PACIFIC MUTUAL HOLDING COMPANY
AND SUBSIDIARIES

Consolidated Financial Statements as of
and for the years ended December 31, 2023 and 2022
and Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

Pacific Mutual Holding Company and Subsidiaries:

Opinion

We have audited the consolidated financial statements of Pacific Mutual Holding Company and subsidiaries (the "Company"), which comprise the consolidated statements of financial condition as of December 31, 2023 and 2022, and the related consolidated statements of operations, comprehensive income (loss), equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Deloitte & Touche LLP

March 7, 2024

Pacific Mutual Holding Company and Subsidiaries

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In Millions)	December 31, 2023	December 31, 2022
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value (includes amortized cost of $94,361)	$87,971	$77,806
Fair value option securities (represents VIE securities)	175	1,782
Mortgage loans (includes allowance for credit losses of $207; VIE assets of $1,299 and $1,607)	22,401	22,476
Policy loans	8,208	7,608
Other investments (includes VIE assets of $3,657 and $2,689)	11,927	10,377
TOTAL INVESTMENTS	130,682	120,049
Cash, cash equivalents, and restricted cash (includes VIE assets of $23 and $83)	7,796	5,716
Deferred policy acquisition costs	7,940	8,038
Other assets (includes VIE assets of $21 and $18)	8,183	8,028
Separate account assets	62,785	57,493
TOTAL ASSETS	$217,386	$199,324
LIABILITIES AND EQUITY		
Liabilities:		
Policyholder account balances	$93,141	$85,340
Future policy benefits	37,633	33,884
Debt (includes VIE debt of $2,163 and $1,679)	7,394	6,940
Fair value option debt (represents VIE debt)		1,599
Other liabilities (includes VIE liabilities of $13 and $53)	6,666	7,340
Separate account liabilities	62,785	57,493
TOTAL LIABILITIES	207,619	192,596
Commitments and contingencies (Note 15)		
Members' Equity:		
Members' capital	14,768	14,124
Accumulated other comprehensive loss	(5,549)	(7,916)
Total Members' Equity	9,219	6,208
Noncontrolling interests	548	520
TOTAL EQUITY	9,767	6,728
TOTAL LIABILITIES AND EQUITY	$217,386	$199,324

The abbreviation VIE above means variable interest entity.

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF OPERATIONS

(In Millions)	Years Ended December 31, 2023	2022
REVENUES		
Policy fees and insurance premiums	$8,873	$8,314
Net investment income	5,700	4,728
Net investment gain (loss)	(266)	(209)
Investment advisory fees	197	251
Other income	298	276
TOTAL REVENUES	14,802	13,360
BENEFITS AND EXPENSES		
Policy benefits paid or provided	7,618	6,610
Interest credited to policyholder account balances	2,956	2,304
Commission expenses	1,161	1,496
Operating and other expenses	2,000	2,010
TOTAL BENEFITS AND EXPENSES	13,735	12,420
INCOME BEFORE PROVISION FOR INCOME TAXES	1,067	940
Provision for income taxes	152	97
Net income	915	843
Less: net income attributable to noncontrolling interests	(40)	(80)
NET INCOME ATTRIBUTABLE TO THE COMPANY	$875	$763

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Years Ended December 31,	
(In Millions)	2023	2022
NET INCOME	$915	$843
Other comprehensive income (loss), net of tax:		
Gain (loss) on derivatives and unrealized gain (loss) on securities available for sale, net	2,344	(11,055)
Foreign currency translation adjustments and other, net	23	(115)
Other comprehensive income (loss)	2,367	(11,170)
Comprehensive income (loss)	3,282	(10,327)
Less: comprehensive income attributable to noncontrolling interests	(40)	(80)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO THE COMPANY	$3,242	($10,407)

See Notes to Consolidated Financial Statements

Pacific Mutual Holding Company and Subsidiaries

CONSOLIDATED STATEMENTS OF EQUITY

(In Millions)	Members' Capital	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity	Noncontrolling Interests	Total Equity
BALANCES, JANUARY 1, 2022	**$13,361**	**$3,254**	**$16,615**	**$390**	**$17,005**
Comprehensive income (loss):					
Net income	763		763	80	843
Other comprehensive loss		(11,170)	(11,170)		(11,170)
Total comprehensive income (loss)			(10,407)	80	(10,327)
Change in equity of noncontrolling interests				50	50
BALANCES, DECEMBER 31, 2022	**$14,124**	**($7,916)**	**$6,208**	**$520**	**$6,728**
Cumulative effect of adoption of accounting change (Note 1)	(231)		(231)		(231)
REVISED BALANCES, JANUARY 1, 2023	**13,893**	**(7,916)**	**5,977**	**520**	**6,497**
Comprehensive income:					
Net income	875		875	40	915
Other comprehensive income		2,367	2,367		2,367
Total comprehensive income			3,242	40	3,282
Change in equity of noncontrolling interests				(12)	(12)
BALANCES, DECEMBER 31, 2023	**$14,768**	**($5,549)**	**$9,219**	**$548**	**$9,767**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
(In Millions)	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$915	$843
Adjustments to reconcile net income to net cash provided by operating activities:		
Net accretion on fixed maturity securities	(80)	(49)
Depreciation and amortization	82	55
Deferred income taxes	(98)	(5)
Net investment gain (loss)	266	209
Net change in deferred policy acquisition costs	(292)	96
Interest credited to policyholder account balances	2,956	2,304
Net change in future policy benefits	4,563	2,918
Net change in tax receivables and payables	207	452
Net change in reinsurance receivables and payables	(299)	(1,429)
Purchases of trading securities	(50)	(184)
Proceeds from disposals of trading securities	46	554
Net gains from partnerships and joint ventures	(272)	(200)
Purchases of investments within consolidated private equity partnerships	(343)	(626)
Disposals of investments within consolidated private equity partnerships	283	217
Other operating activities, net	(9)	246
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,875	5,401

(Continued)

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions)	Years Ended December 31, 2023	2022
(Continued)		
CASH FLOWS FROM INVESTING ACTIVITIES		
Available for sale securities:		
Purchases	($13,525)	($18,207)
Sales	1,830	3,990
Maturities and repayments	4,826	4,644
Purchases of fair value option securities	(242)	(603)
Proceeds from disposals of fair value option securities	247	908
Fundings of mortgage loans	(1,644)	(5,331)
Repayments of mortgage loans	977	1,080
Purchases of real estate	(325)	(1,157)
Proceeds from sale of real estate	369	596
Net change in policy loans	(600)	(108)
Contributions to partnerships and joint ventures	(1,066)	(1,347)
Purchases of working capital finance investments	(3,783)	(3,379)
Repayments of working capital finance investments	3,999	2,534
Cash received in connection with derivatives	1,058	1,989
Cash paid in connection with derivatives	(2,554)	(2,273)
Net change in cash collateral	1,685	(1,092)
Other investing activities, net	(229)	(35)
NET CASH USED IN INVESTING ACTIVITIES	(8,977)	(17,791)

(Continued)

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions)	Years Ended December 31, 2023	2022
(Continued)		
CASH FLOWS FROM FINANCING ACTIVITIES		
Policyholder account balances:		
Deposits	$23,507	$22,562
Withdrawals	(20,324)	(12,050)
Net change in short-term debt	795	130
Issuance of long-term debt	172	1,187
Payments of long-term debt	(243)	(262)
Net change in cash collateral for loaned securities	(732)	501
Other financing activities, net	7	37
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,182	12,105
Net change in cash, cash equivalents, and restricted cash	2,080	(285)
Cash, cash equivalents, and restricted cash, beginning of year	5,716	6,001
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF YEAR	$7,796	$5,716
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Income taxes paid (received), net	$41	($332)
Interest paid	366	319
NON-CASH TRANSACTIONS		
Reduction in mortgage loans related to a deconsolidation of a VIE	307	750
Reduction in debt related to deconsolidation of a VIE	217	676
Reduction in fair value option securities related to deconsolidation of VIEs	1,885	
Reduction in fair value option debt related to deconsolidation of VIEs	1,626	
Non-cash decrease in taxes payable	257	243

See Notes to Consolidated Financial Statements

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND DESCRIPTION OF BUSINESS

Pacific Mutual Holding Company (PMHC), a Nebraska mutual holding company, is the parent of Pacific LifeCorp, an intermediate Delaware stock holding company. Pacific LifeCorp owns 100% of Pacific Life Insurance Company (Pacific Life), a Nebraska domiciled stock life insurance company. PMHC and its subsidiaries (the Company) and affiliates have primary business operations consisting of life insurance, annuities and reinsurance.

BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and include the accounts of PMHC and its majority owned and controlled subsidiaries and the variable interest entities (VIEs) in which the Company is the primary beneficiary. All significant intercompany transactions and balances have been eliminated in consolidation.

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 as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

In developing these estimates, management makes subjective and complex judgments that are inherently uncertain and subject to material change as facts and circumstances develop. Management has identified the following estimates as critical, as they involve a higher degree of judgment and are subject to a significant degree of variability:

- The fair value of investments in the absence of quoted market values
- Expected credit losses on financial assets
- Application of the consolidation rules to certain investments
- The fair value of and accounting for derivatives, including embedded derivatives
- The capitalization and amortization of deferred policy acquisition costs (DAC)
- The liability for future policy benefits, including guarantees
- Income taxes
- Reinsurance transactions
- Litigation and other contingencies

The Company's international reinsurance business restructured its legal entities to consolidate its global risks under legal entities in Bermuda and to facilitate operations as a global reinsurer. As part of the restructuring, Pacific Life Re Global Limited (RGBM), an indirect, wholly owned subsidiary of Pacific LifeCorp, was redomiciled from Barbados to Bermuda and Pacific Life Re International Limited (RIBM), a wholly owned indirect subsidiary of Pacific LifeCorp, was formed as a direct subsidiary of RGBM and licensed as an insurance company in Bermuda. In 2022, all of the reinsurance business of Pacific Life Re Limited (PLRL), a wholly owned indirect subsidiary of Pacific LifeCorp, was transferred to RIBM except for business residing in its Canada and Korea branches which transferred on January 1, 2023. Effective January 1, 2024, insolvency practitioners were appointed to enable a voluntary liquidation of PLRL by mid 2024. See Note 15.

On April 17, 2023, Pacific Life sold its third-party credit asset management firm, Pacific Asset Management, LLC (PAM LLC), whose clients include Pacific Funds Series Trust (PFST), to Aristotle Capital Management, LLC. See Notes 3 and 14.

Certain reclassifications have been made to the 2022 consolidated financial statements to conform to the 2023 consolidated financial statement presentation.

The Company has evaluated events subsequent to December 31, 2023 through the date the consolidated financial statements were available to be issued and has concluded that no events have occurred that require adjustments to these consolidated financial statements.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13 that provides guidance on the measurement of credit losses for certain financial assets. This ASU replaces the incurred loss impairment methodology with one that reflects expected credit losses. The measurement of expected credit losses is based on historical loss information, current conditions, and reasonable and supportable forecasts. The Company adopted this ASU on January 1, 2023 applying a modified retrospective approach. For previously impaired fixed maturity securities available for sale, the Company adopted the ASU prospectively on January 1, 2023. The impact of this adoption on January 1, 2023 resulted in a $231 million, net of tax, decrease to retained earnings relating to the Company's mortgage loans. The Company has included the required disclosures in Note 5.

In 2022, the FASB issued ASU 2022-02 related to troubled debt restructurings and vintage disclosures. This ASU eliminates the accounting guidance for troubled debt restructurings by creditors and enhances disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. The Company adopted this guidance prospectively on January 1, 2023. The Company no longer identifies certain debt modifications as troubled debt restructurings but instead evaluates all debt modifications to determine whether a modification results in a new loan or a continuation of an existing loan. The Company has included the required disclosures in Note 5.

INVESTMENTS

Fixed Maturity Securities

Fixed maturity securities available for sale (AFS) are reported at fair value, with unrealized gains and losses, net of adjustments related to DAC, future policy benefits and deferred income taxes, recognized as a component of other comprehensive income (loss) (OCI).

Amortization of premium and accretion of discount on fixed maturity securities is recorded using the effective interest method. For mortgage-backed and asset-backed securities, the determination of effective yield is based on anticipated prepayments and the estimated economic life of the securities. When estimates of prepayments change, the effective yield is recalculated to reflect actual payments to date and anticipated future payments.

Investment income consists primarily of interest and dividends, net investment income from partnership interests, prepayment fees on fixed maturity securities and mortgage loans, and income from certain derivatives. Interest is recognized on an accrual basis and dividends are recorded on the ex-dividend date.

The Company regularly reviews its fixed maturity securities AFS for declines in fair value that are determined to be impairment-related by evaluating extent of the decline, the reasons for the decline in value (credit events, currency or interest-rate related including general credit spread widening) and the financial condition of the issuer. As part of the evaluation, the Company also considers the ability and intent to sell the security prior to a recovery in value. If the Company does have the intent to sell the security, the amortized cost basis of the security is written down to fair value and a realized loss is recorded to net investment gain (loss). Estimated fair value becomes the new amortized cost of the security. Subsequent decisions on securities sales are made within the context of assessing relative value to other comparable securities, portfolio maintenance and overall risk monitoring. Any subsequent decisions are consistent with the classification of the investment portfolio as AFS.

Prior to January 1, 2023, if an other-than-temporary impairment (OTTI) was identified on an AFS security, the cost basis of the security was written down to the net present value of projected future cash flows discounted at the effective interest rate (NPV) and a loss was recognized in earnings.

Effective January 1, 2023, the Company adopted ASU 2016-13, which modifies the OTTI guidance for AFS securities. The new model establishes an allowance for credit losses (ACL), representing expected credit losses over the life of the financial asset, rather than a direct write-down of the investment. In determining the amount of ACL, the Company calculates the NPV and compares this value to the amortized cost of the security. The ACL is limited by the amount that fair value is less than the amortized cost. The limitation is known as the "fair value floor." If the estimated fair value is less than the NPV, this portion of the decline in value related to other-than-credit factors ("noncredit loss") is recorded in OCI as an unrealized loss.

In periods subsequent to the recognition of an initial ACL on a security, the Company reassesses credit losses quarterly. Subsequent increases or decreases in the expected cash flow from the security result in corresponding decreases or increases in the ACL, which are recognized in net investment gain (loss). However, the Company does not reduce the previously recorded ACL to an amount below zero. When the Company deems a security to be uncollectible, the Company reverses the ACL and records a direct write-off of the carrying amount of the security. Cash recoveries on amounts previously written off are recorded in net investment gain (loss).

The Company determines realized gains and losses on investment transactions on a specific identification basis at trade date and includes them in net investment gain (loss).

The Company excludes accrued interest receivable from the measurement of the ACL and reverses any previously accrued interest through interest income once placing a security on nonaccrual. The Company elects not to measure an ACL on accrued interest receivable amounts because the Company writes off the uncollectible accrued interest receivable balance in a timely manner in accordance with its nonaccrual policy. The Company will continue to present accrued interest receivable in other assets, separate from the related financial asset balance on the consolidated statements of financial condition.

Mortgage Loans

Prior to January 1, 2023, the Company carried mortgage loans on real estate at their unpaid principal balance, net of deferred origination fees and write-downs. The Company recognized interest and amortized discounts and deferred origination fees in interest income using the effective interest method, based on the contractual life of the mortgage loan. The Company considered mortgage loans to be impaired when management estimated that, based upon current information and events, it was probable that the Company would not be able to collect all amounts due according to the contractual terms of the mortgage loan agreement. For mortgage loans deemed to be impaired, the Company recorded an impairment loss when the carrying amount was greater than the Company's fair value of the underlying collateral of the mortgage loan.

As a result of the adoption of ASU 2016-13, the Company carries mortgage loans at their unpaid principal balance, net of deferred origination fees and the ACL. Additionally, certain off-balance sheet credit exposures (e.g., certain unfunded mortgage loan commitments where the Company cannot unconditionally cancel the commitment) are also subject to an ACL which is included in other liabilities. The ACL 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. Each of the Company's commercial (including VIEs), agricultural, and residential mortgage loan portfolio segments are evaluated separately. See Note 5.

The ACL on mortgage loans may increase or decrease from period to period based on the factors noted below. The Company records the change in the ACL within net investment gain (loss). When the Company deems a mortgage loan to be uncollectible, the Company reverses the ACL and records a direct write-off of the carrying amount of the loan. Cash recoveries on principal amounts previously written off are recorded in net investment gain (loss).

