of Warren Police and Fire Retirement System v. Prudential Financial, Inc., Charles F. Lowrey and Kenneth Y. Tanji*, was filed in the United States District Court for the District of New Jersey. The complaint asserts claims for federal securities law violations against PFI, and Charles Lowrey, PFI's chief executive officer, and Kenneth Tanji, PFI's chief financial officer, individually, and alleges that: (i) the Company's reserve assumptions failed to account for adversely developing mortality experience in the Individual Life business segment; (ii) the Company's reserves were insufficient to satisfy its future policy benefit liabilities; and (iii) the Company materially understated its liabilities and overstated net income due to flawed assumptions in calculating mortality experience. The putative class includes all purchasers of PFI common stock between February 15, 2019 and August 2, 2019. In March 2020, the court issued an order consolidating this action with *Donald P. Crawford v. PFI, et al.* under the caption *In re Prudential Financial, Inc. Securities Litigation*. In June 2020, plaintiffs filed an amended complaint and added Robert M. Falzon, PFI's vice chairman, as an individual defendant. In August 2020, the Company filed a motion to dismiss the amended complaint. In December 2020, the court issued an order granting defendants' motion to dismiss the amended complaint with prejudice and plaintiff subsequently filed, in January 2021, a Notice of Appeal to the United States Court of Appeals for the Third Circuit.

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

In September 2020, a shareholder derivative complaint entitled *Pekin Police Pension Fund, Derivatively on Behalf of Prudential Financial, Inc. v. Charles F. Lowrey, et al.*, was filed in the United States District Court for the District of New Jersey (the "Derivative Complaint") against PFI as a "nominal" defendant, PFI's chairman and chief executive officer, vice chairman, chief financial officer, certain former officers of PFI, and all of the current outside directors of PFI's Board. The Derivative Complaint asserts claims for federal securities law violations, breach of fiduciary duty, waste of corporate assets, and unjust enrichment, and alleges that: (i) the Company's reserve assumptions failed to account for adversely developing mortality experience in the Individual Life business segment; (ii) the Company's reserves were insufficient to satisfy its future policy benefit liabilities; (iii) the Company materially understated its liabilities and overstated net income due to flawed assumptions in calculating mortality experience; and (iv) the individual defendants breached their duty of care and loyalty to the Company by allowing the alleged improper activity. In December 2020, the Court issued an order substituting Donel Davidson for Pekin Police Pension Fund as the named plaintiff. In March 2021, the court issued an order consolidating this action with *Robert Lalor, Derivatively on behalf of Prudential Financial, Inc. v. Charles F. Lowrey, et al.* under the caption *In re Prudential Financial, Inc. Derivative Litigation*. In May 2021, the Company filed a motion to dismiss the complaint.

**PRUDENTIAL FINANCIAL, INC.**  
**Notes to Consolidated Financial Statements**

*Daniel Plaut v. Prudential Financial, Inc.*

In October 2020, a shareholder derivative complaint entitled *Daniel Plaut, Derivatively on Behalf of Prudential Financial, Inc. v. Charles F. Lowrey, et al.*, was filed in the Superior Court of New Jersey, Law Division, Essex County (the “Derivative Complaint”) against PFI as a “nominal” defendant, PFI’s chairman and chief executive officer, vice chairman, and all of the current outside directors of PFI’s Board. The Derivative Complaint asserts claims for breach of fiduciary duty, unjust enrichment, and abuse of control and alleges that: (i) the Company’s reserve assumptions failed to account for adversely developing mortality experience in the Individual Life business segment; (ii) the Company’s reserves were insufficient to satisfy its future policy benefit liabilities; (iii) the Company materially understated its liabilities and overstated net income due to flawed assumptions in calculating mortality experience; and (iv) the individual defendants engaged in corporate misconduct, mismanagement and waste through their participation in the alleged wrongdoing.

