



2018 Annual Report

THE PENN MUTUAL LIFE INSURANCE COMPANY

\$2.1 billion
OF STATUTORY SURPLUS

\$1.4 billion
PAID TO POLICYHOLDERS
OR BENEFICIARIES

90 years in-a-row
RATED "A" OR HIGHER BY A.M. BEST

\$333 million
IN CONSOLIDATED NET INCOME

\$223 million
IN NEW LIFE INSURANCE SALES

\$156 billion
OF LIFE INSURANCE IN FORCE

“What
you *are*
will show
in what
you *do*.”

THOMAS EDISON

In 1847, Penn Mutual was founded and Thomas Edison was born. Each set the stage for centuries of innovation and the promise of brighter tomorrows.

To Our Valued Policyholders

The confidence you place in us drives our dedication to serving you with passion, commitment and integrity. Everything we do is motivated by the promises we make to you – now and in the future – and our belief in positively impacting the people and world around us.

I am pleased to share with you the impacts we have made in 2018, yet another record-setting year for Penn Mutual.

- We achieved the **highest life insurance sales** for the company in 2018, protecting more individuals and businesses through our network of trusted advisers.
- Our GAAP net income grew for the **ninth (9th) consecutive year**.¹
- Our statutory surplus grew to **over \$2 billion**, a company record and 10 percent increase over the prior year, further strengthening our financial positioning.
- Once again, we are among a list of companies **rated “A” or higher** for 75 years from A.M. Best, with Penn Mutual being included on this list for 90 straight years.
- We received a **national award recognizing our new digital client experience** praising our commitment to innovation and leading the industry to support you and your adviser.
- Our focus on sustainability has motivated us to be **50 percent reliant on renewable energy by 2020** and we are well on our way to reach our commitment.
- We **remain steadfast in our passion to support our communities**, and in 2018 helped policyholders impacted by natural disasters and provided resources to organizations such as the American Red Cross and the United Way.



Eileen C. McDonnell
Chairman
& Chief Executive Officer

We value the trust you place in us as we continue to serve generations of individuals, families, and businesses. I encourage you to continue reading about how our passion, commitment and integrity can be found in everything we do.

Thank you for your continued trust and confidence in Penn Mutual.

Sincerely,

A handwritten signature in cursive script that reads "Eileen C. McDonnell".

¹ Excluding impacts from the Tax Cuts and Jobs Act of 2017 on prior year GAAP income.

Passion

It's often said that passion breeds success, and we believe in fueling the passion that's in all of us at Penn Mutual. Mike Pellegrini, an associate in our information technology area, didn't come to Penn Mutual following the typical path, but his passion was contagious from his first day.





In 2018, Penn Mutual got involved with a program called Year Up and through this partnership we have provided internships to people who may not have had the ability to work in a corporate setting otherwise. Gerald Chertavian founded Year Up in 2000 with the goal of closing the rift between socioeconomic status and opportunity. The program consists of six months of classroom study, and then six months at a pre-selected corporate internship.

In 2018, Mike Pellegrini entered the program with the goal to improve his life and his job prospects. He had a few short stints at a local university and was working in another industry, but didn't feel fulfilled and was itching for change in his life.

After Mike passed the academic portion of the program, Year Up placed him in the IT department at Penn Mutual. He admits coming here was a culture shock. "I was expecting suits and ties and a lot of formality. I wasn't expecting to come into work every day and be greeted with a smile and hello. The company culture is very unique and the passion that all my fellow associates feel for the work they're doing for our policyholders was evident to me right away."

The aspect of Penn Mutual that most impressed Mike was the approach to teamwork and collaboration.

He realized seeking the insights of others on his team helped him quickly grow as a part of the Penn Mutual family. "Everybody on my team—and throughout the whole company—has a different perspective or way of approaching a problem. I've learned that pretending you know everything undermines your success," he said. "If you don't know how to do something, or don't understand a concept, there is always somebody else who can help."

Ultimately, Year Up helps employers tap into candidates that they otherwise may not have engaged. "It's a wonderful way to look into an untapped talent pool. So many people have the drive to succeed, but they do not always have access to the right opportunities," said Greg Driscoll, SVP and Chief Information Officer. "Year Up bridges this opportunity divide and gives companies like Penn Mutual the chance to participate in having a real effect on the lives of individuals. We've had the opportunity to bring in four interns from the program to work with us and we look forward to engaging more."

Partnering with Year Up has been rewarding both for Penn Mutual and the interns working with us. We're proud to play a role in helping young people follow their passion and dreams.

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The company culture is very unique and the passion that all my fellow associates feel for the work they're doing for our policyholders was evident to me right away.