The Company accrues interest income on mortgage loans to the extent it is deemed collectible. If any interest income due and accrued is deemed uncollectible, interest accrual ceases and previously accrued amounts are written off. Once a loan is on non-accrual status, the Company applies any payments received to the principal of the loan. Once the principal is repaid, the Company records amounts received in net investment income. The Company elected to present accrued interest receivable within other assets. The Company also elected the practical expedient to exclude the accrued interest receivable from the amortized cost balance used to calculate the allowance due to the policy to write off such balances in a timely manner. The Company records any write-off of accrued interest through a reversal of net investment income.

When loans are purchased, the acquired loans are divided into those considered purchased with more than insignificant credit deterioration (PCD) and those not considered PCD. The ACL established for purchased loans not considered PCD is recognized within net investment gain (loss) upon acquisition, whereas the ACL established for loans considered PCD at acquisition is offset by an increase in the basis of the acquired loans. Any subsequent increases and decreases in the ACL related to the purchased loans, regardless of PCD status, are recognized within net investment gain (loss), with write-offs reducing the ACL.

Commercial Loans

For commercial mortgage loans, other collateralized loans, and certain off-balance sheet credit exposures, the Company calculates the ACL using a probability-of-default / loss-given-default methodology to estimate expected credit losses over the remaining life of the loan. Management pools mortgage loans that share similar risk characteristics, such as but not limited to, property type, occupancy rates, debt service coverage ratio (DCR), and loan-to-value (LTV) and calculates the ACL at the loan level. Key inputs to the model include unpaid principal balances, LTV, DCR, average lives of the loans adjusted for prepayment considerations, internal and external historical loss rates, and other factors influencing the Company's view of the current stage of the economic cycle and future economic conditions. Management applies a probability weight to slow growth, base, and interest rate shock economic scenarios. The Company uses a reasonable and supportable forecast of economic assumptions for a 12-month period. After the applicable forecast period, the Company reverts to internal through-the-cycle historical loss experience over a period of four quarters. When individual loans no longer have the credit characteristics of the commercial loan pool, the Company removes the individual loans from the pool and evaluates them individually for an ACL.

Agriculture Loans

The Company calculates the ACL for agriculture loans using a model based on the weighted average remaining maturity method. The Company pools loans by collateral type and calculates the allowance over the contractual term of the asset, adjusted for prepayments. Key inputs to the model include the external historical loss rates on agricultural segments (given the lack of internal loss information), unpaid principal balance, and remaining maturity. When individual loans no longer have the credit characteristics of the agricultural loan pool, the Company removes the individual loans from the pool and evaluates them individually for an ACL.

Residential Loans

The ACL for residential mortgage loans is calculated using a model that applies estimated lifetime loss rates to each loan. The model pools the residential mortgage loans by loan type (e.g. new origination and reperforming) and risk profiles, which considers Fair Isaac Corporation (FICO) credit scores and LTV ratios. The estimated lifetime loss rates are based on several factors including external historical experience and expected results over the forecast period for defaults, loss severity, prepayment rates, current and forecasted economic conditions, LTV ratios, payment history, and home prices. The model uses a reasonable and supportable forecast of economic assumptions for a 24-month period and reverts to historical average losses over a 12-month straight-line period. Modified loans with an economic concession, or loans in foreclosure, are subject to individual assessment.

Other Investments

Realized gains and losses on investment transactions are determined on a specific identification basis at trade date and are included in net investment gain (loss).

The Company elected the fair value option (FVO) method of accounting for a portfolio of U.S. Government securities to provide a partial offset on income volatility due to the impact of interest rate movements. The FVO portfolio of U.S. Government securities was sold during the year ended December 31, 2022. The Company elected the FVO method of accounting for syndicated bank loans and debt issued from a collateralized loan obligation (CLO) that was classified as a VIE. The debt and syndicated bank loans were designated as FVO to reduce the impact of market value changes from the CLO on the consolidated financial statements. The FVO portfolio of syndicated bank loans and debt issued from CLOs was transferred or redeemed during the year ended December 31, 2023. The Company elected the FVO method of accounting for consolidated investments in senior and subordinated notes of CLOs to maintain consistency with the financial statements of the consolidated VIE. The FVO securities are reported at fair value with changes in the fair value of these securities recognized in net investment gain (loss). See Notes 3 and 9.

The Company participates in a securities lending program and repurchase agreements administered by authorized financial institutions whereby certain investment securities are loaned to third parties for the purpose of enhancing income on securities held through reinvestment of cash collateral received upon lending. These arrangements are accounted for as secured borrowings, and a liability is recorded within other liabilities in the amount of cash collateral received. The securities loaned or sold under these agreements are included in fixed maturity securities, available for sale. Income and expenses associated with securities lending transactions and repurchase agreements are recognized as investment income and investment expense, respectively, within net investment income.

With respect to securities loaned in securities lending transactions, the Company requires initial cash collateral equal to a minimum of 102% of the fair value of securities loaned. The borrower of the loaned securities is permitted to sell or repledge those securities. The Company monitors the ratio of the collateral held to the fair value of securities loaned and additional collateral is obtained as necessary. The Company may occasionally utilize amounts from the cash collateral for short-term liquidity. The utilization of the cash collateral is based on conservative forecasts of cash flows and is supported by the cash balance in the general account.

Upon default of the borrower, the Company has the right to purchase replacement securities using the cash collateral held. Similarly, upon default of the Company, the borrower has the right to sell the loaned securities and apply the proceeds from such sale to the Company's obligation to return the cash collateral held. The Company has made an accounting policy election not to offset the loaned securities and cash collateral liabilities in its consolidated statements of financial condition.

The Company invests cash collateral received into reverse repurchase agreements as part of its securities lending program. The Company requires that all reverse repurchase agreements must be collateralized by U.S. Treasury securities, U.S. Agency securities, U.S. corporate bonds and/or U.S. equities with a minimum margin of 102%. For the securities lending program, reverse repurchase agreements had a maximum maturity of 90 days and are indemnified by the Company's securities lending agent against counterparty default. When counterparty default and price movements of the collateral received present the primary risks for repurchase agreements, the Company mitigates such risks by mandating short maturities, applying proper haircuts and monitoring fair values daily.

In 2022, the Company entered into a reverse repurchase transaction commitment of $250 million with an unaffiliated financial institution. Under this agreement, the Company purchases U.S. Treasury securities and loans cash, with a simultaneous agreement to resell such securities at a future date or on demand in an amount equal to the cash initially loaned plus interest.

In 2022, the Company entered into repurchase agreements with unaffiliated financial institutions. Under these agreements, the Company sells securities and receives cash in an amount at least equal to 102% of the fair value of the securities sold at the inception of the transaction, with a simultaneous agreement to repurchase such securities at a future date or on demand in an amount equal to the cash initially received plus interest. The Company monitors the ratio of the cash held to the fair value of the securities sold throughout the duration of the transaction and additional cash or securities are obtained as necessary. Securities sold under such transactions may be sold or re-pledged by the transferee.

Policy loans are stated at unpaid principal balances. Interest income is recorded as earned using the contractual interest rate and is included in net investment income. Generally, accrued interest is capitalized on the policy's anniversary date. Valuation allowances are not established for policy loans as they are fully collateralized by the cash surrender value of the underlying insurance policies. Any unpaid principal and accrued interest is deducted from the cash surrender value or the death benefit prior to settlement of the insurance policy.

Other investments primarily consist of investments in private equity partnerships, joint ventures, hedge funds, real estate investments, derivative instruments, equity securities, trading securities, and working capital finance investments (WCFI). Investments in private equity partnerships, joint venture interests, and hedge funds are recorded under either the equity method of accounting or at fair value using the net asset value (NAV) per share practical expedient with changes in fair value recorded in net investment income. The Company's income or loss from equity method investments is recorded in net investment income. In applying the equity method, the Company uses financial information provided by the investee, generally on a quarter lag. The Company consolidates investments in certain other instances where it is deemed to exercise control or is considered the primary beneficiary of a VIE. See Note 3 for additional information about VIEs. Trading securities and equity securities are reported at fair value with changes in fair value recognized in net investment gain (loss). WCFIs are held at accreted book value, which approximates fair value due to the short-term nature of the investment. Income or loss from WCFIs is recorded in net investment income.

Real estate investments are carried at depreciated cost, net of write-downs. For real estate acquired in satisfaction of debt, cost represents fair value at the date of acquisition. Depreciation of investment real estate is computed using the straight-line method over estimated useful lives ranging from five to 30 years. The Company's operating income or loss from real estate investments is recorded in net investment income. Real estate investments are evaluated for impairment based on the future estimated undiscounted cash flows expected to be received during the estimated holding period. When the future estimated undiscounted cash flows are less than the current carrying amount of the property (gross cost less accumulated depreciation), the property is considered not recoverable and an impairment loss is recognized as the amount by which the real estate carrying value exceeds its fair value.

DERIVATIVES

Derivatives, whether designated in a hedging relationship or not, are carried at fair value on the consolidated statements of financial condition within other investments or other liabilities, except for embedded derivatives which are recorded with the associated host contract. The Company elects to present derivatives subject to master netting agreements as a net asset or liability. See Note 6. The Company designates derivatives as cash flow, fair value, or net investment hedges or as a derivative that does not qualify for hedge accounting.

To qualify for hedge accounting, at the inception of the hedging relationship, the Company formally documents its risk management objective and strategy for undertaking the hedging transaction, as well as its designation of the hedge. In this documentation, the Company specifically identifies the asset, liability, firm commitment, or forecasted transaction that has been designated as the hedged item and states how the hedging instrument is expected to hedge the risks related to the hedged item. Derivative instruments used in hedging transactions that meet the criteria of a highly effective hedge are considered effective hedges. The Company formally assesses and measures effectiveness of its hedging relationships both at the hedge inception date and on an ongoing basis in accordance with its risk management policy.

If the derivative is designated as a cash flow hedge, all changes in the fair value of the hedging derivative are reported within accumulated other comprehensive income (loss) (AOCI) and the related gains or losses on the derivative are reclassified into earnings when the cash flows of the hedged item affect earnings.

If the derivative is designated as a fair value hedge, changes in the fair value of the hedging derivative, including amounts measured as ineffectiveness, and changes in the fair value of the hedged item related to the designated risk being hedged are reported in net investment gain (loss). The change in value of the hedged item associated with the risk being hedged is reflected as an adjustment to the carrying amount of the hedged item.

If the derivative is designated as a net investment hedge, all changes in the fair value of the hedging derivative are reported within AOCI to offset the translation adjustments for subsidiaries with functional currencies other than the U.S. dollar. The accumulated amount in AOCI is reclassified into net investment gain (loss) upon sale or substantial liquidation of the hedged net investment in subsidiary.

The Company discontinues hedge accounting prospectively when (1) the derivative is no longer determined to be highly effective in mitigating changes in the estimated cash flows or fair value of a hedged item, (2) the derivative expires, is sold, terminated, or exercised, or (3) the derivative is de-designated as a hedging instrument. When hedge accounting is discontinued, the derivative continues to be carried on the consolidated statements of financial condition at fair value, with changes in fair value reported in net investment gain (loss).

For a derivative instrument not designated as a hedge, the entire change in fair value of the derivative, including net receipts and payments, is recorded in net investment gain (loss).

The periodic cash flows for all derivatives designated as a hedge are recorded consistent with the hedged item on an accrual basis. For derivatives that are hedging investments, these amounts are included in net investment income. For derivatives that are hedging liabilities, these amounts are included in interest credited to policyholder account balances or interest expense, which is included in operating and other expenses. For derivatives not designated as a hedge, the periodic cash flows are reflected in net investment gain (loss) on an accrual basis. Upon termination of a cash flow hedging relationship, the accumulated amount in OCI is reclassified into earnings into either net investment income, net investment gain (loss), or interest credited to policyholder account balances when the forecasted transactions affect earnings. Upon termination of a fair value hedging relationship, the accumulated adjustment to the carrying amount of the hedged item is amortized into either net investment income, interest credited to policyholder account balances, or interest expense over its remaining life.

CASH, CASH EQUIVALENTS, AND RESTRICTED CASH

Cash and cash equivalents include all short-term, highly liquid investments with a maturity of three months or less from purchase date. Cash equivalents consist primarily of U.S. Treasury bills and money market securities. Restricted cash primarily consists of security deposits, cash held in restricted custodian accounts and property tax impounds. Restricted cash was $70 million and $309 million as of December 31, 2023 and 2022, respectively.

DEFERRED POLICY ACQUISITION COSTS

The direct and incremental costs associated with the successful acquisition of new or renewal insurance business; principally commissions, medical examinations, underwriting, policy issue, and other expenses; are deferred and recorded as an asset referred to as DAC. DAC related to internally replaced contracts is immediately written off to expense and any new deferrable expenses associated with the replacement are deferred if the contract modification substantially changes the contract. However, if the contract modification does not substantially change the contract, the existing DAC asset remains in place and any acquisition costs associated with the modification are immediately expensed. The Company defers sales inducements and amortizes them over the life of the policy using the same methodology and assumptions used to amortize DAC. The nature of sales inducements include bonus credits equal to a certain percentage of each deposit.

For universal life (UL), variable annuities, and other investment-type contracts, acquisition costs are generally amortized through earnings in proportion to the present value of estimated gross profits (EGPs) from projected investment, mortality and expense margins, and surrender charges over the estimated lives of the contracts. Actual gross margins or profits may vary from management's estimates, which can increase or decrease the rate of DAC amortization. DAC related to traditional policies is amortized through earnings over the premium-paying period of the related policies in proportion to premium revenues recognized, using assumptions and estimates consistent with those used in computing policy reserves. DAC related to certain unrealized components in OCI, primarily unrealized gains and losses on securities available for sale, is adjusted with corresponding charges or benefits, respectively, directly to equity through OCI.

During reporting periods of negative actual gross profits, DAC amortization may be negative, which would result in an increase to the DAC balance. Negative amortization is only recorded when the increased DAC balance is determined to be recoverable and is also limited to amounts originally deferred plus interest.

Significant assumptions in the development of EGPs include investment returns, surrender and lapse rates, rider utilization, expenses, interest spreads, and mortality margins. The Company's long-term assumption for the underlying separate account investment return ranges from 6.8% to 7.5% depending on the product. A change in the assumptions utilized to develop EGPs results in a change to amounts expensed in the reporting period in which the change was made by adjusting the DAC balance to the level DAC would have been had the EGPs been calculated using the new assumptions over the entire amortization period. In general, favorable experience variances result in increased expected future profitability and may lower the rate of DAC amortization, whereas unfavorable experience variances result in decreased expected future profitability and may increase the rate of DAC amortization. All critical assumptions utilized to develop EGPs are evaluated at least annually and necessary revisions are made to certain assumptions to the extent that actual or anticipated experience necessitates such a prospective change. The Company may also identify and implement actuarial modeling refinements to projection models that may result in increases or decreases to the DAC asset.

The DAC asset is reviewed at least annually to ensure that the unamortized balance does not exceed expected recoverable EGPs.

POLICYHOLDER ACCOUNT BALANCES

Policyholder account balances relate to UL and investment-type contracts. UL and interest-sensitive whole life (ISWL) contracts, as well as funding agreements, are valued using the retrospective deposit method and are equal to accumulated account values, which consist of deposits received, plus interest credited, less withdrawals and assessments. Annuity and deposit liabilities include deferred annuity account values and group annuities, which are also valued using the retrospective deposit method. Furthermore, annuity and deposit liabilities include structured settlements and other payout annuities without life contingencies, which are valued using a prospective method that estimates the present value of future contract cash flows at the assumed credited or contract rate. Interest credited to the policyholder account balances vary by product and ranged from 0.3% to 8.9%. The fixed indexed annuity and life indexed account products contain embedded derivatives (Note 6), which are carried at fair value and are presented separately from the related host and other fixed components in Note 7.

FUTURE POLICY BENEFITS

Annuity reserves, which primarily consist of group retirement, structured settlement, and certain immediate annuities with life contingencies, are equal to the present value of estimated future payments using pricing assumptions, as applicable, for interest rates, mortality, morbidity, retirement age, and expenses. Interest rates used in establishing such liabilities ranged from 0.1% to 11.0%. Assumptions such as mortality and interest rates are “locked-in” upon the issuance of new business. Although certain assumptions are "locked-in", significant changes in experience or assumptions may require us to provide for expected future losses on a product by establishing premium deficiency reserves. Premium deficiency reserves are determined based on best estimate assumptions that exist at the time the premium deficiency reserve is established and do not include a provision for adverse deviation. Any adjustments to future policy benefit reserves related to net unrealized gains on securities classified as available for sale are included in AOCI.

The liability for future policy benefits includes a liability for unpaid claims, established based on the Company’s estimated cost of settling all claims. Unpaid claims include estimates of claims that the Company believes have been incurred but have not yet been reported as of the balance sheet date. The estimates used to determine the liability for unpaid claims are derived principally from the Company’s historical experience.