*Robert Lalor v. Charles F. Lowrey, et al.*

In November 2020, a verified shareholder derivative complaint entitled *Robert Lalor, derivatively on behalf of Prudential Financial, Inc. v. Charles F. Lowrey, et al.*, was filed in the United States District Court for the District of New Jersey (the “Derivative Complaint”) against PFI as a “nominal” defendant, PFI’s chairman and chief executive officer, vice chairman, chief financial officer, certain former officers of PFI, and all of the current outside directors of PFI’s Board. The Derivative Complaint asserts claims for federal securities law violations, breach of fiduciary duty, waste of corporate assets, and unjust enrichment, and alleges that: (i) the Company’s reserve assumptions failed to account for adversely developing mortality experience in the Individual Life business segment; (ii) the Company’s reserves were insufficient to satisfy its future policy benefit liabilities; (iii) the Company materially understated its liabilities and overstated net income due to flawed assumptions in calculating mortality experience; and (iv) the individual defendants had irreconcilable conflicts of interest and breached their duties of candor, loyalty, oversight and supervision. In March 2021, the court issued an order consolidating this action with *Donel Davidson, Derivatively on Behalf of Prudential Financial, Inc. v. Charles F. Lowrey, et al.* under the caption *In re Prudential Financial, Inc. Derivative Litigation*. Case updates will be consolidated with the Donel Davidson action.

*Shareholder Demands*

In January 2020, the Board of Directors received a shareholder demand letter containing allegations: (i) of wrongdoing similar to those alleged in the City of Warren and Crawford complaints; and (ii) that certain of the Company’s current and former directors and executive officers breached their fiduciary duties of loyalty, due care and candor. The demand letter requests that the Board of Directors investigate and commence legal proceedings against the named individuals to recover for the Company’s benefit the damages purportedly sustained by the Company as a result of the alleged breaches. In February 2020, the Board of Directors authorized the creation of a special committee to investigate the allegations set forth in the shareholder demand letter. In April 2020, the Company received additional shareholder demands raising allegations similar to those contained in the January 2020 demand, and may be subject prospectively to additional activity relating to these matters. In January 2021, the special committee completed its investigation, and in February 2021, the Board provided notice rejecting the shareholder demands and dissolved the special committee.

**Assurance IQ, LLC**

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

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

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

**Other Matters**

*Cho v. PICA, et al.*

In November 2019, a putative class action complaint entitled *Cho v. The Prudential Insurance Company of America, et. al.*, was filed in the United States District Court for the District of New Jersey. The Complaint purports to be brought on behalf of participants in the Prudential Employee Savings Plan (the “Plan”) and (i) alleges that defendants failed to fulfill their fiduciary obligations under the Employee Retirement Income Security Act of 1974, in the administration, management and operation of the Plan, including engaging in prohibited transactions; and (ii) seeks declaratory, injunctive and equitable relief, and unspecified damages including interest, attorneys’

## PRUDENTIAL FINANCIAL, INC.

### Notes to Consolidated Financial Statements

fees and costs. In January 2020, defendants filed a motion to dismiss the complaint. In September 2020, plaintiff filed an amended complaint and added as individual defendants certain PFI officers and current and former members of the Company's Administrative Committee and Investment Oversight Committee. In December 2020, defendants filed a motion to dismiss the amended complaint. In September 2021, the court granted defendants' motion to dismiss the amended complaint without prejudice. In October 2021, plaintiff filed a second amended complaint asserting claims against defendants under the Employee Retirement Income Security Act of 1974 for breach of fiduciary duty, prohibited transactions and failure to monitor fiduciaries. The second amended complaint seeks declaratory, injunctive and equitable relief, unspecified damages, attorneys' fees and costs. In December 2021, defendants filed a motion to dismiss the second amended complaint.