MIKE PELLEGRINI

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Commitment

Richard F. Miclitz, CFP®, is driven by commitment. Rich, an adviser with Primary Financial, powered by Penn Mutual in Edison, NJ, is committed to building long-term relationships with his clients. He sees them as people, as families, who need the ongoing guidance of a planner, not a “once and done” salesperson. Nowhere is this more evident than in the commitment and relationships Rich has built with his clients who have family members with special needs. One in particular, has been his client for 10 years.

According to Rich, “Speaking to her for only a minute is all that it takes to realize that her entire world revolves around her son’s care, not only today, but long after she’s gone. Any decision she has ever made, or will ever make, is to ensure that he is taken care of in the best way possible.”

And Rich, in concert with her attorney and CPA, crafted a financial plan that gives her complete peace of mind—enough resources to cover her lifestyle expenses and the perpetual care her son will need. “Although cognitively challenged, his life expectancy is that of a typical adult male. Due to his cognitive challenges, my client finds it critical that he remains in the house he is accustomed to living in. The catastrophic event of losing his mother (now 80 years old), then faced with the prospect of uprooting his living situation could be overwhelming for him to handle. Her financial plan is structured in a way that comforts her worries about her son after she’s gone.”

Life insurance is the critical component of her plan. “It’s the building block that all her decisions were made from,” says Rich. “Because of this, I’m happy to say that barring any drastic unforeseen circumstances, her son will live in the home he is familiar with, and maintain the lifestyle he is accustomed to.”

Rich believes in the power of life insurance and is committed to making sure all his clients understand what it can mean for them. “Life insurance is critical because of all those unknowns. If the proper life insurance is in place, not much can happen for the overall financial plan not to come into fruition.”



“

Life insurance is the critical component of her plan. It's the building block that all her decisions were made from. Because of this, I'm happy to say that barring any drastic unforeseen circumstances, her son will live in the home he is familiar with, and maintain the lifestyle he is accustomed to.

RICHARD MICLIZ

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Integrity

Delivering with integrity on the promises we make to policyholders is the foundation of our business. Penn Mutual's culture rests on the principle of always doing the right thing, and it is the heart of who we are.

Nowhere is this more evident than in the work Shereen Bradley does in our claims department. Shereen has been with Penn Mutual for over 33 years and has processed countless death claims. Working directly with beneficiaries and advisers, she helps fulfill our promises to ensure that claims are processed efficiently and with integrity during a time when emotions run high.

"Many times, the beneficiary calling in to report a death is dealing with a lot of grief. Most often, they've never had to file a claim and have a lot of questions," says Shereen. "As a company, we made a promise to their loved one and I do whatever it takes to help them through the process."

Rob Halligan, an adviser with 1847Financial, powered by Penn Mutual in Conshohocken, PA has worked with Shereen often over his career and knows firsthand how much she cares about the work she does. "Shereen handles very delicate and emotionally charged moments

with a soft, reassuring touch," says Rob. "She embodies integrity in everything she does by delivering on our promise and paying out a death claim."

Rob has been an adviser for over 40 years and understands the emotional toll the death of a loved one takes on a family. "There are a lot of things to consider when dealing with a loss. My job as an adviser is to fulfill the plans I put in place with my clients and to walk their beneficiaries through the claims process. Knowing someone like Shereen is on the other end of the telephone line gives everyone peace of mind and confidence that the process will be handled efficiently and with empathy," says Rob.

We are shaped by the exceptional character of our people and Shereen and Rob are shining examples of that character as we fulfill the promises made to policyholders.

“

As a company, we made a promise to their loved one and I do whatever it takes to help them through the process.

SHEREEN BRADLEY

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Financial Results

2018

Condensed, Consolidated Balance Sheets; for the year ended (in thousands)

Assets	December 31, 2018	December 31, 2017
Debt securities, at fair value	\$15,563,402	\$14,605,018
Equity securities, at fair value	64,920	104,287
Real estate, net of accumulated depreciation	38,128	39,375
Other invested assets	2,345,938	1,856,748
Total investments	18,012,388	16,605,428
Other assets	7,813,799	6,968,667
Separate account assets	7,337,964	8,085,889
Total assets	\$33,164,151	\$31,659,984
Liabilities		
Reserves and funds for payment of future benefits	\$16,415,723	\$14,358,965
Accrued income tax payable	433,339	496,845
Other liabilities	5,014,072	4,529,793
Separate account liabilities	7,337,964	8,085,889
Total liabilities	29,201,098	27,471,492
Equity		
Accumulated other comprehensive income	17,010	576,228
Retained earnings	3,900,938	3,567,546
Non-controlling interest	45,105	44,718
Total equity	3,963,053	4,188,492
Total liabilities and equity	\$33,164,151	\$31,659,984