The Company offers annuity contracts with guaranteed minimum benefits, including guaranteed minimum death benefits (GMDBs) and riders with guaranteed living benefits (GLBs) that guarantee net principal over a ten-year holding period or a minimum withdrawal benefit over specified periods, subject to certain restrictions. If the guarantee includes a benefit that is only attainable upon annuitization or is wholly life contingent (e.g., GMDBs or guaranteed minimum withdrawal benefits for life), it is accounted for as an insurance liability (Note 8). All other GLB guarantees are accounted for as embedded derivatives (Note 6).

Policy charges assessed against policyholders that represent compensation to the Company for services to be provided in future periods, or for consideration for origination of the contract, are deferred as unearned revenue reserves (URR), and recognized in revenue over the expected life of the contract using the same methods and assumptions used to amortize DAC. Unearned revenue related to certain unrealized components in OCI, primarily unrealized gains and losses on securities available for sale, is recorded to equity through OCI.

Life insurance reserves are composed of benefit reserves and additional liabilities. Benefit reserves are valued using the net level premium method on the basis of actuarial assumptions appropriate at policy issue. Mortality and persistency assumptions are generally based on the Company's experience, which, together with interest and expense assumptions, include a margin for possible unfavorable deviations. Interest rate assumptions ranged from 0.0% to 10.3%. Future dividends for participating business are provided for in the liability for future policy benefits. Additional liabilities are held for certain insurance benefit features that have amounts assessed in a manner that is expected to result in profits in earlier years and subsequent losses. The additional liability is valued using a range of scenarios, rather than a single set of best estimate assumptions, which are consistent with assumptions used in EGPs for purposes of amortizing capitalized DAC.

Estimates of future policy benefit reserves and liabilities are continually reviewed and, as experience develops, are adjusted as necessary. The Company may also identify and implement actuarial modeling refinements to projection models that may result in increases and decreases to the liability for future policy benefits. Such changes in estimates are included in earnings for the period in which such changes occur.

REINSURANCE

The Company has ceded reinsurance agreements with other insurance companies to limit potential losses, reduce exposure arising from larger risks, and provide additional capacity for future growth. As part of a strategic alliance, the Company also reinsures risks associated with policies written by an independent producer group through modified coinsurance and yearly renewable term (YRT) arrangements with this producer group's reinsurance company. The ceding of risk does not discharge the Company from its primary obligations to contract owners. To the extent that the assuming companies become unable to meet their obligations under reinsurance contracts, the Company remains liable. The Company evaluates the financial strength and stability of each reinsurer prior to entering into each reinsurance contract and throughout the period that the reinsurance contract is in place.

All assets associated with business reinsured on a modified coinsurance basis remain with, and under the control of, the Company. As part of its risk management process, the Company routinely evaluates its reinsurance programs and may change retention limits, reinsurers, or other features at any time.

The Company has assumed reinsurance agreements with other insurance companies, which primarily include traditional life reinsurance and non-traditional longevity reinsurance. Non-traditional longevity reinsurance provides protection to retirement plans and insurers of such plans against changes in mortality improvement. With a non-traditional longevity reinsurance transaction, the Company agrees with another party to exchange a predefined benefit and the realized benefit for a premium. For assumed longevity reinsurance agreements, in some arrangements, the Company also provides asset and interest rate risk protection to assuming entities for retirements plans and insurers of such plans.

The Company utilizes reinsurance accounting for ceded and assumed transactions when risk transfer provisions have been met. To meet risk transfer requirements, a reinsurance contract must include insurance risk, consisting of both underwriting and timing risk, and a reasonable possibility of a significant loss to the reinsurer.

Reinsurance premiums ceded and reinsurance recoveries on benefits and claims incurred are deducted from their respective revenue, benefit and expense accounts. Prepaid reinsurance premiums, included in other assets, are premiums that are paid in advance for future coverage. Amounts receivable and payable to reinsurers are offset for account settlement purposes for contracts where the right of offset exists, with net reinsurance receivables included in other assets and net reinsurance payables included in other liabilities. Reinsurance receivables and payables may include balances due from reinsurance companies for paid and unpaid losses.

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. Net amounts receivable are reflected as an asset within other assets on the consolidated statements of financial condition. As amounts are paid or received, consistent with the underlying contracts, the deposit asset is adjusted. The Company reports reinsurance receivables net of an ACL. The ACL considers the credit quality of the reinsurance counterparty and is generally determined based on the probability of default and loss, given default assumptions that consider any applicable collateral arrangements. The Company reports additions to, or releases of, the ACL in operating and other expenses. Prior to the adoption of this standard, the Company only established an ACL for reinsurance receivables when the Company deemed it was probable that a reinsurer may fail to make payments to the Company in a timely manner.

REVENUES, BENEFITS AND EXPENSES

Premiums from annuity contracts with life contingencies and traditional life and term insurance contracts are recognized as revenue when due. Benefits and expenses are provided against such revenues to recognize profits over the estimated lives of the contracts by providing for liabilities for future policy benefits, expenses for contract administration, and DAC amortization.

Receipts for UL and investment-type contracts are reported as deposits to either policyholder account balances or separate account liabilities and are not included in revenue. Policy fees consist of mortality charges, surrender charges, and expense charges that have been earned and assessed against related account values during the period and also include the amortization of URR. The timing of policy fee revenue recognition is determined based on the nature of the fees. Benefits and expenses include policy benefits and claims incurred in the period that are in excess of related policyholder account balances, interest credited to policyholder account balances, expenses of contract administration, and the amortization of DAC.

Investment advisory fees are primarily fees earned by Pacific Life Fund Advisors LLC (PLFA), a wholly owned subsidiary of Pacific Life, which serves as the investment advisor for the Pacific Select Fund (PSF), an investment vehicle provided to the Company's variable universal life (VUL) and variable annuity contract holders, PFST, the investment vehicle for the Company's mutual fund products and other funds, and the Pacific Life Investment Grade Trade Receivable Fund. As a result of the sale of PAM LLC, PLFA no longer receives investment advisory fees from PFST. Investment advisory and other asset-based fees are based primarily on annual percentages of the average daily net assets of each of the underlying portfolios and are recorded as earned. Related subadvisory expense is included in operating and other expenses.

FOREIGN CURRENCY

The reporting currency for these consolidated financial statements is the U.S. dollar. The Company uses a number of functional currencies for its operations outside the U.S. A functional currency is defined as the currency of the primary economic environment in which an entity operates. The translation of the functional currencies into U.S. dollars is performed for asset and liability accounts using current exchange rates in effect as of the last day of the reporting period and for revenue and benefit and expense accounts using the quarterly average rates. Gains or losses, net of applicable deferred income taxes, resulting from such translation are included in AOCI on the consolidated statements of financial condition.

Gains or losses from foreign currency transactions, including the effect of remeasurement of foreign-denominated monetary assets and liabilities to the appropriate functional currency, are primarily included in net investment gain (loss) on the consolidated statements of operations in the period in which they occur.

INCOME TAXES

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements. Under this method, the Company determines deferred tax assets and liabilities on the basis of the differences between the consolidated financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse.

The Company recognizes deferred tax assets to the extent that these assets are more likely than not to be realized.

The Company records uncertain tax positions in accordance with the Accounting Standards Codification's (Codification) Income Taxes Topic on the basis of a two-step process in which (1) the Company determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

The Company recognizes interest and penalties related to unrecognized tax benefits in the provision for income taxes in the consolidated statements of operations. Accrued interest and penalties are included in other liabilities in the consolidated statements of financial condition. An immaterial amount of interest and penalties were recognized in the years ended December 31, 2023 and 2022.

The Company accounts for investment tax credits using the deferral method of accounting.

The Company uses the period cost method and records a current period expense for the taxes due on future U.S. inclusions in taxable income related to global intangible low-taxed income.

PMHC and its includable subsidiaries are included in the consolidated Federal income tax return and the combined California franchise tax return of PMHC and are allocated tax expense or benefit based principally on the effect of including their operations in these returns under a tax sharing agreement. Certain of the Company's non-insurance subsidiaries also file separate state tax returns, if necessary. Some of the Company’s non-U.S. subsidiaries and their branches are subject to tax in the United Kingdom (UK), Australia, Singapore, Canada, and South Korea.

Recent tax legislation in the U.S. and globally could impact how our earnings are taxed and include: 1) the Inflation Reduction Act was enacted on August 16, 2022 and imposes a 15% Corporate Alternative Minimum Tax (CAMT) effective January 1, 2023; 2) the Organization for Economic Co-operation and Development (“OECD”) released its framework for Pillar 2 global minimum tax at 15% rate in December 2022 and effective dates vary as jurisdictions enact legislation to adopt the Pillar 2 framework; and 3) Bermuda Corporate Income Tax (CIT) was enacted on December 27, 2023 and effective January 1, 2025. See additional details in Note 13.

CONTINGENCIES

The Company evaluates all identified contingent matters on an individual basis. A loss is recorded if the contingent matter is probable of occurring and reasonably estimable. The Company establishes reserves for these contingencies at the best estimate or, if no one amount within the range of possible losses is more probable than any other, the Company records an estimated reserve at the low end of the range of losses. For matters where a loss may be reasonably possible but not probable, or is probable or not reasonably estimable, no accrual is established, but the matter, if potentially material, is disclosed.

SEPARATE ACCOUNTS

Separate accounts primarily include variable annuity and variable life contracts as well as other guaranteed and non-guaranteed accounts. Separate account assets are recorded at fair value and represent legally segregated contract holder funds. A separate account liability is recorded equal to the amount of separate account assets. Deposits to separate accounts, investment income, and realized and unrealized gains and losses on the separate account assets accrue directly to contract holders and, accordingly, are not reflected in the consolidated statements of operations or cash flows. Amounts charged to the separate account for mortality, surrender, and expense charges are included in revenues as policy fees.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments has been determined using available market information and appropriate valuation methodologies. However, considerable judgment is often required to interpret market data used to develop the estimates of fair value. Accordingly, the estimates presented may not be indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies could have a material effect on the fair value of the financial instruments. See Note 10.

FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

In 2020, the FASB issued ASU 2020-04, which, together with all subsequent amendments, provides guidance on facilitation of the effects of reference rate reform on financial reporting. The new guidance provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform. If entities meet certain criteria, they will not be required to remeasure or reassess certain contract modifications that result from the discontinuation of the London Inter-Bank Offered Rate (LIBOR) or another reference rate. Changes to the critical terms of a hedging relationship affected by reference rate reform will not require entities to de-designate the relationship if they meet certain criteria. Optional expedients also allow derivative instruments impacted by changes in the interest rate used for margining, discounting, or contract price alignment to qualify for certain optional relief. The Company has elected the practical expedients to maintain hedge accounting for certain derivatives and applied the practical expedients for contract modifications made since March 12, 2020. The Company will continue to evaluate its options under this ASU through December 31, 2024.

In 2018, the FASB issued targeted improvements to the accounting for long-duration contracts, ASU 2018-12. The objective of this guidance is to make improvements to the existing recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance entity. The new guidance improves the timeliness of recognizing changes in the liability for future policy benefits for traditional long-duration contracts by requiring that underlying cash flow assumptions be reviewed and updated at least annually. The rate used to discount future cash flows must be based on an upper-medium grade fixed income investment yield. The change in the reserve estimate as a result of updating cash flow assumptions will be recognized in net income. The change in the reserve estimate as a result of updating the discount rate assumption will be recognized in OCI. The new guidance also creates a new category of market risk benefits (i.e., features that protect the contract holder from more than nominal capital market risk) for certain guarantees associated with contracts, which are required to be measured at fair value with changes recognized in net income. In addition, the new guidance simplifies the amortization of DAC and other similar capitalized balances (i.e., URR) by requiring such costs to be amortized on a constant-level basis that approximates the straight-line method. Lastly, the new guidance increases and enhances the disclosures related to long-duration insurance contracts. The new guidance is effective for fiscal years beginning after December 15, 2024. Early adoption is permitted.

In 2023, the FASB issued improvements to income tax disclosures, ASU 2023-09. The objective of this guidance is to enhance the transparency and decision usefulness of income tax disclosures through improvements primarily related to the rate reconciliation and income taxes paid information. The new guidance is effective for annual periods beginning after December 15, 2025. Early adoption is permitted.

2. STATUTORY FINANCIAL INFORMATION AND DIVIDEND RESTRICTIONS

STATUTORY ACCOUNTING PRACTICES

The Company's principal life insurance subsidiary, Pacific Life, prepares its statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the Nebraska Department of Insurance (NE DOI), which is a comprehensive basis of accounting other than U.S. GAAP. Statutory accounting practices primarily differ from U.S. GAAP by charging policy acquisition costs to expense as incurred, recognizing certain policy fees as revenue when billed, establishing future policy benefit liabilities using different actuarial assumptions, reporting surplus notes as surplus instead of debt, as well as the valuation of investments and certain assets, and accounting for deferred income taxes on a different basis.

The NE DOI has approved a permitted accounting practice, effective January 1, 2022, allowing Pacific Life to calculate the policy reserves for funding agreements based on a methodology that differs from the National Association of Insurance Commissioners (NAIC) Accounting Practices and Procedures Manual (NAIC SAP). In the permitted practice, the Company utilizes a reference rate in the valuation interest rate calculation which results in a policy reserve less than or equal to the NAIC SAP policy reserve. The permitted practice results in an increase in statutory net income of Pacific Life of $21 million and $20 million for the years ended December 31, 2023 and 2022, respectively, and an increase in statutory capital and surplus of Pacific Life of $37 million and $20 million as of December 31, 2023 and 2022, respectively.

STATUTORY NET INCOME AND SURPLUS

Statutory net income of Pacific Life was $51 million and $151 million for the years ended December 31, 2023 and 2022, respectively. Statutory capital and surplus of Pacific Life was $11,792 million and $11,702 million as of December 31, 2023 and 2022, respectively.

RISK-BASED CAPITAL

Risk-based capital is a method developed by the NAIC to measure the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The formulas for determining the amount of risk-based capital specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Additionally, certain risks are required to be measured using actuarial cash flow modeling techniques, subject to formulaic minimums. The adequacy of a company's actual capital is measured by a comparison to the risk-based capital results. Companies below minimum risk-based capital requirements are classified within certain levels, each of which requires specified corrective action. As of December 31, 2023 and 2022, Pacific Life, Pacific Life & Annuity Company (PL&A), an Arizona domiciled life insurance company wholly owned by Pacific Life, Pacific Alliance Reinsurance Company of Vermont (PAR Vermont), and Pacific Baleine Reinsurance Company (PBRC) all exceeded the minimum risk-based capital requirements. PAR Vermont and PBRC are Vermont based special purpose financial insurance companies subject to regulatory supervision by the Vermont Department of Financial Regulation (Vermont Department). PAR Vermont and PBRC are wholly owned subsidiaries of Pacific Life and accredited authorized reinsurers in Nebraska.

DIVIDEND RESTRICTIONS AND INTERNAL SURPLUS NOTES

The payment of dividends by Pacific Life to Pacific LifeCorp is subject to restrictions set forth in the State of Nebraska insurance laws. These laws require (i) notification to the NE DOI for the declaration and payment of any dividend and (ii) approval by the NE DOI for accumulated dividends within the preceding twelve months that exceed the greater of 10% of statutory policyholder surplus as of the preceding December 31 or statutory net gain from operations for the preceding twelve months ended December 31. Generally, these restrictions pose no short-term liquidity concerns for Pacific LifeCorp. Based on these restrictions and 2023 statutory results, Pacific Life could pay $746 million in dividends in 2024 to Pacific LifeCorp without prior approval from the NE DOI, subject to the notification requirement. During the years ended December 31, 2023 and 2022, Pacific Life paid no dividends to Pacific LifeCorp.

The payment of dividends by PL&A to Pacific Life is subject to restrictions set forth in the State of Arizona insurance laws. These laws require (i) notification to the Arizona Department of Insurance and Financial Institutions (AZ DIFI) for the declaration and payment of any dividend and (ii) approval by the AZ DIFI for accumulated dividends within the preceding twelve months that exceed the lesser of 10% of statutory surplus as regards to policyholders as of the preceding December 31 or statutory net gain from operations for the preceding twelve months ended December 31. Based on these restrictions and 2023 statutory results, PL&A could pay $36 million in dividends to Pacific Life in 2024 without prior regulatory approval, subject to the notification requirement. During the years ended December 31, 2023 and 2022, PL&A paid no dividends to Pacific Life.