#### *Doyle C. Stone v. PFI, et al.*

In February 2021, a putative class action complaint entitled *Doyle C. Stone v. Prudential Financial, Inc., Pruco Life Insurance Company*, was filed in the United States District Court for the District of New Jersey. The complaint asserts claims against Prudential Financial, Inc. and Pruco Life Insurance Company for violation of the New Jersey Consumer Fraud Act, breach of contract, breach of fiduciary duty, breach of implied duty of good faith and fair dealing, misrepresentation and unjust enrichment, based on: (i) the Company's alleged deficient identification, notification and payment practices for retirement plan participants in transferred group retirement, annuity and insurance plans ("Plan Participants"); and (ii) improper transfer of Plan Participant funds to its own accounts. The putative class includes all Plan Participants from January 2015 to the present. In April 2021, defendants filed a motion to dismiss the complaint. In June 2021, plaintiff filed a notice of voluntary dismissal of the complaint, without prejudice. In August 2021, plaintiff filed a new putative class action complaint in the United States District Court for the District of New Jersey (the "Second Complaint"), asserting claims against Prudential Financial, Inc. and Pruco Life Insurance Company for violation of the New Jersey Consumer Fraud Act, breach of fiduciary duty, unjust enrichment and common law fraud. The putative class includes all Plan Participants from January 2015 until the present. In September 2021, defendants filed a motion to dismiss the Second Complaint. In November 2021, the court issued an order granting defendants' motion and dismissed plaintiff's: (i) fraud claims without prejudice; and (ii) breach of fiduciary duty and unjust enrichment claims with prejudice. In January 2022, plaintiff filed a Notice of Voluntary Dismissal With Prejudice that was approved by the Court. This matter is now closed.

### 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 May 2014, Prudential Investment Portfolios 2, on behalf of the Prudential Core Short-Term Bond Fund and the Prudential Core Taxable Money Market Fund (the "Funds"), filed an action against ten banks in the United States District Court for the District of New Jersey asserting that the banks participated in the setting of LIBOR, a major benchmark interest rate. The complaint alleges that the defendant banks manipulated LIBOR, and asserts, among other things, claims for common law fraud, negligent misrepresentation, breach of contract, intentional interference with contract and with prospective economic relations, unjust enrichment, breaches of the New Jersey Civil RICO ("Racketeer Influenced and Corrupt Organizations Act") statute, and violations of the Sherman Act. In June 2014, the United States Judicial Panel on Multidistrict Litigation transferred the action to the United States District Court for the Southern District of New York, where it has been consolidated for pre-trial purposes with other pending LIBOR-related actions. In October 2014, the Funds filed an amended complaint. In November 2014, the defendants filed a motion to dismiss the amended complaint. In August 2015, the court issued a decision granting in part, and denying in part, defendants' motions to dismiss. The court dismissed certain of the Funds' claims, including those alleging fraud based on offering material statements; New Jersey RICO; and express breach of contract. The court upheld certain of the Funds' claims, including those alleging fraud based on false LIBOR submissions to the British Bankers' Association; negligent misrepresentation; unjust enrichment; and breach of the implied covenant of good faith and fair dealing. Following the August 2015 decision, granting in part defendants' motions to dismiss, in September 2015, Prudential filed the following LIBOR complaints: (i) in the Southern District of New York, captioned *Prudential Investment Portfolios 2 et al. v. Barclays Bank PLC, et al.* (the "New York Complaint"), naming as defendants Barclays Bank PLC, Barclays Capital Inc., Barclays PLC, Citibank, N.A., Citigroup Funding Inc., Credit Suisse AG, Credit Suisse Group AG, Credit Suisse (USA) Inc., Deutsche Bank AG, HSBC Bank plc, HSBC Holdings PLC, JPMorgan Chase & Co., JPMorgan Chase Bank, N.A., Royal Bank of Canada, and The Royal Bank of Scotland PLC. These defendants were dismissed from the original LIBOR action on jurisdictional grounds. The New York complaint reasserts the causes of action brought in the original LIBOR action; and (ii) in the Western district of North Carolina, captioned *Prudential Investment Portfolios 2 et al. v. Bank of America Corporation et al.* (the "North Carolina Complaint"), naming as defendants Bank of America Corporation and Bank of America, N.A. These defendants were dismissed from the original LIBOR action on jurisdictional grounds. The North Carolina Complaint reasserts the causes of action brought in the original LIBOR action. Both the New York Complaint and the North Carolina Complaint have been transferred for pre-trial purposes to the LIBOR multi-district litigation presided over by Judge Buchwald in the U.S. District Court for the Southern District of New York. In May 2016, the Second Circuit Court of Appeals vacated the district court's dismissal of the LIBOR plaintiffs' antitrust claims and remanded to the district court the question of whether plaintiffs possess standing as "efficient enforcers" of applicable antitrust laws. In July 2016, defendants filed a joint motion to dismiss all antitrust claims based on lack of standing and lack of personal jurisdiction. In December 2016, the motion was granted in part and denied in part. In January 2017, the United States Supreme Court denied defendants' petition for certiorari. In February 2017, the court clarified its December 2016 order, holding that antitrust claims only exist against panel banks, not their affiliates. This clarification resulted in the Funds' New Jersey antitrust claims being dismissed for lack of personal jurisdiction. The Funds antitrust claims in the New York and North Carolina actions remain pending. In July 2017, the