Condensed, Consolidated Income Statements; for the year ended (in thousands)

Revenues	December 31, 2018	December 31, 2017
Premium and other product revenue	\$1,418,545	\$1,280,952
Investment income	867,299	766,505
Broker-dealer fees and commissions	864,931	731,770
Other revenue (including realized capital gains and (losses))	80,477	71,770
Total revenue	3,231,252	2,850,997
Benefits and Expenses		
Policyholder benefits	980,340	737,858
Change in reserve for payment of future benefits	537,565	603,369
Policyholder dividends	81,088	86,205
Broker-dealer sales expense	488,878	415,207
Other expenses	737,084	722,716
Total expenses	2,824,955	2,565,355
Income before income taxes	406,297	285,642
Income tax expenses	72,518	(310,567)
Net income	333,779	596,209
Net income attributable to non-controlling interest	(387)	(2,235)
Net income attributable to Penn Mutual¹	\$333,392	\$593,974

¹ The 2017 Tax Cuts and Jobs Act signed into law in December 2017, reduced the corporate tax rate, which resulted in a one-time impact related to the re-measurement of our deferred tax liability. The impact increased net income by \$362,100 in 2017. Dividends are not guaranteed. They are declared annually by Penn Mutual's Board of Trustees.

The Story Behind Our Strength

At Penn Mutual, we are passionate about serving you, our policyholders, and we believe that life insurance is central to a sound financial plan. Our team of advisers builds lasting relationships with clients, empowering them to make financial decisions that have a positive impact on their lives, now and into the future.

As a mutual company, we make our decisions with your long-term best interests in mind. We focus on continuously improving and identifying opportunities to elevate the service we provide.

Financial strength makes it possible for us to keep the promises we make to our policyholders and contract owners. In 2018, we paid \$1.4 billion in benefits to our policyholders or their beneficiaries, demonstrating our continued ability to deliver on our promises.

In this relationship-based business, the advisers we partner with help clients like you make smart decisions by offering the support, solutions and guidance needed to live life with confidence.

Our mutuality, financial strength, and focus on relationships are foundational, allowing Penn Mutual to build and grow so we will always be here for our policyholders, their families and businesses. As we enter our 172nd year of service, we are proud of the story behind our strength, and how it supports the momentum driving our commitment to you.

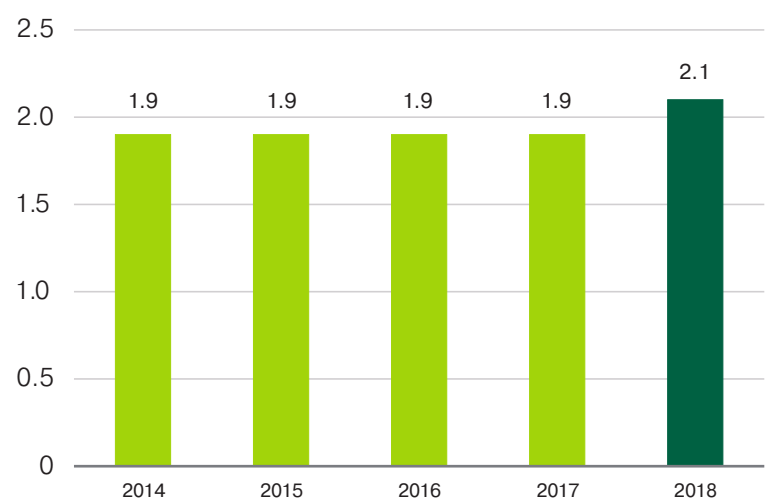
Financial Strength

One of our foundational elements is, and always will be, our financial strength and stability. That foundation begins with capital strength.

Total Surplus (Capital) was a very strong \$2.1 billion as of December 31, 2018. Total surplus is the amount set aside for unexpected losses from operations, and is our financial protection against business volatility. Our surplus position is a testament to our high-quality investment portfolio and our ability to manage the guarantees we provide our policyholders and contract owners through appropriate investment techniques.

As detailed in rating agency outlooks, Penn Mutual remains very well capitalized. Additionally, surplus is one of the key indicators of the company's long-term financial strength and stability, which helps ensure we continue to meet the future obligations to policyholders.