During 2013, Pacific Life issued a $500 million 5.125% internal surplus note to Pacific LifeCorp that matures in 2043. In 2017, Pacific Life repurchased and retired $90 million of its 5.125% internal surplus note to Pacific LifeCorp. This internal surplus note eliminates upon consolidation under U.S. GAAP. Pacific Life is required to pay Pacific LifeCorp interest on this internal surplus note semiannually at fixed annual rates. All future payments of interest and principal on this internal surplus note can be made only with the prior approval of the NE DOI.

3. VARIABLE INTEREST ENTITIES

The Company evaluates its interests in VIEs on an ongoing basis and consolidates those VIEs in which it has a controlling financial interest and is thus deemed to be the primary beneficiary. A controlling financial interest has both of the following characteristics: (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Creditors or beneficial interest holders of VIEs, where the Company is the primary beneficiary, have no recourse against the Company in the event of default by these VIEs.

CONSOLIDATED VIES

The following table presents, as of December 31, 2023 and 2022, the assets and liabilities, which the Company has consolidated because it is the primary beneficiary:

	Assets	Liabilities
December 31, 2023:	*(In Millions)*	
Commercial mortgage-backed security trusts	$1,303	$1,011
Sponsored investment funds	3,566	1,138
Other	306	27
Total	$5,175	$2,176
December 31, 2022:		
Commercial mortgage-backed security trusts	$1,612	$1,229
CLO and warehousing facilities	1,869	1,714
Sponsored investment funds	2,629	388
Other	69	
Total	$6,179	$3,331

COMMERCIAL MORTGAGE-BACKED SECURITY TRUSTS

The Company has purchased significant interests in multiple commercial mortgage-backed security trusts secured by commercial real estate properties (CMBS VIEs). The trusts are classified as VIEs as they have no equity investment at risk and while no future equity infusions should be required to permit the entities to continue their activities, accounting guidance requires trusts with no equity at risk to be classified as VIEs. The Company has determined that it is the primary beneficiary of the VIEs due to the significant control over the collateral the Company has in the event of a default. The assets of the CMBS VIEs can only be used to settle their respective liabilities, and the Company is not responsible for any principal or interest shortfalls. The Company’s exposure is limited to its investment of $292 million and $382 million as of December 31, 2023 and 2022, respectively. Non-recourse debt consolidated by the Company was $1,008 million and $1,225 million as of December 31, 2023 and 2022, respectively (included in CMBS VIE debt in Note 9).

As of December 31, 2023, the Company is no longer deemed the primary beneficiary of another CMBS VIE as it no longer has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance. Therefore, the Company is not required to consolidate this VIE. The deconsolidation of this VIE decreased VIE assets by $309 million, of which $307 million relates to mortgage loans, and VIE liabilities by $218 million, of which $217 million relates to debt. There was no gain or loss realized from the deconsolidation, and the Company no longer reports income from this VIE.

As of December 31, 2022, the Company is no longer deemed the primary beneficiary of a CMBS VIE as it no longer has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance. Therefore, the Company is not required to consolidate this VIE. The deconsolidation of this VIE decreased VIE assets by $752 million, of which $750 million relates to mortgage loans, and VIE liabilities by $677 million, of which $676 million relates to VIE debt. There was no gain or loss realized from the deconsolidation, and the Company no longer reports income from this VIE.

CLO AND WAREHOUSING FACILITIES

The Company provided initial seed capital into sponsored CLO and warehousing facilities, which were classified as VIEs because they have insufficient equity investment at risk. The Company concluded it is the primary beneficiary of these VIEs due to its significant control as the collateral manager. The Company elected the FVO method of accounting for $1,782 million of investments in the CLO and warehousing facilities as of December 31, 2022. The Company also elected the FVO method of accounting for $1,599 million of debt issued from the CLO as of December 31, 2022 (included in FVO VIE debt in Note 9).

As a result of the sale of PAM LLC in April 2023, the Company is no longer deemed the primary beneficiary of multiple CLO VIEs as it no longer has the power to direct the activities of the VIEs that most significantly impact the VIEs' economic performance. Therefore, the Company is not required to consolidate these VIEs. The deconsolidation of these VIEs decreased VIE assets by $1,817 million, of which $1,699 million relates to FVO securities, and VIE liabilities by $1,701 million, of which $1,626 million relates to FVO debt. There was no gain or loss realized from the deconsolidation, and the Company no longer reports income from these VIEs.

As of December 31, 2023, the Company is no longer deemed the primary beneficiary of another CLO VIE as it no longer has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance. Therefore, the Company is not required to consolidate this VIE. The deconsolidation of this VIE decreased VIE assets by $213 million, of which $186 million relates to FVO securities, and VIE liabilities by $182 million, of which $94 million relates to debt. There was no gain or loss realized from the deconsolidation, and the Company no longer reports income from this VIE.

SPONSORED INVESTMENT FUNDS AND OTHER

For sponsored investment funds, the Company leverages internal expertise to bring investment strategies/products to sophisticated institutional investors and qualified institutional buyers. Structured as limited partnerships, the Company has provided the initial investments to provide seed capital for these products for the purpose of refining the investment strategies and developing a performance history. Other consolidated VIEs represent limited partnership investment funds where the Company has provided the initial investments but management of the fund is performed by third parties. Based on the design and operation of these entities, the Company concluded that they are subject to consolidation under the VIE rules and that the Company is the primary beneficiary. The Company elected the FVO method of accounting for $175 million of investments in other consolidated VIEs as of December 31, 2023. Short-term non-recourse debt issued by the funds and consolidated by the Company was $1,155 million and $388 million as of December 31, 2023 and 2022, respectively (included in short-term VIE debt in Note 9). The lines of credit associated with this debt have a $1,425 million borrowing capacity. The Company's unfunded commitments to the underlying investments of the limited partnerships were $1,422 million and $1,229 million as of December 31, 2023 and 2022, respectively.

NON-CONSOLIDATED VIES

The following table presents the carrying amount and classification of the investments in VIEs in which the Company holds a variable interest but does not consolidate because it is not the primary beneficiary. The Company has determined that it is not the primary beneficiary of these VIEs because it does not have the power to direct their most significant activities. Also presented is the maximum exposure to loss, which includes the carrying amount plus any unfunded commitments, assuming the commitments are fully funded in the future.

	Carrying Amount	Maximum Exposure to Loss
December 31, 2023:	*(In Millions)*	
Private equity	$1,907	$4,086
Real estate and mortgage loans	1,061	1,590
Other	6	6
Total	$2,974	$5,682
December 31, 2022:		
Private equity	$1,839	$4,268
Real estate and mortgage loans	390	1,172
Other	12	12
Total	$2,241	$5,452

PRIVATE EQUITY

Private equity non-consolidated VIEs are limited partnership investment funds that are reported in other investments.

REAL ESTATE AND MORTGAGE LOANS

Real estate related investments and mortgage loans are limited liability companies and limited partnerships that are non-consolidated and are reported in other investments and mortgage loans, respectively. The real estate related investments are accounted for under the equity method of accounting.

OTHER NON-CONSOLIDATED VIES NOT INCLUDED IN THE TABLE ABOVE

As part of normal investment activities, the Company will make passive investments in structured securities for which it is not the sponsor. The structured security investments include residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), collateralized debt obligations, and other asset-backed securities, which are reported in fixed maturity securities available for sale at fair value. The Company has determined that it is not the primary beneficiary of these structured securities because it does not have the power to direct their most significant activities. The Company's maximum exposure to loss for these investments is limited to its carrying amount. See Note 5 for the net carrying amount and fair value of the structured security investments.

4. DEFERRED POLICY ACQUISITION COSTS

Components of DAC are as follows:

	Years Ended December 31,	
	2023	2022
	(In Millions)	
Balance, January 1	$8,038	$6,273
Additions:		
Capitalized during the year	966	923
Amortization:		
Impact of assumption unlockings	(40)	(28)
All other	(634)	(991)
Total amortization	(674)	(1,019)
Allocated to OCI	(390)	1,861
Balance, December 31	$7,940	$8,038

The Company defers sales inducements and amortizes them over the life of the policy using the same methodology and assumptions used to amortize DAC. The capitalized sales inducement balance included in the DAC asset was $324 million and $360 million as of December 31, 2023 and 2022, respectively.

5. INVESTMENTS

The following table represents the composition of fixed maturity securities available for sale by asset type in accordance with new guidance adopted January 1, 2023 regarding expected credit losses. See Note 10 for information on the Company's fair value measurements and disclosure.

	Amortized Cost Basis	Gross Unrealized		Fair Value
		Gains	Losses	
	(In Millions)			
December 31, 2023:				
U.S. Government	$902	$8	$49	$861
Obligations of states and political subdivisions	3,279	91	286	3,084
Foreign governments	2,683	33	310	2,406
Corporate securities	68,950	752	5,810	63,892
RMBS	1,972	42	182	1,832
CMBS	3,793	13	363	3,443
Collateralized debt obligations	5,752	38	11	5,779
Other asset-backed securities	7,030	54	410	6,674
Total fixed maturity securities	$94,361	$1,031	$7,421	$87,971

The following table represents the composition of fixed maturity securities available for sale by asset type in accordance with previous guidance.

	Net Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Millions)		
December 31, 2022:				
U.S. Government	$765	$2	$56	$711
Obligations of states and political subdivisions	3,219	49	404	2,864
Foreign governments (1)	2,537	7	362	2,182
Corporate securities (2)	66,676	255	7,920	59,011
RMBS (3)	1,480	30	214	1,296
CMBS	3,530	2	389	3,143
Collateralized debt obligations	3,068	5	51	3,022
Other asset-backed securities (4)	6,137	22	582	5,577
Total fixed maturity securities	$87,412	$372	$9,978	$77,806

(1) Gross unrealized losses on investments for which OTTI has been recognized in earnings in current or prior periods was $12 million as of December 31, 2022.

(2) Gross unrealized losses on investments for which OTTI has been recognized in earnings in current or prior periods was $4 million as of December 31, 2022.

(3) Gross unrealized losses on investments for which OTTI has been recognized in earnings in current or prior periods was $6 million as of December 31, 2022.

(4) Gross unrealized losses on investments for which OTTI has been recognized in earnings in current or prior periods was $1 million as of December 31, 2022.

The amortized cost basis and fair value of fixed maturity securities available for sale as of December 31, 2023, by contractual repayment date of principal, are shown below. Expected maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost Basis	Fair Value
	(In Millions)	
Due in one year or less	$3,717	$3,665
Due after one year through five years	22,423	21,724
Due after five years through ten years	21,313	19,528
Due after ten years	28,361	25,326
	75,814	70,243
Mortgage-backed and asset-backed securities	18,547	17,728
Total fixed maturity securities	$94,361	$87,971

The following tables present the fair value and gross unrealized losses on investments in an unrealized loss position. Included in the table below are fixed maturity securities available for sale without an ACL as of December 31, 2023 in accordance with new guidance adopted January 1, 2023. Also included in the table below are all securities in an unrealized loss position as of December 31, 2022, in accordance with previous guidance.

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
			(In Millions)			
December 31, 2023:						
U.S. Government			$659	$49	$659	$49
Obligations of states and political subdivisions	$7		1,638	286	1,645	286
Foreign governments	121	$2	1,565	308	1,686	310
Corporate securities	1,510	33	49,602	5,777	51,112	5,810
RMBS	6		992	182	998	182
CMBS	419	6	1,984	357	2,403	363
Collateralized debt obligations	988	2	1,074	9	2,062	11
Other asset-backed securities	456	9	4,311	401	4,767	410
Total fixed maturity securities	$3,507	$52	$61,825	$7,369	$65,332	$7,421
December 31, 2022:						
U.S. Government	$648	$32	$46	$24	$694	$56
Obligations of states and political subdivisions	1,878	335	199	69	2,077	404
Foreign governments	1,678	271	303	91	1,981	362
Corporate securities	47,334	5,893	6,773	2,027	54,107	7,920
RMBS	402	31	694	183	1,096	214
CMBS	1,932	175	638	214	2,570	389
Collateralized debt obligations	1,837	42	279	9	2,116	51
Other asset-backed securities	3,202	295	1,538	287	4,740	582
Total fixed maturity securities	$58,911	$7,074	$10,470	$2,904	$69,381	$9,978

The number of securities in an unrealized loss position for less than 12 months and for 12 months or greater as of December 31, 2022 was 5,303 and 1,279, respectively.

In accordance with its policy described in Note 1, the Company concluded that an adjustment to earnings for credit losses related to these fixed maturity securities was not warranted as of December 31, 2023. The Company has evaluated fixed maturity securities available for sale with gross unrealized losses and has determined that the unrealized losses are primarily attributable to interest rate movements and credit spreads. The Company does not intend to sell the investments and it is more likely than not that the Company will not be required to sell the investments before recovery of their amortized cost basis.

The following table presents a rollforward of the changes in the ACL on available for sale fixed maturity securities:

	Year Ended December 31, 2023
	(In Millions)
Balance, January 1, 2023	
Securities for which ACL was not previously recorded	$96
Write-offs	(96)
Balance, December 31, 2023	$—

As of December 31, 2023, accrued interest receivable on available for sale fixed maturity securities totaled $977 million and was excluded from the ACL.

As of December 31, 2023 , the Company had no investments in a single issuer that exceeded 10% of members' equity. As of December 31, 2022, the Company had no investments in a single issuer, other than the U.S. government, that exceeded 10% of stockholder's equity.

Certain assets are held as collateral in restricted custodian accounts to cover obligations under reinsurance arrangements. On a regular basis, the Company ensures that the carrying value of pledged assets is greater than or equal to the minimum value required by the reinsurance agreements. If the value of the assets in these accounts falls below the minimum value, the Company deposits additional assets to cover any shortfall. As of December 31, 2023, fixed maturity securities available for sale and restricted cash (included in cash, cash equivalents and restricted cash) with a value of $3,926 million and $42 million, respectively, were held in these accounts.

In the normal course of business, the Company participates in a securities lending program, repurchase agreements, and reverse repurchase agreements. The Company may occasionally utilize amounts from the cash collateral for short-term liquidity. As of December 31, 2023 and 2022, zero and $1.0 billion, respectively, was utilized for general corporate purposes. There were no loans outstanding under repurchase or reverse repurchase agreements as of December 31, 2023 and 2022.

The following table presents the Company's security loans outstanding, reinvestment portfolio and the corresponding collateral held under securities lending arrangements:

	December 31, 2023	December 31, 2022
	(In Millions)	
Security loans outstanding, fair value [1]	$2,985	$3,683
Reinvestment portfolio, fair value [2]	3,096	2,828
Cash collateral liability [3]	3,096	3,828

[1] Included in fixed maturity securities available for sale and comprised of corporate securities.
[2] Included in cash, cash equivalents, and restricted cash. The reinvestment portfolio remaining contractual maturities as of December 31, 2023 are $1,396 million, zero and $1,700 million maturing in 30 days or less, 31 to 60 days and 61 to 90 days, respectively.
[3] Included in other liabilities.

Major categories of investment income and related investment expense are summarized as follows:

	Years Ended December 31,	
	2023	2022
	(In Millions)	
Fixed maturity securities	$3,974	$3,181
FVO securities		100
Mortgage loans	1,034	959
Real estate	314	293
Policy loans	216	207
Partnerships and joint ventures	362	285
Other	236	106
Gross investment income	6,136	5,131
Investment expense	436	403
Net investment income	$5,700	$4,728

The components of net investment gain (loss) are as follows:

	Years Ended December 31,	
	2023	2022
	(In Millions)	
Fixed maturity securities	($19)	($125)
FVO and trading securities	11	(256)
Equity securities	(2)	(8)
Change in ACL on fixed maturity securities	(96)	
Real estate	178	292
Change in ACL on mortgage loans	(122)	
Equity total return swaps	(22)	31
Equity futures	(394)	361
Equity put options	(30)	(1)
Equity call options	969	(1,533)
Foreign currency swaps	(1)	(27)
Interest rate swaps	(99)	(1,324)
Foreign currency forwards	(6)	
Synthetic guaranteed interest contract policy fees	53	54
Embedded derivatives:		
Variable annuity GLBs	472	410
Fixed indexed annuities	(505)	719
Life indexed accounts	(754)	1,081
Other	101	117
Net investment gain (loss)	($266)	($209)

Gross realized gains and losses on sales of fixed maturity securities, available for sale were $19 million and $38 million for the year ended December 31, 2023, respectively. Gross realized gains and losses on sales of fixed maturity securities, available for sale were $28 million and $153 million, for the year ended December 31, 2022, respectively.