**PRUDENTIAL FINANCIAL, INC.**  
**Notes to Consolidated Financial Statements**

Funds obtained an entry of judgment on the New Jersey antitrust claims dismissed on personal jurisdiction grounds. In July 2017, the Funds filed with the Second Circuit Court an appeal from the dismissal of their New Jersey anti-trust claims. In June 2019, the court issued two orders approving stipulations dismissing with prejudice Prudential's claims against Citigroup Inc., Citibank, N.A., Citigroup Funding Inc., and Citigroup Global Markets Inc. In December 2019, the court issued two orders approving stipulations dismissing with prejudice Prudential's claims against HSBC Holdings PLC, HSBC Bank PLC, HSBC Finance Corp., HSBC Securities (USA) Inc., and HSBC USA Inc. In May 2020, the court issued two orders approving stipulations dismissing with prejudice Prudential's claims against Barclays Bank PLC, Barclays Capital Inc., and Barclays PLC. In August 2020, the court issued two orders approving stipulations dismissing with prejudice, Prudential's claims against Deutsche Bank AG. In October 2020, the court issued orders approving stipulations dismissing with prejudice, Prudential's claims against JPMorgan Chase & Co., JPMorgan Chase Bank, N.A., and J.P. Morgan Securities LLC, f/k/a/ J.P. Morgan Securities Inc., Bank of America Corporation, Bank of America, N.A., and Merrill Lynch, Pierce, Fenner & Smith Inc., f/k/a Banc of America Securities LLC. In December 2021, the Second Circuit Court of Appeals affirmed the district court's order dismissing federal and state antitrust claims based on lack of privity with a defendant bank and reversed the district court's personal jurisdiction based dismissal of the non-U.S. incorporated defendants. In February 2022, the court issued orders approving stipulations dismissing with prejudice Prudential's claims against Credit Suisse Group AG, Credit Suisse AG, Credit Suisse (USA) Inc., and Credit Suisse Securities (USA) LLC.

## **Regulatory**

### *Variable Products*

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

## **Summary**

The Company's litigation and regulatory matters are subject to many uncertainties, and given their complexity and scope, their outcome cannot be predicted. It is possible that the Company's results of operations or cash 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.

## **24. SUBSEQUENT EVENTS**

### **Common Stock Dividend Declaration**

On February 3, 2022, Prudential Financial's Board of Directors declared a cash dividend of \$1.20 per share of Common Stock, payable on March 11, 2022 to shareholders of record as of February 15, 2022.