TOTAL SURPLUS: \$2.1 BILLION

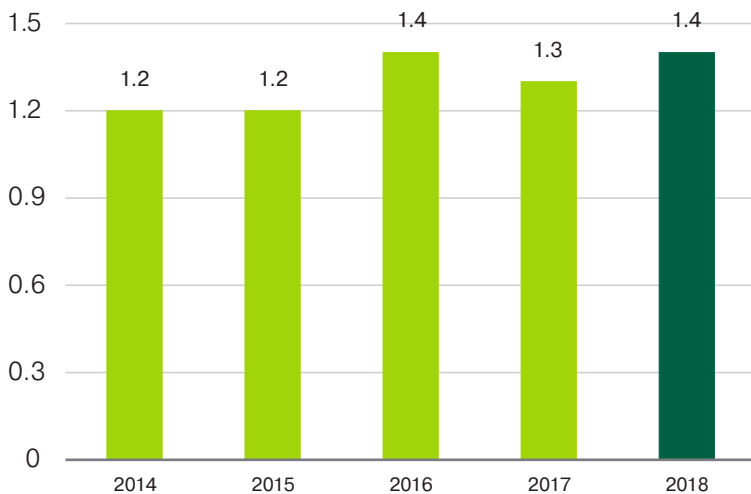


U.S. Dollars

In 2018, we paid **\$1.4 billion** in benefits to our policyholders or their beneficiaries, demonstrating our continued ability to *deliver on our promises*.

In 2018, we paid our policyholders \$1.4 billion, fulfilling the promises we make through the death benefits, annuity benefits and other benefits available with our products.

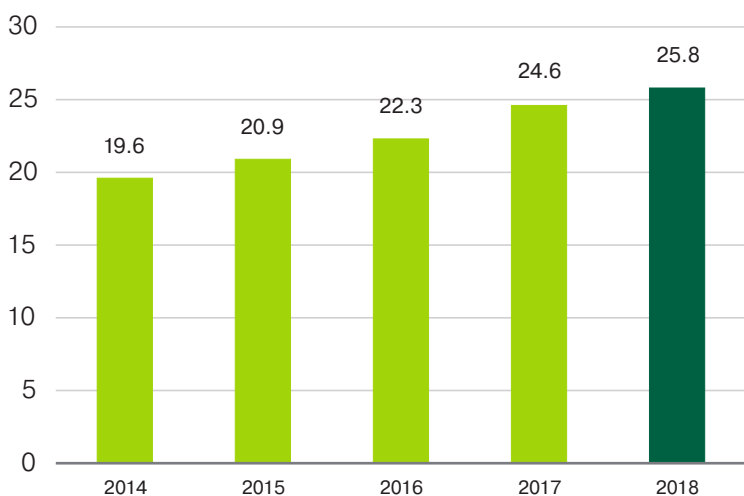
BENEFITS PAID: \$1.4 BILLION



U.S. Dollars

Total Statutory Assets Under Management, including the funds we safeguard for our policyholders, was \$25.8 billion, an increase of \$1.2 billion from 2017.

TOTAL STATUTORY ASSETS UNDER MANAGEMENT: \$25.8 BILLION

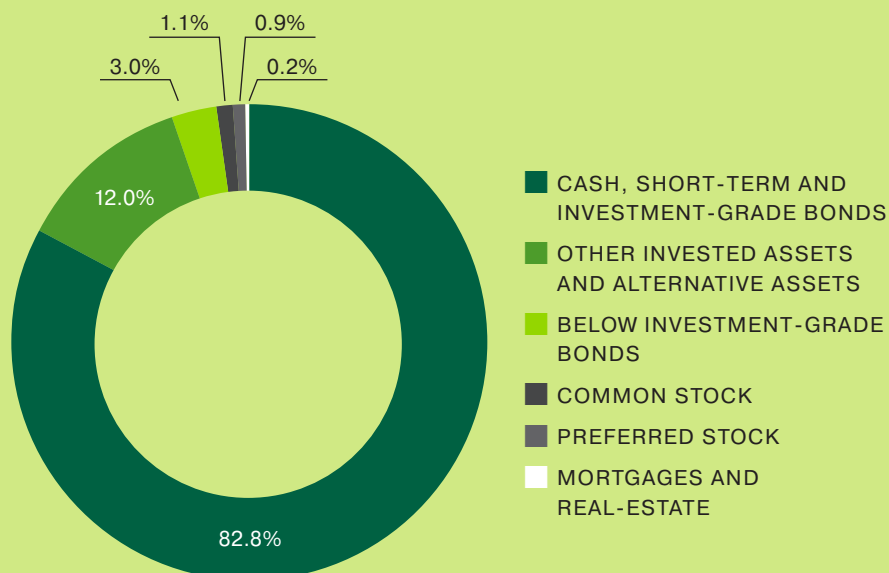


U.S. Dollars

Total Surplus (Capital), Total Assets, Benefits Paid and Investment Portfolio information are reported according to a statutory accounting basis. Total liabilities were \$17.7, \$19.0, \$20.4, \$22.7 and \$23.7 billion for years 2014-2018 respectively.