Net unrealized gain (loss) recognized in the consolidated statements of operations during the periods presented on securities still held at each period end is as follows:

	Years Ended December 31,	
	2023	2022
	(In Millions)	
FVO securities	$4	($24)
Trading securities	6	(21)
Equity securities	1	(11)
Other investments measured at NAV	161	15

Trading securities, included in other investments, totaled $126 million and $177 million as of December 31, 2023 and 2022, respectively. The cumulative net unrealized losses on trading securities as of December 31, 2023 and 2022 were $10 million and $20 million, respectively.

The following table presents a rollforward of the changes in the ACL on mortgage loans by portfolio segment:

	Year Ended December 31,			
	Commercial	Agricultural	Residential	Total
	(In Millions)			
Balance, January 1, 2023				
Impact of adoption of ASU 2016-13	$266	$8	$15	$289
Current period provision	104	(1)	15	118
Initial credit losses on PCD loans				—
Write-offs	(291)			(291)
Recoveries	91			91
Balance, December 31, 2023	$170	$7	$30	$207

During the year ended December 31, 2023, write-offs of the ACL were from the impairment of multiple mortgage loans where the expected pay off amount was lower than the carrying amount. The write-off amounts are directly correlated to the decline in the value of the underlying collateral due to declining local market conditions, low occupancy and reduced rental rates. As of December 31, 2023, accrued interest on mortgage loans totaled $81 million and was excluded from the ACL.

The ACL incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon asset origination or acquisition. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification. The amount, timing and extent of modifications granted are considered in determining any ACL recorded.

During the year ended December 31, 2023, the Company granted two term extensions on a commercial mortgage loan with an amortized cost of $295 million. The first modification extended the maturity date by five months, and the second modification further extended the maturity date of the loan by two months. This modified loan represents 2% of the portfolio segment. The modified loan is considered current as of December 31, 2023.

As of December 31, 2023 and 2022, there was one consolidated CMBS VIE loan that exceeded 10% of members' equity (see Note 3).

For commercial mortgage loans, the Company reviews the performance and credit quality on an on-going basis, including loan payment delinquencies and collateral performance. Collateral performance includes a review of the most recent collateral inspection reports and financial statements. Analysts track each loan's DCR and LTV. The DCR compares the collateral's net operating income to its debt service payments. DCRs less than 1.0 times indicate that the collateral operations do not generate enough income to cover the loan's current debt payments. A larger DCR indicates a greater excess of net operating income over the debt service. The LTV compares the amount of the loan to the fair value of the collateral and is commonly expressed as a percentage. LTVs greater than 100% indicate that the loan amount exceeds the collateral value. A smaller LTV percentage indicates a greater excess of collateral value over the loan amount. The monitoring process focuses on higher risk loans, which include those that are classified as restructured, delinquent or in foreclosure, as well as loans with higher LTV ratios and lower DCR. The DCR and LTV ratios are updated routinely.

For agricultural mortgage loans, the Company’s primary credit quality indicator is the LTV ratio. The values utilized in calculating this ratio are developed in connection with the ongoing review of the agricultural mortgage loan portfolio and are routinely updated. The original loan DCR is reviewed in detail prior to loan funding and is not updated or recalculated unless special circumstances warrant a review.

For residential mortgage loans, the performance and credit quality are reviewed on an on-going basis including loan payment delinquencies and collateral performance. Residential loan credit models are run periodically using updated model inputs and results are compared to initial loss adjusted returns to actual performance and market level prices, yields and spreads, and each loan is priced monthly. In addition to LTV and borrower income qualifications, the borrower's credit score is considered based on the FICO model. FICO scores can range from 300 to 850 with the higher number indicating a better credit quality. The original loan metrics and borrower information (LTV, FICO Scores, income verification and borrower profile) are reviewed in detail prior to purchase and are not updated or recalculated unless special circumstances warrant a review.

The following table provides key credit quality indicators based upon the recorded investment gross of allowance for credit losses by portfolio segment:

	December 31, 2023
	(In Millions)
Commercial mortgage loans	
LTV ratios:	
Less than or equal to 65%	$13,119
Greater than 65% to 75%	4,346
Greater than 75% to 100%	2,222
Greater than 100%	488
Total	$20,175
DCR:	
Greater than 1.20x	$14,950
1.00x to 1.20x	1,086
Less than 1.00x	1,187
Construction	2,952
Total	$20,175
Agricultural loans	
LTV ratios:	
Less than or equal to 65%	$960
Greater than 65% to 75%	9
Greater than 75% to 100%	
Greater than 100%	
Total	$969
DCR:	
Greater than 1.20x	$683
1.00x to 1.20x	256
Less than 1.00x	30
Total	$969
Residential mortgage loans	
FICO scores:	
Greater than 780	$283
500 to 780	923
Less than 500	2
Construction	194
Other	62
Total	$1,464

The Company defines delinquency consistent with industry practice, when mortgage loans are past due more than three or more months, as applicable, by property type. There is no interest income recognized during the nonaccrual period. The past due and nonaccrual mortgage loans at amortized cost by portfolio segment is as follows:

	Year Ended December 31, 2023		
	Less Than or Equal to 90 Days Past Due	Greater Than 90 Days Past Due and Still Accruing Interest	Nonaccrual
		(In Millions)	
Commercial	$225		$73
Agricultural	9	$13	
Residential	27		21
Total	$261	$13	$94

Real estate investments totaled $3.3 billion and $3.1 billion as of December 31, 2023 and 2022, respectively, and are included in other investments.

6. DERIVATIVES AND HEDGING ACTIVITIES

The Company primarily utilizes derivative instruments to manage its exposure to interest rate risk, foreign currency risk, and equity risk. Derivative instruments are also used to manage the duration mismatch of assets and liabilities. The Company utilizes a variety of derivative instruments including swaps, futures, and options. In addition, certain insurance products offered by the Company contain features that are separately accounted for as derivatives.

See Note 1 for a description of the Company’s accounting policies for derivatives and Note 10 for information about the fair value hierarchy for derivatives.

DERIVATIVES NOT DESIGNATED AS HEDGING

Equity Derivatives

The Company utilizes equity derivatives to manage equity risk associated with variable annuity GLBs and GMDBs within certain insurance and reinsurance contracts, including those deemed embedded derivatives. See below for further information on the Company’s embedded derivatives.

Equity total return swaps are swaps whereby the Company agrees to exchange the difference between the economic risk and reward of an equity index and a floating rate of interest, calculated by reference to an agreed-upon notional amount. Cash is paid and received over the life of the contract based on the terms of the swap.

Equity futures are exchange-traded transactions whereby the Company agrees to purchase or sell a specified number of contracts, the values of which are determined by the underlying equity indices, and to post variation margin on a daily basis in an amount equal to the change in the daily fair value of those contracts. The Company is also required to pledge initial margin for all futures contracts. The amount of required margin is determined by the exchange on which it is traded.

Equity put options involve the exchange of an upfront payment for the return, at the end of the option agreement, of the equity index below a specified strike price.

Equity call options are contracts to buy the index at a predetermined time at a contracted price. These contracts involve the exchange of a premium payment (either paid up front or at the time of exercise) for the return, at the end of the option agreement, of the differentials in the index at the time of exercise and the strike price subject to a cap, net of option premiums.

Foreign Currency Interest Rate Swaps

The Company utilizes foreign currency interest rate swaps primarily to manage the currency risk associated with investments and liabilities that are denominated in foreign currencies. Foreign currency interest rate swap agreements are used to convert fixed or floating rate foreign-denominated assets or liabilities to U.S. dollar fixed or floating rate assets or liabilities. A foreign currency interest rate swap involves the exchange of an initial principal amount in two currencies and the agreement to re-exchange the currencies at a future date at an agreed-upon exchange rate. There are also periodic exchanges of interest payments in the two currencies at specified intervals, calculated using agreed-upon interest rates, exchange rates, and the exchanged principal amounts. The main currencies that the Company economically hedges are the Euro, British pound, and Canadian dollar.

Interest Rate Swaps

The Company utilizes interest rate swaps to reduce economic exposure to interest rates including those that arise from duration mismatch between assets and liabilities as well as exposure related to variable annuity GLBs and GMDBs. An interest rate swap agreement involves the exchange, at specified intervals, of interest payments resulting from the difference between fixed rate and floating rate interest amounts calculated by reference to an underlying notional amount. Generally, no cash is exchanged at the outset of the contract and no principal payments are made by either party.

Foreign Currency Forwards

The Company utilizes foreign currency forwards to reduce the risk from fluctuations in foreign currency exchange rates associated with the Company's asset and liabilities that are denominated in foreign currencies. In a foreign currency forward transaction, the Company enters a binding contract that locks in the exchange rate for the purchase or sale 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.

Synthetic Guaranteed Interest Contracts

The Company issues synthetic guaranteed interest contracts (GICs) to Employee Retirement Income Security Act of 1974 (ERISA) qualified defined contribution employee benefit plans (ERISA Plan) that are considered derivatives. The ERISA Plan uses the contracts in its stable value fixed income option. The Company receives a fee, recognized in net investment gain (loss), for providing book value accounting for the ERISA Plan stable value fixed income option. In the event that plan participant elections exceed the fair value of the assets or if the contract is terminated and at the end of the termination period the book value under the contract exceeds the fair value of the assets, the Company is required to pay the ERISA Plan the difference between book value and fair value. The Company mitigates the investment risk through pre-approval and monitoring of the investment guidelines, requiring high quality investments and adjustments to the plan crediting rates to compensate for unrealized losses in the portfolios.

Embedded Derivatives

The Company has certain insurance and reinsurance contracts that contain embedded derivatives. When it is determined that the embedded derivative possesses economic and risk characteristics that are not clearly and closely related to those of the related insurance or reinsurance contract (i.e. the host contract), and that a separate instrument with the same terms would qualify as a derivative instrument, it is separated from the host contract and accounted for as a stand-alone derivative, carried at fair value, and changes in its fair value are recorded in net investment gain (loss).

The Company offers a rider on certain variable annuity contracts that guarantees net principal over specific holding periods, as well as riders on certain variable annuity contracts that guarantee a minimum withdrawal benefit over specified periods, subject to certain restrictions. These variable annuity GLBs are considered embedded derivatives. At inception, the Company attributes to the embedded derivative a portion of the projected future guarantee fees to be collected from the policyholder equal to the present value of projected future guaranteed benefits.

GLBs on variable annuity contracts issued between January 1, 2007 and March 31, 2009 are partially reinsured by third party reinsurers. These reinsurance arrangements are used to offset a portion of the Company's exposure to the variable annuity GLBs for the lives of the host variable annuity contracts issued. The ceded portion of these variable annuity GLBs is considered an embedded derivative.

The Company offers fixed indexed annuity products where interest is credited to the policyholder’s account balance based on domestic and/or international equity index changes, subject to various caps or participation rates. The indexed products contain embedded derivatives.

The Company employs economic hedging strategies to mitigate equity and interest rate risk associated with the variable annuity guarantees not covered by reinsurance and the equity-linked interest credited to fixed indexed annuities. The Company utilizes equity total return swaps, equity futures, equity call and put options based upon broad market indices to economically hedge the equity risk of the guarantees in its variable annuity products and interest credited to the policyholder in its fixed indexed annuity products. The Company also utilizes interest rate swaps to manage interest rate risk in variable and fixed annuities.

The Company offers life insurance products with indexed account options. The interest credited on the indexed accounts is a function of the underlying domestic or international equity index, subject to various caps, thresholds and participation rates. The life insurance products with indexed accounts contain embedded derivatives. The Company utilizes equity call options to economically hedge the interest credited to the policyholder based upon the underlying index for its life insurance products with indexed account options.

The following table summarizes amounts recognized in net investment gain (loss) for derivatives not designated as hedging instruments. Gains and losses include the changes in fair value of the derivatives, amounts realized on terminations, gains and losses from periodic net payments, and amortization.

	Years Ended December 31,	
	2023	2022
	(In Millions)	
Equity total return swaps	($22)	$31
Equity futures	(394)	361
Equity put options	(30)	(1)
Equity call options	969	(1,533)
Foreign currency swaps	1	(61)
Interest rate swaps	(99)	(1,324)
Foreign currency forwards	(6)	
Embedded derivatives:		
Variable annuity GLBs	289	222
Fixed indexed annuities	(505)	719
Life indexed accounts	(754)	1,081
Other	(40)	147
Total	($591)	($358)

DERIVATIVES DESIGNATED AS CASH FLOW HEDGES

The Company primarily utilizes foreign currency and interest rate swaps to manage its exposure to variability in cash flows due to changes in foreign currencies and benchmark interest rates of its assets and liabilities. The maximum length of time over which the Company is hedging its exposure to variability in future cash flows for forecasted transactions does not exceed 39 years.

The gains (losses) from changes in the fair value of foreign currency and interest rate swaps designated as cash flow hedges recognized in OCI were $62 million and ($465) million for the years ended December 31, 2023 and 2022, respectively.

No amounts were reclassified from AOCI to earnings due to forecasted cash flows that were no longer probable of occurring for the years ended December 31, 2023 and 2022.

All of the hedged forecasted transactions for cash flow hedges were determined to be probable of occurring for the years ended December 31, 2023 and 2022.

Over the next twelve months, the Company anticipates that $6 million of deferred gains on derivative instruments in AOCI will be reclassified to earnings consistent with when the hedged forecasted transaction affects earnings.

DERIVATIVES DESIGNATED AS FAIR VALUE HEDGES

The Company primarily utilizes foreign currency and interest rate swaps to manage its exposure to variability in fair value due to changes in foreign currencies and benchmark interest rates of its assets and liabilities.

Gains and losses include the changes in fair value of the derivatives as well as the offsetting gain or loss on the hedged item attributable to the hedged risk. The Company includes the gain or loss on the derivative in the same line as the offsetting gain or loss on the hedged item. These amounts do not include the periodic net settlements of the derivatives or the income (expense) related to the hedged item.

The following tables disclose items designated and qualifying as hedged items in fair value hedges:

			Gains (Losses) on Derivative Instrument Recognized in Income		Gains (Losses) on Hedged Item	
			December 31,		December 31,	
Derivative Instrument	Hedged Item		2023	2022	2023	2022
			(In Millions)			
Foreign currency swaps	Fixed maturity securities available for sale		($162)	$10	$162	($10)
Foreign currency swaps	Funding agreements	(1)	49	(32)	(49)	32
Interest rate swaps	Fixed maturity securities available for sale		(9)	70	9	(70)

			Carrying Amount of Hedged Assets and Liabilities		Cumulative Amount of Fair Value Hedging on Hedged Item	
			December 31,		December 31,	
Derivative Instrument	Hedged Item		2023	2022	2023	2022
			(In Millions)			
Foreign currency swaps	Fixed maturity securities available for sale		$1,733	$1,691	$199	($37)
Foreign currency swaps	Funding agreements	(1)	(920)	(475)	(17)	(32)
Interest rate swaps	Fixed maturity securities available for sale		465	260	(92)	101
Interest rate swaps	Fixed maturity securities available for sale	(2)	18	18	3	3
Interest rate swaps	Debt	(2)	(1,087)	(1,240)	239	(239)

(1) Included in policyholder account balances.
(2) Hedge accounting has been discontinued. The cumulative amount of fair value hedging adjustments in the table above represents the amount remaining.

DERIVATIVES DESIGNATED AS NET INVESTMENT HEDGES

The Company primarily utilizes foreign currency forwards to hedge the foreign currency exchange rate risk associated with certain of its net investments in foreign operations. The Company assesses hedge effectiveness based on the changes in spot rates. The Company has elected to exclude the difference between the spot and forward rate (excluded component), from the assessment of hedge effectiveness. The change in fair value of the excluded component will be immediately recognized in net investment gain (loss). There were no amounts deemed ineffective for the years ended December 31, 2023 and 2022.

CONSOLIDATED FINANCIAL STATEMENT IMPACT

Derivative instruments are recorded at fair value and are presented as assets or liabilities based upon the net position for each derivative counterparty by legal entity, taking into account income accruals and net cash collateral. The following table summarizes the notional amount and gross asset or liability derivative fair value and excludes the impact of offsetting asset and liability positions held with the same counterparty, cash collateral payables and receivables, and income accruals. See Note 10 for information on the Company’s fair value measurements and disclosure.

Notional amount represents a standard of measurement of the volume of over the counter (OTC) and exchange-traded derivatives. Notional amount is not a quantification of market risk or credit risk and is not recorded in the consolidated statements of financial condition. Notional amounts generally represent those amounts used to calculate contractual cash flows to be exchanged and are not paid or received, except for certain contracts such as currency swaps.