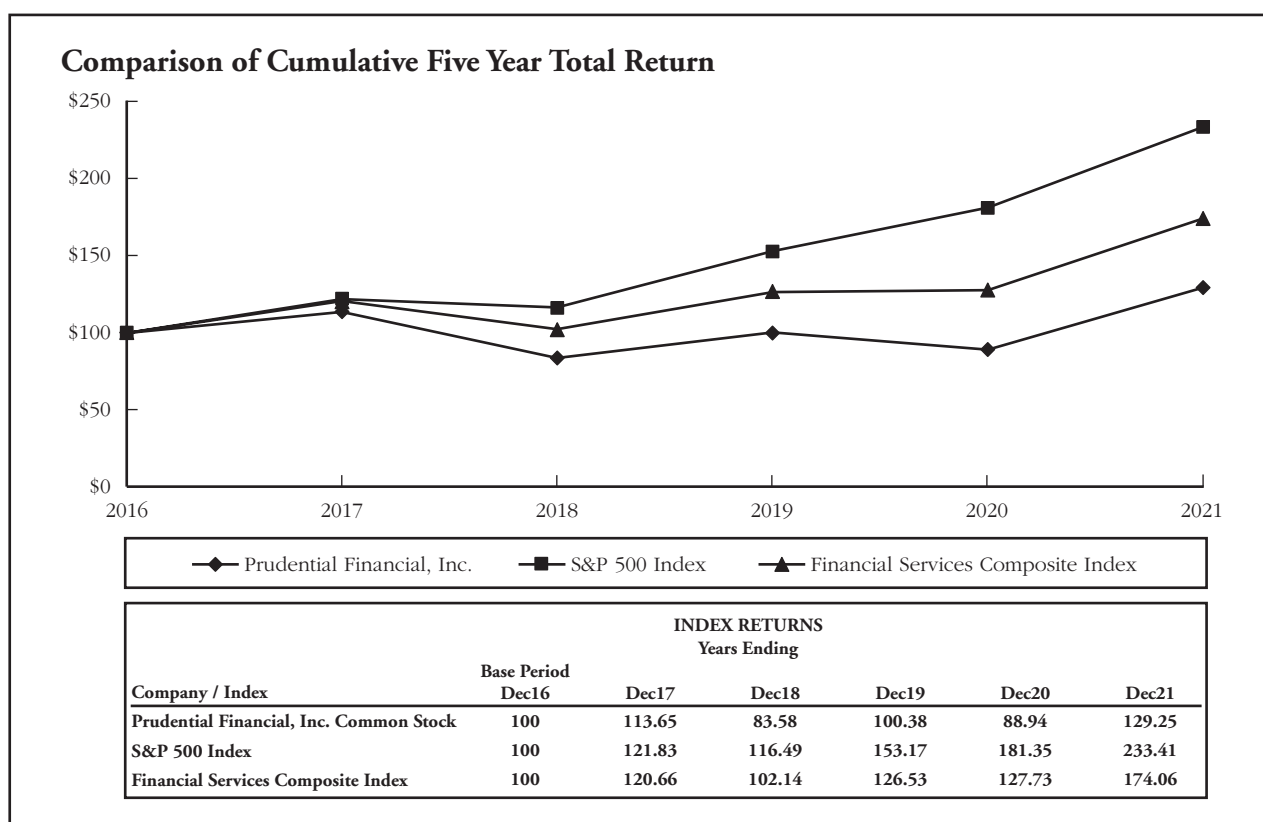
## MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Prudential Financial's Common Stock trades on the New York Stock Exchange under the symbol "PRU." On January 31, 2022, there were 1,134,375 registered holders of record for the Common Stock and 376 million shares outstanding.

### Performance Graph

The following graph, which covers the period from the closing price on December 31, 2016 through the closing price on December 31, 2021, compares the cumulative total shareholder return on Prudential Financial's Common Stock with the cumulative total shareholder return on (i) the Standard & Poor's ("S&P") 500 Index, and (ii) a Financial Services Composite Index, which is the average of the S&P 500 Life & Health Insurance and S&P 500 Diversified Financials indices. The figures presented below assume the reinvestment of all dividends into shares of common stock and an initial investment of \$100 at the closing prices on December 31, 2016.

Company / Index	ANNUAL RETURN PERCENTAGE Years Ending				
	Dec17	Dec18	Dec19	Dec20	Dec21
Prudential Financial, Inc. ....	13.65	-26.46	20.10	-11.40	45.32
S&P 500 Index ....	21.83	-4.38	31.49	18.40	28.71
Financial Services Composite Index ....	20.66	-15.35	23.88	0.94	36.28



# AWARDS AND ACCOLADES

Prudential's commitment to doing business the right way, strengthening communities and providing an inclusive work environment is reflected in the awards and recognition we have proudly received from national and global organizations.

The World's Most Admired Companies®, *FORTUNE*®

World's Most Ethical Companies®, Ethisphere

The Civic 50, Points of Light

100 Most Sustainable Companies in America, *Barron's*

FTSE4Good Index Series

100 Best Corporate Citizens, 3BL Media

Corporate Inclusion Index, Hispanic Association of Corporate Responsibility

Top Employers and Top LGBT-Friendly Companies, *HISPANIC Network Magazine*

Top Companies for Executive Women, National Association for Female Executives

Corporate Equality Index, Human Rights Campaign

America's Best Employers for Veterans, *Forbes*

Best for Vets Employers, *Military Times*

Military Spouse Friendly® Employer, VIQTORY

Leading Disability Employer Seal™, National Organization on Disability

Best Place to Work for People with Disabilities, Disability:IN

100 Best Companies, *Working Mother*

America's Best Employers for New Graduates, *Forbes*





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