High Quality Investment Portfolio

We manage our investments with one goal in mind: to fulfill our obligations to policyholders while protecting the long-term viability of Penn Mutual. Our investment philosophy stresses rigorous asset/liability management diversification, good liquidity, and a conservative approach to portfolio risk. This philosophy has provided us with strong and superior performance for our policyholders. Because of our mutual structure, we can take a longer-term view of the economy, which helps us mitigate market volatility.



Penn Mutual holds a high-quality portfolio of assets, with investment grade bonds representing the single largest class of investments. As of December 31, 2018, 82.8 percent, or **\$13.7 billion**, of the company's total invested assets of **\$16.6 billion** (excluding policy loans), represented cash, short-term and investment grade bonds.

Our second largest asset class, **"Other Invested Assets and Alternative Assets,"** represents 12 percent of the investment portfolio (excluding policy loans). Included in this growing asset class is our investment in Janney Montgomery Scott LLC, one of our broker-dealer affiliates; investments in limited partnerships, focused on other investment opportunities like venture capital and private equity; investments in private funds; and hedging assets that **protect the company against fluctuation in equity markets and interest rates.**

Our policyholders can take comfort in knowing that Penn Mutual avoids risk that might jeopardize our ability to keep the promises we make to our valued policyholders.

With an average credit quality rating of A, Penn Mutual holds a higher percentage of NAIC 1 bonds than the industry, as classified by the National Association of Insurance Commissioners (NAIC). And, Penn Mutual holds a lower percentage of below investment grade bonds than the industry.

This is the story behind our strength. You can be confident that your life insurance policy or annuity contract has the full backing of a company with an incomparable record of integrity — a company with a 172-year history of safety, stability and security.

NAIC 1 Bonds

67.7%
PENN MUTUAL
12/31/18

60.8%
INDUSTRY
9/30/18

NAIC Below Investment Grade Bonds

3.6%
PENN MUTUAL
12/31/18

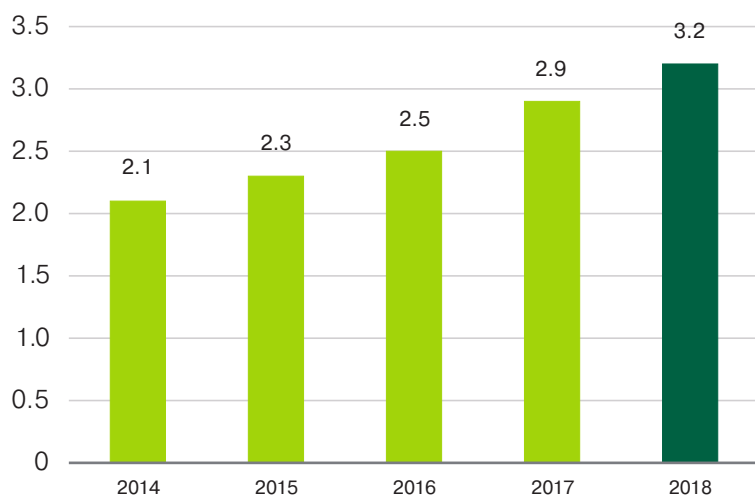
5.5%
INDUSTRY
9/30/18

Financial Performance

Our results for the 12 months ended December 31, 2018, underscore our continued focus on and commitment to meeting our obligations to our policyholders and contract owners and protecting Penn Mutual's long-term viability. We achieved solid financial results for the year, following our strong performance in 2017.

Total Revenue for the year was \$3.2 billion. This includes premium and product revenue from life and annuity products, investment income on our assets, and broker-dealer fees and commissions, which have shown solid growth over the past five years.