	December 31, 2023			December 31, 2022		
	Notional	Fair Value		Notional	Fair Value	
	Amount	Assets	Liabilities	Amount	Assets	Liabilities
	(In Millions)			*(In Millions)*		
Derivatives designated as hedging instruments:						
Foreign currency swaps - fair value	$3,423	$230	$68 [1]	$2,756	$322	$47 [1]
Interest rate swaps - fair value	579	30	[1]	484	39	[1]
Foreign currency swaps - cash flow	4,692	155	154 [1]	2,934	20	414 [1]
Interest rate swaps - cash flow	4,308		405 [1]	4,433		385 [1]
Foreign currency forwards - net investment hedge				114		7 [1]
Total derivatives designated as hedging instruments	13,002	415	627	10,721	381	853
Derivatives not designated as hedging instruments:						
Equity total return swaps	186		2 [1]	158		
Equity futures	3,266			3,847		
Equity call options	26,897	1,900	16 [1]	24,964	361	67 [1]
Foreign currency swaps	694	14	40 [1]	603	14	48 [1]
Interest rate swaps	4,659	11	752 [1]	6,404	43	996 [1]
Foreign currency forwards				122		
Synthetic GICs	33,838			36,626		
Embedded derivatives:						
Variable annuity GLBs			590 [3]			932 [3]
Variable annuity GLB - reinsurance contracts		143	[2]		196	[2]
Fixed indexed annuities			2,669 [4]			2,071 [4]
Life indexed accounts			1,642 [4]			699 [4]
Other		71	108 [5]			(6) [5]
Total derivatives not designated as hedging instruments	69,540	2,139	5,819	72,724	614	4,807
Total derivatives	$82,542	$2,554	$6,446	$83,445	$995	$5,660

Location on the consolidated statements of financial condition:
[1] Other investments and other liabilities
[2] Other assets
[3] Future policy benefits
[4] Policyholder account balances
[5] Other assets and policyholder account balances

OFFSETTING ASSETS AND LIABILITIES

The following table reconciles the net amount of derivative assets and liabilities (excluding embedded derivatives) subject to master netting arrangements after the offsetting of collateral. Gross amounts include income or expense accruals. Gross amounts offset include cash collateral received or pledged limited to the gross fair value of recognized derivative assets or liabilities, net of accruals. Excess cash collateral received or pledged is not included in the tables due to the foregoing limitation. Gross amounts not offset include asset collateral received or pledged limited to the gross fair value of recognized derivative assets and liabilities.

	Gross Amounts of Recognized Assets/Liabilities [1]	Gross Amounts Offset [2]	Net Amounts	Gross Amounts Not Offset - Collateral [2]	Net Amounts
			(In Millions)		
December 31, 2023:					
Derivative assets	$1,988	($1,944)	$44	($44)	$—
Derivative liabilities	1,147	(428)	719	(719)	—
December 31, 2022:					
Derivative assets	$577	($577)	$—		$—
Derivative liabilities	1,661	(719)	942	($942)	—

[1] As of December 31, 2023 and 2022, derivative assets include expense accruals of $312 million and $91 million, respectively, and derivative liabilities include expense accruals of $96 million and $394 million, respectively.

[2] As of December 31, 2023 and 2022, the Company received/accepted excess collateral of $22 million and $13 million, respectively, and provided/pledged excess collateral of $22 million and $24 million, respectively, which are not included in the table.

COLLATERAL

For OTC derivatives, OTC-cleared derivatives and exchange-traded derivatives, the Company pledges and receives cash and asset collateral. Cash collateral received from counterparties was $1,477 million and $189 million as of December 31, 2023 and 2022, respectively. This unrestricted cash collateral is included in cash, cash equivalents, and restricted cash and the obligation to return it is netted against the fair value of derivatives in other investments or other liabilities. Cash collateral pledged to counterparties was $419 million and $817 million as of December 31, 2023 and 2022, respectively. A receivable representing the right to call this collateral back from the counterparty is netted against the fair value of derivatives in other investments or other liabilities. Net exposure to the counterparty is calculated as the fair value of all derivative positions with the counterparty, net of income or expense accruals and cash collateral paid or received. If the net exposure to the counterparty is positive, the amount is reflected in other investments, whereas, if the net exposure to the counterparty is negative, the amount is included in other liabilities.

As of December 31, 2023 and 2022, the Company had also accepted collateral, consisting of various securities, with a fair value of $44 million and zero, respectively, which are held in separate custodial accounts and are not recorded in the consolidated statements of financial condition. The Company is permitted by contract to sell or repledge this collateral. As of December 31, 2023 and 2022, none of the collateral had been sold or repledged. As of December 31, 2023 and 2022, the Company provided collateral in the form of various securities with a fair value of $980 million and $1.3 billion, respectively, which are included in fixed maturity securities.

CREDIT EXPOSURE AND CREDIT RISK RELATED CONTINGENT FEATURES

The Company is exposed to credit-related losses in the event of nonperformance by counterparties to OTC derivatives, which are bilateral contracts between two counterparties. The Company manages credit risk by dealing with creditworthy counterparties, establishing risk control limits, executing legally enforceable master netting agreements, and obtaining collateral where appropriate. In addition, the Company evaluates the financial stability of each counterparty before entering into each agreement and throughout the period that the financial instrument is owned.

The Company’s OTC-cleared derivatives are effected through central clearing counterparties and its exchange-traded derivatives are effected through regulated exchanges. Such positions are marked to market and margined on a daily basis (both initial margin and variation margin), and the Company has minimal exposure to credit-related losses in the event of nonperformance by counterparties to such derivatives. The Company currently pledges cash and securities, which are restricted to sale, to satisfy this collateral requirement.

For OTC derivative transactions, the Company enters into legally enforceable master netting agreements which provide for the netting of payments and receipts with a single counterparty. The net position with each counterparty is calculated as the aggregate fair value of all derivative instruments with each counterparty, net of income or expense accruals and collateral paid or received.

These master netting agreements include collateral arrangements with derivative counterparties, which requires positions be marked to market and margined on a daily basis by the daily settlement of variation margin. The Company has minimal counterparty exposure to credit-related losses in the event of nonperformance by these counterparties.

The Company’s credit exposure is measured on a counterparty basis as the net positive fair value of all derivative positions with the counterparty, net of income or expense accruals and collateral received. All of the Company's credit exposure from derivative contracts is with investment grade counterparties.

There are no credit-contingent provisions in the Company's collateral arrangements for its OTC derivatives that provide for a reduction of collateral thresholds in the event of downgrades in the financial strength ratings, assigned by certain independent rating agencies, of the Company and/or the counterparty.

Certain of the OTC master agreements include a termination event clause associated with financial strength ratings assigned by certain independent rating agencies. If these financial strength ratings were to fall below a specified level, as defined within each counterparty master agreement or if one of the rating agencies were to cease to provide a financial strength rating, the counterparty could terminate the master agreement with payment due based on the fair value of the underlying derivatives. As of December 31, 2023, the Company's financial strength ratings were above the specified level.

7. POLICYHOLDER LIABILITIES

POLICYHOLDER ACCOUNT BALANCES

Components of the liability for policyholder account balances is as follows:

	December 31,	
	2023	2022
	(In Millions)	
UL and ISWL	$36,401	$35,803
Annuity and deposit liabilities	40,011	36,656
Embedded derivatives on indexed insurance contracts	4,419	2,859
Funding agreements	12,310	10,022
Total	$93,141	$85,340

Included in funding agreements are fixed and floating rate funding agreements issued by the Company, which are denominated in U.S. dollars or foreign currencies, to special-purpose, unaffiliated entities, that have issued either debt securities (FABN) or commercial paper (FABCP) for which payment of interest and principal is secured by such funding agreements. During the years ended December 31, 2023 and 2022, the Company issued $3.5 billion and $2.3 billion of FABN funding agreements. There were repayments of $900 million and zero during the years ended December 31, 2023 and 2022, respectively, of FABN funding agreements. As of December 31, 2023 and 2022, FABN funding agreements outstanding were $9.1 billion and $6.4 billion, respectively. During the years ended December 31, 2023 and 2022, the Company issued $6.6 billion and $4.8 billion of FABCP funding agreements. There were repayments of $7.1 billion and $3.3 billion during the years ended December 31, 2023 and 2022, respectively, of FABCP funding agreements. As of December 31, 2023 and 2022, FABCP funding agreements outstanding were $1.5 billion and $2.0 billion, respectively.

Pacific Life is a member of the Federal Home Loan Bank (FHLB) of Topeka. As of December 31, 2023 and 2022, the Company has $1.4 billion and $1.3 billion, respectively, of fixed and floating rate funding agreements with the FHLB of Topeka. During the years ended December 31, 2023 and 2022, the Company issued $183 million and $1.2 billion, respectively, and repaid $101 million and $345 million, respectively, of FHLB funding agreements. In connection with these funding agreements and FHLB short-term borrowings (Note 9), the Company is required to purchase member stock and post sufficient collateral. As of December 31, 2023 and 2022, fixed maturity securities and mortgage loans with a fair value of $8.2 billion and $4.7 billion, respectively, are pledged as approved collateral for the funding agreements and FHLB borrowings. The Company had estimated available eligible collateral of $6.0 billion as of December 31, 2023, of which a portion has been pledged as collateral for funding agreements. See Note 9.

FUTURE POLICY BENEFITS

Components of the liability for future policy benefits is as follows:

	December 31,	
	2023	2022
	(In Millions)	
Annuity and life insurance reserves	$28,658	$24,940
Liabilities for unpaid claims	2,787	2,823
URR [(1)]	5,309	4,901
Variable annuity GLB embedded derivatives	590	932
Other	289	288
Total	$37,633	$33,884

[(1)] The Company annually evaluates certain assumptions to develop EGPs for its products subject to URR amortization. The revised EGPs resulted in increased URR amortization of $26 million and $17 million for the years ended December 31, 2023 and 2022, respectively.

8. SEPARATE ACCOUNTS AND GUARANTEED BENEFIT FEATURES

The Company issues variable annuity contracts through separate accounts for which investment income and investment gains and losses accrue directly to, and investment risk is borne by, the contract holder (traditional variable annuities). These contracts also include various types of GMDB and GLB features. For a discussion of certain GLBs accounted for as embedded derivatives, see Note 6.

The GMDBs provide a specified minimum return upon death. Many of these death benefits are spousal, whereby a death benefit will be paid upon death of the first spouse. The survivor has the option to terminate the contract or continue it and have the death benefit paid into the contract and a second death benefit paid upon the survivor's death. The GMDB features include those where the Company contractually guarantees to the contract holder either (a) return of no less than total deposits made to the contract less any partial withdrawals (return of net deposits), (b) the highest contract value on any contract anniversary date through age 80 minus any payments or partial withdrawals following the contract anniversary (anniversary contract value), or (c) the highest of contract value on certain specified dates or total deposits made to the contract less any partial withdrawals plus a minimum return (minimum return).

The guaranteed minimum income benefit (GMIB) is a GLB that provides the contract holder with a guaranteed annuitization value after 10 years. Annuitization value is generally based on deposits adjusted for withdrawals plus a minimum return. In general, the GMIB requires contract holders to invest in an approved asset allocation strategy.

The Company offers variable and fixed annuity contracts with guaranteed minimum withdrawal benefits for life (GMWBL) features. The GMWBL is a GLB that provides, subject to certain restrictions, a percentage of a contract holder’s guaranteed payment base which will be available for withdrawal for life starting no earlier than age 59.5, regardless of market performance. The rider terminates upon death of the contract holder or their spouse if a spousal form of the rider is purchased.

Information in the event of death on the various GMDB features outstanding was as follows (the Company's variable annuity contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed are not mutually exclusive):

	December 31,	
	2023	2022
	($ In Millions)	
Return of net deposits:		
Separate account value	$47,907	$45,856
Net amount at risk [1]	714	2,348
Average attained age of contract holders	71 years	70 years
Anniversary contract value:		
Separate account value	$10,822	$10,382
Net amount at risk [1]	561	1,610
Average attained age of contract holders	73 years	72 years
Minimum return:		
Separate account value	$562	$545
Net amount at risk [1]	76	135
Average attained age of contract holders	77 years	76 years

[1] Represents the amount of death benefit in excess of the current contract holder account balance as of December 31.

Information regarding GMIB and GMWBL features outstanding is as follows:

	December 31,					
	2023	2022	2023	2022	2023	2022
	GMIB		GMWBL [2]		GMWBL [3]	
	($ In Millions)		*($ In Millions)*		*($ In Millions)*	
Separate account value	$1,040	$1,047	$9,327	$8,231		
Net amount at risk [1]	192	269	1,549	2,032	$478	$554
Average attained age of contract holders	68 years	67 years	72 years	71 years	71 years	71 years

[1] GMIB net amount at risk represents the amount of estimated annuitization benefits in excess of the current contract holder account balance at December 31. Variable annuity GMWBL net amount at risk represents the protected balance, as defined, in excess of account value at December 31. Fixed annuity GMWBL net amount at risk represents the present value of estimated future excess benefit payments at December 31.

[2] GMWBL related to variable annuities.

[3] GMWBL related to fixed annuities.

The determination of GMDB, GMIB, and GMWBL liabilities is based on models that involve a range of scenarios and assumptions, including those regarding expected market rates of return and volatility, contract surrender rates, rider utilization, and mortality experience. The following table summarizes the GMDB, GMIB, and GMWBL liabilities, which are recorded in future policy benefits, and changes in these liabilities, which are reflected in policy benefits paid or provided:

	December 31,							
	2023	2022	2023	2022	2023	2022	2023	2022
	GMDB		GMIB		GMWBL [1]		GMWBL [2]	
	(In Millions)		*(In Millions)*		*(In Millions)*		*(In Millions)*	
Balance, beginning of year	$52	$65	$29	$44	$224	$210	$322	$269
Changes in reserves	5	18	3	(9)	26	14	(8)	53
Benefits paid	(27)	(31)	(8)	(6)				
Balance, end of year	$30	$52	$24	$29	$250	$224	$314	$322

[1] GMWBL related to variable annuities.
[2] GMWBL related to fixed annuities.

Variable annuity contracts with guarantees were invested in separate account investment options as follows:

	December 31,	
	2023	2022
	(In Millions)	
Asset type:		
Equity	$36,106	$33,500
Bonds	13,107	12,979
Other	528	530
Total separate account value	$49,741	$47,009

In addition, the Company issues certain life insurance contracts whereby the Company contractually guarantees to the contract holder a death benefit even when there is insufficient value to cover monthly mortality and expense charges, whereas otherwise the contract would typically lapse.

Flexible duration no lapse guarantee rider (FDNLGR) liabilities are determined by estimating the expected value of excess payments and recognizing those payments over the accumulation period based on total expected assessments. The assumptions used in estimating the FDNLGR liability are consistent with those used for amortizing DAC. The excess payments used in calculating the FDNLGR liability are based on the average excess payments incurred over a range of scenarios.

The following table summarizes the FDNLGR liability, which are recorded in future policy benefits, and changes in these liabilities, which are reflected in policy benefits paid or provided:

	Direct	Ceded	Net
		(In Millions)	
Balance, January 1, 2022	$1,503	$444	$1,059
Incurred guaranteed benefits	(21)	6	(27)
Paid guaranteed benefits	(17)	(11)	(6)
Balance, December 31, 2022	1,465	439	1,026
Incurred guaranteed benefits	(150)	(279)	129
Paid guaranteed benefits	(13)	(7)	(6)
Balance, December 31, 2023	$1,302	$153	$1,149

Information regarding life insurance contracts included in the FDNLGR liability is as follows:

	December 31,	
	2023	2022
	($ In Millions)	
Net amount at risk [1]	$17,049	$16,220
Average attained age of policyholders	65 years	64 years

[1] Represents the amount of death benefit in excess of the current policyholder account balance as of December 31.

9. DEBT AND FVO DEBT

SHORT-TERM DEBT

	December 31,	
	2023	2022
	(In Millions)	
Short-term debt: [1]		
Short-term VIE debt (Note 3)	$1,155	$454
Total short-term debt	$1,155	$454

[1] Does not include current maturities of long-term debt.

Pacific LifeCorp and Pacific Life maintain a $1.0 billion senior revolving credit facility available to both borrowers up to the full commitment amount with a maturity date of June 2026. This facility serves as a back-up line of credit to the commercial paper program. Interest is at variable rates. This facility had no debt outstanding as of December 31, 2023 and 2022.

Pacific Life maintains a commercial paper program. In September 2023, the borrowing capacity increased from $700 million to $1 billion. There was no commercial paper debt outstanding as of December 31, 2023 and 2022.

Pacific Life is eligible to receive advances from the FHLB of Topeka based on a percentage of Pacific Life's statutory general account assets provided it has sufficient available eligible collateral and is in compliance with the FHLB of Topeka requirements, debt covenant restrictions and insurance law and regulations. See Note 7. Interest is at variable or fixed rates. The Company had no debt outstanding with the FHLB of Topeka as of December 31, 2023 and 2022.