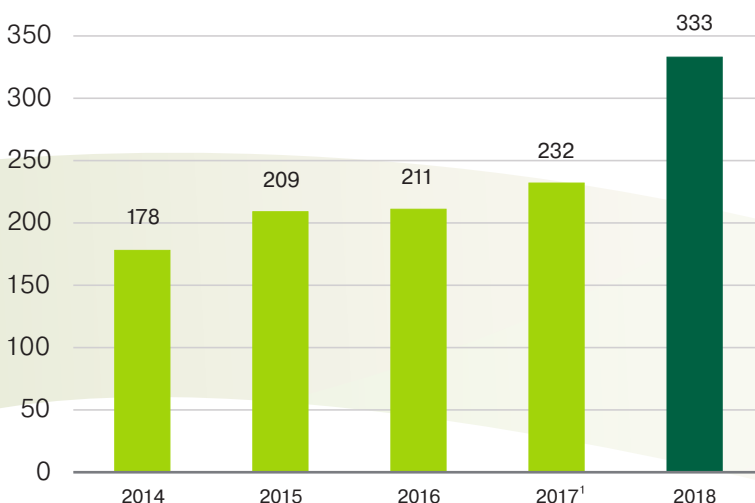
TOTAL REVENUE: \$3.2 BILLION



U.S. Dollars

Consolidated Net Income, which includes income from all business segments—Insurance, Broker-Dealer and Asset Management—was a record \$333 million, for the year ended December 31, 2018, compared to \$232 million in 2017¹.

CONSOLIDATED NET INCOME: \$333 MILLION



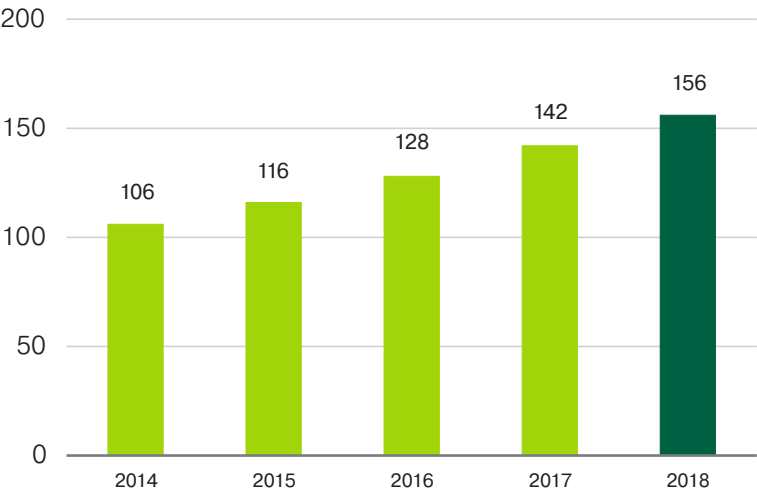
U.S. Dollars

¹ Excludes one-time impact of 2017 Tax Cuts and Jobs Act

Sales Performance

Individual Life Insurance In Force, the amount of life insurance protection we provide to policyholders, reached a new high of \$156 billion, a very strong 10 percent increase over 2017. This growth demonstrates that policyholders value the protection and living benefits offered by Penn Mutual products based on the advice of their trusted advisers.

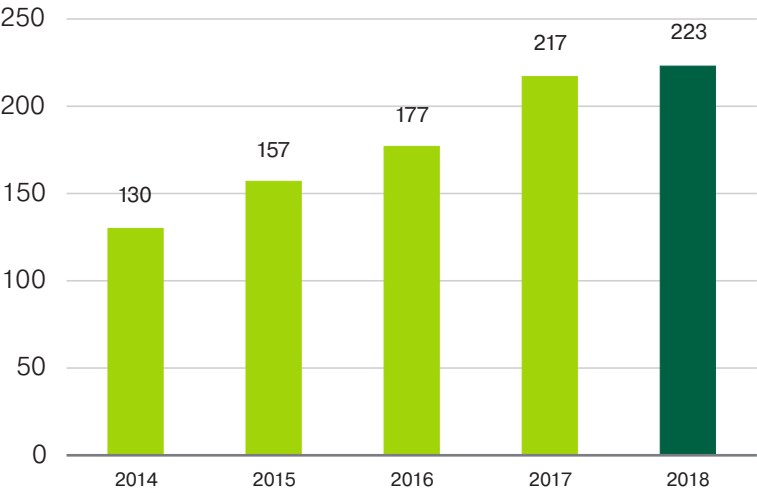
INDIVIDUAL LIFE INSURANCE IN FORCE: \$156 BILLION



U.S. Dollars

Life insurance sales for the year were a record \$223 million. This premium measures life sales based on internal formulas for specific products. Individual New Life Premiums were \$540 million. Our results are evidence of our belief that life insurance is central to a sound financial plan.

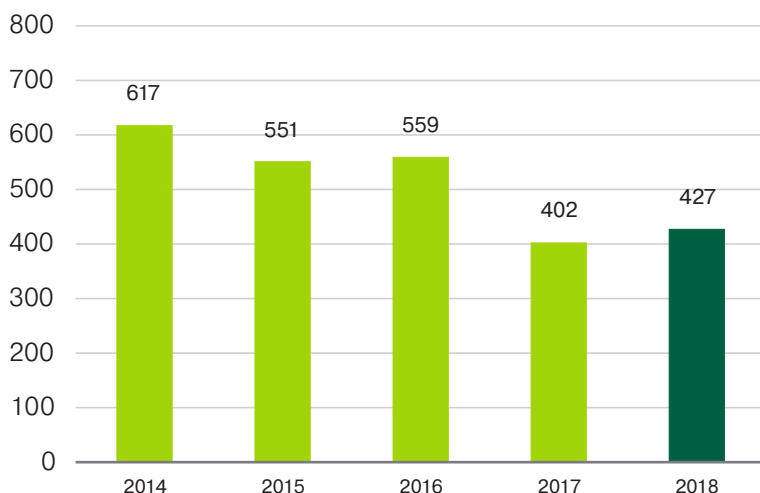
NEW LIFE INSURANCE SALES: \$223 MILLION



U.S. Dollars

New annuity sales were a strong \$427 million in 2018. We continue to manage annuity sales in the current rate environment and the role they play in our clients' financial plans.

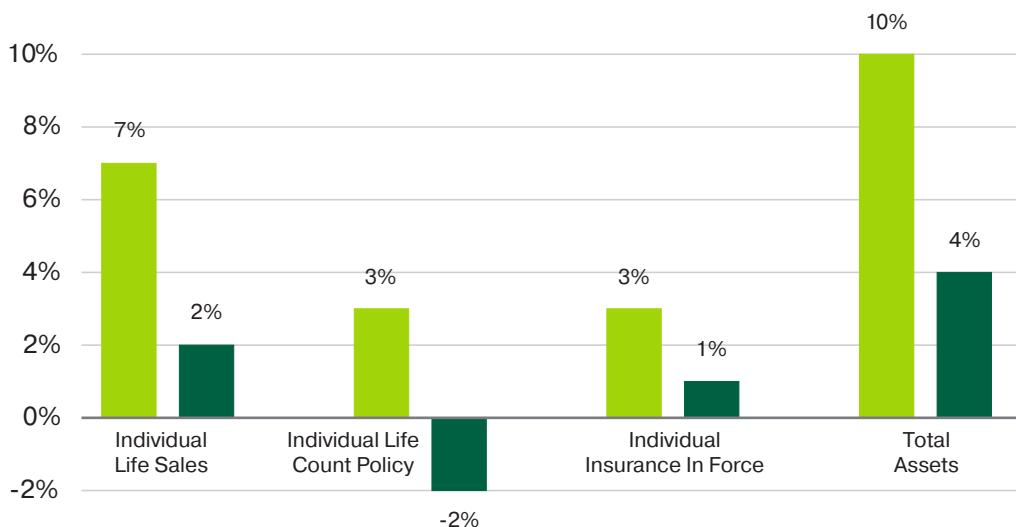
NEW ANNUITY SALES: \$427 MILLION



U.S. Dollars

Outpacing the Industry

For over eight years (2010-2017), Penn Mutual has outpaced the industry in several key categories, measured in compound annual growth rate.



■ PENN MUTUAL
■ INDUSTRY

Source: Policy Count, Insurance In Force, Assets – S&P Global
 Life Sales – LIMRA

Our Family of Companies



The Penn Insurance and Annuity Company (PIA) is a wholly owned life insurance subsidiary of Penn Mutual. Domiciled in Delaware, PIA is licensed to do business in 49 states and the District of Columbia. It markets its products through Penn Mutual's distribution systems and has its in force business serviced by Penn Mutual.

— **Eileen C. McDonnell, Chairman & Chief Executive Officer**



Penn Mutual Asset Management, LLC (PMAM), a registered investment adviser and a wholly owned subsidiary of Penn Mutual. PMAM offers investment management services to: affiliated insurance company general and separate accounts and other affiliated corporate entities; third-party U.S. institutional clients; registered investment companies; private funds; separately managed portfolios; and other pooled investment vehicles.

— **David M. O'Malley, Chairman & Chief Executive Officer**



HTK

Janney

Vantis Life®
A better life experience.

Hornor, Townsend & Kent, LLC (HTK) is a wholly owned broker-dealer subsidiary of Penn Mutual. HTK financial advisers access a full range of product choices, including mutual funds, stocks, bonds, and proprietary and non-proprietary variable life insurance and annuity products. HTK is a member of the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation (SIPC).

Penn Mutual's variable products are principally offered through HTK.

— **Timothy N. Donahue,**
President & Chief Executive Officer

Janney Montgomery Scott LLC (Janney) is a full-service regional securities broker dealer. Janney offers clients a complete range of investment vehicles, from individual securities to mutual funds, insurance, money management and other financial service products. It also provides investment banking services to corporations and institutional clients. Janney is a member of the New York Stock Exchange, all other major U.S. exchanges, the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation (SIPC).