PL&A is a member of the FHLB of San Francisco. PL&A is eligible to receive advances from the FHLB of San Francisco based on a percentage of PL&A's statutory net admitted assets provided it has sufficient available eligible collateral and is in compliance with the FHLB of San Francisco requirements and insurance law and regulations. PL&A had estimated available eligible collateral of $6 million as of December 31, 2023. Interest is at variable or fixed rates. PL&A had no debt outstanding with the FHLB of San Francisco as of December 31, 2023 and 2022.

LONG-TERM DEBT

($ In Millions)	December 31, 2023 Carrying Amount	Maturity Date	Interest Rate	Interest Payment Frequency	Type	December 31, 2022 Carrying Amount
Long-term debt:						
Surplus notes: (1)						
2017 surplus notes	$749	2067	4.3% (2)	Semiannually (2)	Fixed (2)	$749
2009 surplus notes	300	2039	9.25%	Semiannually	Fixed	300
1993 surplus notes		2023	7.9%	Semiannually	Fixed	134
Senior notes: (3)						
2022 senior notes	749	2052	5.4%	Semiannually	Fixed	749
2020 senior notes	745	2050	3.35%	Semiannually	Fixed	745
2013 senior notes	406	2043	5.125%	Semiannually	Fixed	405
2003 senior notes	567	2033	6.6%	Semiannually	Fixed	567
Fair value hedge adjustments - terminated interest rate swap agreements (4)	219					239
RIBM term loan (5)	106	2025	0.62%	Quarterly	Variable	114
Non-recourse long-term debt:						
Other non-recourse debt (6)	1,439	2024 to 2033	2.4% to 8.6%	Monthly	Variable/ Fixed	1,308
CMBS VIE debt (Note 3) (7)	1,008	2025 to 2030	3.3% to 3.5%	Monthly	Fixed	1,225
Total long-term debt	6,288					6,535
Total short-term debt	1,155					454
Debt issuance cost	(49)					(49)
Total debt	$7,394					$6,940
FVO VIE debt (Note 3)	$—					$1,599

(1) The surplus notes are unsecured and subordinated to all present and future senior indebtedness and policy claims of Pacific Life. All future payments of interest and principal on these surplus notes can be made only with the prior approval of the NE DOI. Pacific Life may redeem all or a portion of the 2009 surplus notes at its option at the redemption price described under the terms of the notes and may redeem all or a portion of the 2017 surplus notes at its option at any time on or after October 24, 2047 at the redemption price described under the terms of the notes, subject to the prior approval of the NE DOI noted above.

(2) Represent rate, frequency, and type through October 23, 2047. Thereafter until maturity, interest is payable quarterly at a floating rate equal to three-month SOFR for deposits in U.S. dollars plus 2.796%. The loan agreement contains fallback language in the event SOFR becomes unavailable.

(3) Pacific LifeCorp may redeem all or a portion of the senior notes at any time at the redemption price described under the terms of the senior notes.

(4) Pacific Life previously terminated interest rate swaps converting the 1993 surplus notes, 2009 surplus notes, and 2003 senior notes to variable rate notes. As a result, fair value hedge adjustments were recorded to the net carrying amount of each note and are being amortized as a reduction to interest expense over the remaining life of the surplus notes using the effective interest method. The total unamortized fair value hedge adjustments as of December 31, 2023 for the 1993 surplus notes, 2009 surplus notes, and 2003 senior notes were zero, $84 million, and $135 million, respectively. The total unamortized fair value hedge adjustments as of December 31, 2022 for the 1993 surplus notes, 2009 surplus notes, and 2003 senior notes were $5 million, $87 million, and $147 million, respectively.

[5] Effective January 2022, RIBM became the primary borrower of the debt which was previously recourse to PLRL. Concurrently, PLRL was released from the term loan liability and this loan was fully guaranteed by Pacific LifeCorp. See Note 15.
[6] As of December 31, 2023 and 2022, the debt outstanding was on various real estate property related loans entered into by certain subsidiaries of Pacific Asset Holding LLC, a wholly owned subsidiary of Pacific Life. These loans are secured by real estate properties.
[7] This debt is secured by commercial real estate property and the Company is not responsible for any principal or interest shortfalls from the underlying collateral. See Note 3.

In December 2023, with the approval of the NE DOI, the Company repaid the full $134 million of the Pacific Life 7.9 % surplus notes, which was accounted for as an extinguishment of debt.

In September 2022, Pacific LifeCorp issued $750 million of senior notes at a fixed interest rate of 5.4%, maturing on September 15, 2052. Interest is payable semiannually on March 15 and September 15.

In September 2022, with the approval of the NE DOI, the Company repurchased and retired $85 million of the Pacific Life 9.25% surplus notes, which was accounted for as an extinguishment of debt.

In March 2022, the Company repurchased and retired $19 million of the Pacific LifeCorp 6.6% senior notes due 2033, which was accounted for as an extinguishment of debt.

Interest expense is included in operating and other expenses and was $342 million and $367 million for the years ended December 31, 2023 and 2022, respectively.

Certain of the Company's debt instruments contain various administrative, reporting, legal, and financial covenants. The Company believes it was in compliance with all such covenants as of December 31, 2023.

The following summarizes aggregate scheduled principal payments during the next five years and thereafter:

	Surplus Notes	Senior Notes	Other Long-Term Debt	Total
Years Ending December 31:		*(In Millions)*		
2024			$229	$229
2025			293	293
2026			123	123
2027			140	140
2028			53	53
Thereafter	$1,050	$2,478	707	4,235
Total	$1,050	$2,478	$1,545	$5,073

The table above excludes short-term debt, revolving credit facilities, VIE debt, fair value hedge adjustments, and original issue discount fees of $12 million.

FVO DEBT

As of December 31, 2022, the Company had FVO debt from CLOs classified as VIEs (Note 3) of $1,599 million. The Company no longer has FVO debt as of December 31, 2023 as a result of the sale of PAM LLC in April 2023 that resulted in the deconsolidation of these CLO VIEs. See Note 3.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Codification's Fair Value Measurements and Disclosures Topic establishes a hierarchy that prioritizes the inputs of valuation methods used to measure fair value for financial assets and financial liabilities that are carried at fair value. The determination of fair value requires the use of observable market data when available. The hierarchy consists of the following three levels that are prioritized based on observable and unobservable inputs.

Level 1 Unadjusted quoted prices for identical instruments in active markets. Level 1 financial instruments include securities that are traded in an active exchange market.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in inactive markets; and model-derived valuations for which all significant inputs are observable market data.

Level 3 Valuations derived from valuation techniques in which one or more significant inputs are not market observable.

The following tables present, by fair value hierarchy level, the Company's financial assets and liabilities that are carried at fair value as of December 31, 2023 and 2022.

	Level 1	Level 2	Level 3	Gross Derivatives Fair Value	Netting Adjustments [1]	Total
				(In Millions)		
December 31, 2023:						
Assets:						
Fixed maturity securities:						
U.S. Government		$861				$861
Obligations of states and political subdivisions		3,044	$40			3,084
Foreign governments		2,406				2,406
Corporate securities		59,622	4,270			63,892
RMBS		1,832				1,832
CMBS		3,392	51			3,443
Collateralized debt obligations		4,630	1,149			5,779
Other asset-backed securities		4,138	2,536			6,674
Total fixed maturity securities	—	79,925	8,046	—	—	87,971
FVO securities		175				175
Other investments:						
Trading securities		126				126
Equity securities	$77	48	3			128
Other investments [2]		57	69			126
Private equity funds measured at NAV [3]						4,140
Total other investments [4]	77	231	72	—	—	4,520
Derivatives:						
Foreign currency and interest rate swaps		440		$440	($621)	(181)
Equity derivatives			1,900	1,900	(1,562)	338
Embedded derivatives			214	214		214
Total derivatives	—	440	2,114	2,554	(2,183)	371
Separate account assets:						
Separate account assets [5]	61,576					61,576
Separate account assets measured at NAV [3]						1,209
Total separate account assets	61,576	—	—	—	—	62,785
Total	$61,653	$80,771	$10,232	$2,554	($2,183)	$155,822
Liabilities:						
Derivatives:						
Foreign currency and interest rate swaps		$1,419		$1,419	($621)	798
Equity derivatives			18	18	(1,562)	(1,544)
Embedded derivatives			5,009	5,009		5,009
Total derivatives	—	1,419	5,027	6,446	(2,183)	4,263
Total	—	$1,419	$5,027	$6,446	($2,183)	$4,263

	Level 1	Level 2	Level 3	Gross Derivatives Fair Value	Netting Adjustments [1]	Total
				(In Millions)		
December 31, 2022:						
Assets:						
Fixed maturity securities:						
U.S. Government		$711				$711
Obligations of states and political subdivisions		2,842	$22			2,864
Foreign governments		2,182				2,182
Corporate securities		55,599	3,412			59,011
RMBS		1,288	8			1,296
CMBS		3,082	61			3,143
Collateralized debt obligations		2,919	103			3,022
Other asset-backed securities		4,098	1,479			5,577
Total fixed maturity securities	—	72,721	5,085	—	—	77,806
FVO securities		1,782				1,782
Other investments:						
Trading securities		177				177
Equity securities	$45	16	4			65
Other investments [2]	1	170	75			246
Private equity funds measured at NAV [3]						3,362
Total other investments [4]	46	363	79	—	—	3,850
Derivatives:						
Foreign currency and interest rate swaps		438		$438	($1,009)	(571)
Equity derivatives			361	361	(273)	88
Embedded derivatives			196	196		196
Total derivatives	—	438	557	995	(1,282)	(287)
Separate account assets:						
Separate account assets [5]	56,630					56,630
Separate account assets measured at NAV [3]						864
Total separate account assets	56,630	—	—	—	—	57,494
Total	$56,676	$75,304	$5,721	$995	($1,282)	$140,645
Liabilities:						
FVO debt		$1,599				$1,599
Derivatives:						
Foreign currency and interest rate swaps		1,890		$1,890	($1,009)	881
Equity derivatives			$67	67	(273)	(206)
Foreign currency forwards		7		7		7
Embedded derivatives			3,696	3,696		3,696
Total derivatives	—	1,897	3,763	5,660	(1,282)	4,378
Total	—	$3,496	$3,763	$5,660	($1,282)	$5,977

[1] Netting adjustments represent the impact of offsetting asset and liability positions held with the same counterparty.
[2] Excludes investments accounted for under the equity method of accounting.

[3] Certain investments that do not have a readily determinable fair value are measured using the NAV per share (or its equivalent) practical expedient and have not been classified in the fair value hierarchy.

[4] Other investments presented in the tables above differ from the amounts presented on the consolidated statements of financial condition because certain other investments are not carried at fair value.

[5] Separate account assets are measured at fair value. Investment performance related to separate account assets is offset by corresponding amounts credited to contract holders whose liability is recorded in the separate account liabilities. Separate account liabilities are measured to equal the fair value of separate account assets. Excluded are the separate account assets measured at NAV discussed below.

As a practical expedient to value certain investments that do not have a readily determinable fair value, the Company uses the NAV to determine the fair value. The following table lists information regarding these investments as of December 31, 2023.

Asset Class and Investment Strategy	Fair Value	Redemption Frequency	Remaining Lock-Up Period	Redemption Notice Period	Outstanding Commitment
		($ In Millions)			
Private equity funds [1]	$4,140	None [2]	N/A	N/A	$2,137
Separate account hedge funds [3]	1,209	Daily Monthly Quarterly Semi-Annually Annually	Zero to 39 months	1-185 days	
Total measured at NAV	$5,349				$2,137

[1] There are multiple investment strategies within the general account private equity funds investing in U.S. and international equity, fixed income, real estate, and privately held companies.

[2] Distributions by these investments are generated from liquidation of the underlying assets of the funds, which are determined by the general partner. The Company is not aware of any announcements of planned liquidations.

[3] Investment strategies related to separate account hedge funds include multi-strategy primarily invested in U.S. and international equity, fixed income, long/short equity, loans, precious metals, real estate, derivatives, privately held companies, and private partnerships.

FAIR VALUE MEASUREMENT

The Codification's Fair Value Measurements and Disclosures Topic defines fair value as the price that would be received to sell the asset or paid to transfer the liability at the measurement date. This "exit price" notion is a market-based measurement that requires a focus on the value that market participants would assign for an asset or liability.

The following section describes the valuation methodologies used by the Company to measure various types of financial instruments at fair value and the controls that surround the valuation process. The Company reviews its valuation methodologies and controls on an ongoing basis and assesses whether these methodologies are appropriate based on the current economic environment.

FIXED MATURITY, FVO, TRADING, AND EQUITY SECURITIES

The fair values of fixed maturity securities available for sale, FVO, trading, and equity securities are determined by management after considering external pricing sources and internal valuation techniques. For securities with sufficient trading volume, prices are obtained from third party pricing services. For securities that are traded infrequently, fair values are determined after evaluating prices obtained from third party pricing services and independent brokers or are valued internally using various valuation techniques.

The Company's management analyzes and evaluates prices received from independent third parties and determines whether they are reasonable estimates of fair value. Management's analysis may include, but is not limited to, review of third-party pricing methodologies and inputs, analysis of recent trades, comparison to prices received from other third parties, and development of internal models utilizing observable market data of comparable securities. The Company assesses the reasonableness of valuations received from independent brokers by considering current market dynamics and current pricing for similar securities.

For prices received from independent pricing services, the Company applies a formal process to challenge any prices received that are not considered representative of fair value. If prices received from independent pricing services are not considered reflective of market activity or representative of fair value, independent non-binding broker quotations are obtained, or an internally-developed valuation is prepared. Upon evaluation, the Company determines which source represents the best estimate of fair value. Overrides of third-party prices to internally-developed valuations of fair value did not produce material differences in the fair values for the majority of the portfolio. In the absence of such market observable activity, management's best estimate is used.

Fair values determined by internally derived valuation tools use market-observable data if available. Generally, this includes using an actively-traded comparable security as a benchmark for pricing. These internal valuation methods primarily represent discounted cash flow models that incorporate significant assumptive inputs such as spreads, discount rates, default rates, severity, and prepayment speeds. These inputs are analyzed by the Company's portfolio managers and analysts, investment accountants, and risk managers. Internally-developed estimates may also use unobservable data, which reflect the Company's own assumptions about the inputs market participants would use.

Most securities priced by a major independent third party pricing service have been classified as Level 2, as management has verified that the significant inputs used in determining their fair values are market observable and appropriate. Externally priced securities for which fair value measurement inputs are not sufficiently transparent, such as securities valued based on independent broker quotations, have been classified as Level 3. Internally valued securities, including adjusted prices received from independent third parties, where significant management assumptions have been utilized in determining fair value, have been classified as Level 3. Securities categorized as Level 1 consist primarily of investments in mutual funds.

The Company applies controls over the valuation process. Prices are reviewed and approved by the Company's credit analysts that have industry expertise and considerable knowledge of the issuers. Management performs validation checks to determine the completeness and reasonableness of the pricing information, which include, but are not limited to, changes from identified pricing sources, significant or unusual price fluctuations above predetermined tolerance levels from the prior period, and back-testing of fair values against prices of actual trades. A group comprised of the Company's investment accountants, portfolio managers and analysts, and risk managers meet to discuss any unusual items above the tolerance levels that may have been identified in the pricing review process. These unusual items are investigated, further analysis is performed and resolutions are appropriately documented.

OTHER INVESTMENTS

Other investments include non-marketable equity securities that do not have readily determinable fair value. Certain significant inputs used in determining the fair value of these equities are based on management assumptions or contractual terms with another party that cannot be readily observable in the market. These non-marketable equity securities are classified as Level 3 assets.

DERIVATIVE INSTRUMENTS

Derivative instruments are reported at fair value using pricing valuation models, which utilize market data inputs or independent broker quotations or exchange prices for exchange-traded futures. The Company calculates the fair value of derivatives using market standard valuation methodologies for foreign currency and interest rate swaps and equity options. Internal models are used to value the equity total return swaps. The derivatives are valued using mid-market inputs that are predominantly observable in the market. Inputs include, but are not limited to, interest swap rates, foreign currency forward and spot rates, credit spreads and correlations, interest volatility, equity volatility, and equity index levels. On a monthly basis, the Company performs an analysis of derivative valuations, which includes both quantitative and qualitative analyses. Examples of procedures performed include, but are not limited to, review of pricing statistics and trends, analysis of the impacts of changes in the market environment, and review of changes in the market value for each derivative by both risk managers and investment accountants. Internally calculated fair values are reviewed and compared to external broker fair values for reasonableness.