— **Timothy C. Scheve, President & Chief Executive Officer**

Vantis Life Insurance Company is a Connecticut domiciled stock company and a wholly owned subsidiary of Penn Mutual. Vantis Life markets its products through financial institutions and direct to the consumer in all states except New York, and by Vantis Life Insurance Company of New York for New York business.

— **Raymond G. Caucci, Chairman & Chief Executive Officer**

Our Leadership



Susan T. Deakins,
FSA, MAAA

Executive Vice President,
Chief Financial Officer & Treasurer



Nina M. Mulrooney,
CLU®, CPA, FLMI

Executive Vice President,
Governance & Auditor



Greg Driscoll

Senior Vice President,
Service Operations
& Chief Information Officer



David M. O'Malley

President
& Chief Operating Officer



Thomas H. Harris,
CLU®, ChFC®, FLMI

Executive Vice President,
Chief Distribution Officer



Kevin T. Reynolds

Senior Vice President,
Human Resources
& Chief Legal Officer



Eileen C. McDonnell

Chairman
& Chief Executive Officer

The Penn Mutual Board of Trustees



Robert E. Chappell

Retired Chairman
The Penn Mutual Life Insurance Company



David M. O'Malley

President & Chief Operating Officer
The Penn Mutual Life Insurance Company



William C. Goings

Former Executive Vice President
& President
TD Bank Financial Group and TD Insurance



Helen P. Pudlin

Retired Executive Vice President
& General Counsel
PNC Financial Services Group, Inc.



James S. Hunt

Retired Executive Vice President
& Chief Financial Officer
Disney Parks and Resorts Worldwide



Robert H. Rock

Chairman
MLR Holdings, LLC



Carol J. Johnson

Former President & Chief Operating Officer
AlliedBarton Security Services
(Allied Universal)



Anthony M Santomero

Former President
Federal Reserve Bank of Philadelphia



Charisse R. Lillie

Former Vice President, President
Comcast Corporation and
Comcast Foundation



Susan D. Waring

Retired Executive Vice President
& Chief Administrative Officer
State Farm Life Insurance Company



Eileen C. McDonnell

Chairman & Chief Executive Officer
The Penn Mutual Life Insurance Company

Thank You to Our Retiring Board Members

With profound gratitude, respect and admiration, we thank Joan P. Carter, William R. Cook and Edmond F. Notebaert for their service as a member of the Penn Mutual Board of Trustees.



Joan Carter

Trustee
2001-2019



William R. Cook

Trustee
2008-2019



Edmond F. Notebaert

Trustee
1997-2019

The 2020 Election of Trustees

Penn Mutual's annual election of trustees will be held on Tuesday, March 3, 2020 at 10:00 a.m. in the company's office at 600 Dresher Road, Horsham, PA, 19044.

All policyholders with policies in force at the time of the election are eligible to vote. Voting can be done by mail, online or telephone. Proxy forms or additional information may be obtained through the Secretary's office at 600 Dresher Road, Horsham, PA 19044.

Our Legacy

Our legacy of financial strength, our mutual structure, and our long-term perspective continue to stand the test of time and are foundational to the company and our success. The rating agencies recognize this and have, once again, given us a vote of confidence in 2019, with a stable outlook.

A+ Superior A.M. BEST

Penn Mutual's A+ Superior rating, which was reaffirmed in March 2018, ranks the second highest out of 16 rankings.

Aa3 Excellent MOODY'S INVESTORS SERVICE

Penn Mutual's Aa3 Excellent rating, which was reaffirmed in May 2018, ranks the fourth highest out of 21 ratings.

A+ Strong STANDARD & POOR'S

Penn Mutual's A+ Strong rating, effective December 2018, ranks the fifth highest out of 16 ratings.

AA- Strong KROLL BOND RATING AGENCY

Penn Mutual's insurance financial strength rating of AA- was assigned January 2019, ranks the fourth highest out of 22 ratings, and includes a positive outlook.

Our continued **financial strength** is not possible without your confidence in our ability to help you meet your financial needs, by providing the protection that allows you to live life with confidence. On behalf of Penn Mutual's executive team, advisers, and all of our field and home office associates, we thank you for the trust you place in us, and pledge to keep earning your trust in the years to come.

All guarantees are based upon the claims-paying ability of the issuer.

The ratings quoted above are subject to change and apply only to Penn Mutual's claims-paying ability and not to the products we offer or their underlying investments.