All of the OTC derivatives were priced by valuation models as of December 31, 2023 and 2022. A credit valuation analysis was performed for all derivative positions that are uncollateralized to measure the nonperformance risk that the counterparties to the transaction will be unable to perform under the contractual terms and was determined to be immaterial as of December 31, 2023. Nonperformance risk is the Company's market-perceived risk of its own or the counterparty's nonperformance.

Derivative instruments classified as Level 2 primarily include foreign currency and interest rate swaps and foreign currency forwards. The derivative valuations are determined using pricing models with inputs that are observable in the market or can be derived principally from or corroborated by observable market data, primarily interest swap rates, interest rate volatility, and foreign currency forward and spot rates.

Derivative instruments classified as Level 3 include complex derivatives, such as equity options and total return swaps. Also classified in Level 3 are embedded derivatives in certain insurance and reinsurance contracts. These derivatives are valued using pricing models, which utilize both observable and unobservable inputs, primarily interest rate volatility, equity volatility, equity index levels, nonperformance risk, and, to a lesser extent, market fees, and broker quotations. A derivative instrument containing Level 2 inputs will be classified as a Level 3 financial instrument in its entirety if it has at least one significant Level 3 input.

VARIABLE ANNUITY GLB EMBEDDED DERIVATIVES

Fair values for variable annuity GLB and related reinsurance embedded derivatives are calculated based upon significant unobservable inputs using internally developed models because active, observable markets do not exist for those items. As a result, variable annuity GLB and related reinsurance embedded derivatives are categorized as Level 3. Below is a description of the Company's fair value methodologies for these embedded derivatives.

Fair value is calculated as an aggregation of fair value and additional risk margins including behavior risk margin, mortality risk margin, and credit standing adjustment. The resulting aggregation is reconciled or calibrated, if necessary, to market information that is, or may be, available to the Company, but may not be observable by other market participants. Each of the components described below are unobservable in the market place and requires subjectivity by the Company in determining their value.

- Behavior risk margin: This component adds a margin that market participants would require for the risk that the Company's assumptions about policyholder behavior used in the fair value model could differ from actual experience. This component includes assumptions about withdrawal utilization.

- Mortality risk margin: This component adds a margin in mortality assumptions, both for decrements for policyholders with GLBs, and for expected payout lifetimes in guaranteed minimum withdrawal benefits.

- Credit standing adjustment: This component makes an adjustment that market participants would make to reflect the chance that GLB obligations or the GLB reinsurance recoverables will not be fulfilled (nonperformance risk).

SEPARATE ACCOUNT ASSETS

Separate account assets are reported at fair value as a summarized total on the consolidated statements of financial condition. The fair value of separate account assets is based on the fair value of the underlying assets. Separate account assets are primarily invested in mutual funds, but also have investments in fixed maturity securities and hedge funds.

Level 1 assets include mutual funds that are valued based on reported NAVs provided by fund managers daily and can be redeemed without restriction. Management performs validation checks to determine the reasonableness of the pricing information, which include, but are not limited to, price fluctuations above predetermined thresholds from the prior day and validation against similar funds or indices. Variances are investigated, further analysis is performed and resolutions are appropriately documented.

Level 2 assets include fixed maturity securities. The pricing methodology and valuation controls are the same as those previously described in fixed maturity securities available for sale.

LEVEL 3 FINANCIAL INSTRUMENTS

The table below presents purchases, sales, settlements, and transfers into and out of Level 3 financial assets and liabilities, net, that have been measured at fair value on a recurring basis using significant unobservable inputs for the year ended December 31, 2023.

	Purchases	Sales	Settlements	Transfers Into Level 3	Transfers Out of Level 3
			(In Millions)		
Fixed maturity securities:					
Obligations of states and political subdivisions			($1)	$16	
Corporate securities	$2,260	($473)	(821)	342	($492)
RMBS	1		(9)		
CMBS	15				(27)
Collateralized debt obligations	882	(193)		808	(458)
Other asset-backed securities	1,303	(97)	(146)	207	(242)
Total fixed maturity securities	4,461	(763)	(977)	1,373	(1,219)
Other investments:					
Trading securities					(1)
Equity securities	8	(8)	(1)		
Other investments	229	(229)	(7)		
Total other investments	237	(237)	(8)	—	(1)
Derivatives, net:					
Equity derivatives	918		(932)		
Embedded derivatives	(1,294)		1,006		
Total derivatives	(376)	—	74	—	—
Total	$4,322	($1,000)	($911)	$1,373	($1,220)

The table below presents purchases, sales, settlements, and transfers into and out of Level 3 financial assets and liabilities, net, that have been measured at fair value on a recurring basis using significant unobservable inputs for the year ended December 31, 2022.

	Purchases	Sales	Settlements	Transfers Into Level 3	Transfers Out of Level 3
			(In Millions)		
Fixed maturity securities:					
Obligations of states and political subdivisions	$37		($1)	$1	($57)
Corporate securities	1,684	($12)	(974)	371	(979)
RMBS	9				(13)
CMBS			(1)		(1)
Collateralized debt obligations	305	(11)			(221)
Other asset-backed securities	1,299	(25)	(146)	6	(536)
Total fixed maturity securities	3,334	(48)	(1,122)	378	(1,807)
Other investments:					
Trading securities	4	(4)			
Equity securities	4				
Other investments	677	(631)			(3)
Total other investments	685	(635)	—	—	(3)
Derivatives, net:					
Equity derivatives	240		(585)		
Embedded derivatives	(1,090)		661		
Total derivatives	(850)	—	76	—	—
Total	$3,169	($683)	($1,046)	$378	($1,810)

During the years ended December 31, 2023 and 2022, transfers into Level 3 were primarily attributable to the decreased availability and use of market observable inputs to estimate fair value. The transfers out of Level 3 were generally due to the use of market observable inputs in valuation methodologies, including the utilization of major independent pricing service information.

The following table presents certain quantitative information of significant unobservable inputs used in the fair value measurement and the sensitivity of the fair value to changes in those inputs for Level 3 assets and liabilities as of December 31, 2023.

	Fair Value Asset (Liability)	Predominant Valuation Method	Significant Unobservable Inputs
		($ In Millions)	
Obligations of states and political subdivisions	$40	Market pricing	Quoted prices [1]
		Discounted cash flow	Spread
Corporate securities	4,270	Discounted cash flow	Spread
		Collateral value	Collateral value [2]
		Market pricing	Quoted prices [1]
CMBS	51	Market pricing	Quoted prices [1]
Collateralized debt obligations	1,149	Market pricing	Quoted prices [1]
Other asset-backed securities	2,536	Discounted cash flow	Spread
		Market pricing	Quoted prices [1]
Equity securities	3	Collateral value	Collateral value [2]
Other investments	69	Redemption value	Redemption value [3]
		Market pricing	Quoted prices [1]
		Collateral value	Collateral value [2]
Equity derivatives	1,882	Option pricing model	Equity volatility [4]
Embedded derivatives	(4,795)	Option pricing techniques	Equity volatility [4]
			Mortality rates [5]
			Mortality improvement [6]
			Withdrawal utilization [7]
			Lapse rates [8]
			Credit standing adjustment [9]
Total	$5,205		

[1] Independent third-party quotations were used in the determination of fair value.
[2] Valuation based on the Company's share of fair values of the underlying assets.
[3] Represents FHLB common stock that is valued at the contractual amount that will be received upon redemption.
[4] Long-term equity volatilities represent equity volatility beyond the period for which observable equity volatilities are available, and vary by equity index. The assumption is based on historical realized equity volatility.
[5] Mortality rates vary by age, gender, policy year, and rider type. Mortality rate assumptions are based on Company experience.
[6] Mortality improvement varies by age, gender, calendar year, and rider type. Mortality improvement assumptions are based on Company experience.
[7] The withdrawal utilization assumption estimates the percentage of contract holders with a GMWB benefit who will elect to utilize the benefit. The assumption varies by the type of GMWB, tax qualification status, policy size, and age at rider issue. Withdrawal utilization assumptions are based on Company experience.
[8] Variable annuity lapse rates vary by policy size, commission option, single/joint life status, surrender charge duration, age, policy month, amount of time until the end of the rider utilization waiting period (if any), and the amount by which the guaranteed amount is greater than the account value. Fixed indexed annuity lapse rates consist of a base lapse rate that varies by product and policy year, and a dynamic adjustment based on how the credited rate on the contract compares to competitor rates. Lapse rate assumptions are based on Company experience.

[9] The credit standing adjustment represents the Company's nonperformance risk spread, and varies by duration. The assumption is based on Barclays financial credit spreads.

NONRECURRING FAIR VALUE MEASUREMENTS

Certain assets are 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., a mortgage loan is deemed to be uncollectible). The following table presents assets measured at fair value (at the relevant remeasurement date) that are still held as of December 31, 2023 and 2022:

	December 31, 2023	December 31, 2022
	(In Millions)	
Mortgage loans	$365	$53

The fair value of mortgage loans deemed to be uncollectible was based on the valuation of the underlying real estate collateral net of estimated costs to sell and remaining ACL. These loans are classified as Level 3 assets.

The Company did not have any other significant nonfinancial assets or liabilities measured at fair value on a nonrecurring basis resulting from impairments as of December 31, 2023 and 2022.

11. OTHER COMPREHENSIVE INCOME (LOSS)

The Company displays comprehensive income (loss) and its components on the consolidated statements of comprehensive loss and consolidated statements of equity. The balance of and changes in each component of AOCI attributable to the Company are as follows:

	Unrealized Gain (Loss) on Securities Available for Sale, Net [1]	Gain (Loss) on Derivatives	Foreign Currency Translation Adjustments and Other, Net	Total AOCI
	(In Millions)			
Balance, December 31, 2021	$3,357	$15	($118)	$3,254
Change in OCI before reclassifications	(13,526) [2]	(561)	(145)	(14,232)
Income tax benefit	2,807	117	30	2,954
(Gain) loss reclassified from AOCI	143	(6)		137
Income tax benefit (expense)	(30)	1		(29)
Balance, December 31, 2022	(7,249)	(434)	(233)	(7,916)
Change in OCI before reclassifications	2,872 [2]	(39)	29	2,862
Income tax benefit (expense)	(583)	8	(6)	(581)
(Gain) loss reclassified from AOCI	115 [3]	(6)		109
Income tax benefit (expense)	(24)	1		(23)
Balance, December 31, 2023	($4,869)	($470)	($210)	($5,549)

[1] See Note 4 and Note 7 for information related to DAC and future policy benefits.
[2] Includes allocation of the combined net holding increase (reduction) from DAC, URR, and future policy benefits of ($78) million and $2,131 million for the years ended December 31, 2023 and 2022, respectively.
[3] Located in net investment gain (loss) on the consolidated statements of operations.

12. REINSURANCE

The accounting for reinsurance requires extensive use of assumptions and estimates, particularly related to the future performance of the underlying business and the potential impact of counterparty credit risk. The Company periodically reviews, and modifies as appropriate, the estimates and assumptions used to establish assets and liabilities relating to assumed and ceded reinsurance. Included in other assets were reinsurance recoverables, receivables, and deposit assets of $3.2 billion and $2.9 billion as of December 31, 2023 and 2022, respectively. The Company had deposit assets of $1.7 billion and $1.5 billion from one single reinsurer that exceeded 10% of member's equity as of December 31, 2023 and 2022, respectively. Reinsurance payables, included in other liabilities, were $355 million and $282 million as of December 31, 2023 and 2022, respectively.

The components of insurance premiums are as follows:

	Years Ended December 31,	
	2023	2022
	(In Millions)	
Direct premiums	$3,310	$2,622
Reinsurance assumed	3,212	2,995
Reinsurance ceded	(237)	(449)
Insurance premiums	$6,285	$5,168

13. INCOME TAXES

The provision for income taxes is as follows:

	Years Ended December 31,	
	2023	2022
	(In Millions)	
Current:		
Domestic	($1)	$46
Foreign	35	109
Total current	34	155
Deferred:		
Domestic	155	53
Foreign	(37)	(111)
Total deferred	118	(58)
Total	$152	$97

A reconciliation of the provision for income taxes based on the Federal corporate statutory tax rate of 21% for income taxes is as follows:

	Years Ended December 31,	
	2023	2022
	(In Millions)	
Provision for income taxes at the statutory rate	$225	$199
Dividends received deduction	(28)	(33)
Noncontrolling interests	(8)	(17)
Tax loss benefit	(17)	
Tax credits	(18)	(30)
Other	(2)	(22)
Provision for income taxes	$152	$97

The net deferred tax asset (liability), included in other assets and other liabilities, respectively, is comprised of the following tax effected temporary differences:

	December 31,	
	2023	2022
	(In Millions)	
Deferred tax assets:		
Investments including derivatives	$1,416	$1,226
Policyholder reserves	628	535
Deferred compensation	75	72
Tax net operating loss carryforwards	199	164
Tax credit carryforwards	255	47
Other	353	302
Total deferred tax assets before valuation allowance	2,926	2,346
Valuation allowance	(122)	(91)
Net deferred tax assets after valuation allowance	2,804	2,255
Deferred tax liabilities:		
DAC	(881)	(871)
Derivatives	(1,211)	(942)
Partnership investments	(290)	(217)
Depreciation	(19)	(2)
Total deferred tax liabilities	(2,401)	(2,032)
Net deferred tax asset	403	223
Unrealized (gain) loss on derivatives and securities available for sale	1,375	1,995
Other adjustments	1	7
Net deferred tax asset (liability)	$1,779	$2,225

As of December 31, 2023, the Company has $255 million of Federal tax credit carryforwards that expire in 2042 and 2043.

As of December 31, 2023, the Company has $64 million of Federal net operating loss carryovers that carryover indefinitely. The Company also had foreign tax loss carryovers as follows: UK $164 million, Bermuda $402 million, Singapore $18 million, Australia $269 million, and Korea $6 million. The UK, Bermuda, Singapore, and Australia tax losses generally carryover indefinitely. The Korea tax losses generally expire in 10 years.

Management has assessed the realizability of the deferred tax assets as of December 31, 2023 and has determined that it is more likely than not that the deferred tax assets, other than certain foreign tax loss carryovers, will be realized through projected future taxable income and the reversal of existing deferred tax liabilities listed above.A valuation allowance of $122 million and $91 million was recorded on the deferred tax assets related to certain foreign tax loss carryovers as of December 31, 2023 and 2022, respectively. When recognized, the tax benefits related to any reversal of valuation allowance will be accounted for as a reduction of income tax expense.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits (*In Millions*):

Balance as of January 1, 2022	$110
Increase - prior year positions	1
Decrease - prior year positions	(1)
Balance as of December 31, 2022	110
Increase - prior year positions	5
Balance as of December 31, 2023	$115

As of December 31, 2023, the Company had $115 million of unrecognized tax benefit which relate primarily to foreign tax credits previously claimed and state tax on intercompany transactions.

The Company does not expect material changes to its unrecognized tax benefits for the twelve month period following the reporting date.

PMHC files income tax returns in U.S. Federal and various state jurisdictions. PMHC is under continuous audit by the Internal Revenue Service (IRS) and is audited periodically by some state taxing authorities. The IRS is currently examining PMHC's tax returns for the years ended December 31, 2013 through 2018. In Q4 2023, the Company was notified that the exam for tax years ended December 31, 2019, 2020, and 2021 would commence in January 2024. The exam of the Federal tax returns through tax years ended December 31, 2012 has been completed and certain issues are under appeals. The State of California is auditing the tax year ended December 31, 2009 and certain issues are under protest. The Company does not expect the current Federal and California audits to result in any material assessments.

The Company considers the earnings in the foreign operations of the reinsurance business to be indefinitely invested outside the U.S. on the basis of estimates that future domestic cash generation will be sufficient to meet future domestic cash needs and specific plans for reinvestment of those subsidiary earnings. Accordingly, deferred income taxes have not been recorded for any excess of the amount for financial reporting over the tax basis in its non-U.S. subsidiaries, including undistributed earnings.

The Inflation Reduction Act was enacted on August 16, 2022 and imposes a 15% CAMT on corporations with three-year average financial statement income over $1 billion that is effective January 1, 2023. The CAMT is payable to the extent the CAMT liability exceeds the regular corporate income tax liability; however, any CAMT paid would be available as a credit with indefinite carryover that could reduce future regular tax in excess of CAMT. The Company has determined that the consolidated group of corporations of which the Company is a member is not subject to CAMT in 2023.

The OECD reached agreement among various countries to implement a global minimum 15% tax rate on certain multinational enterprises, commonly referred to as Pillar Two. In December 2022, the OECD released a framework for the implementation of Pillar Two. Several jurisdictions in which the Company operates have initiated the enactment of local laws to align with the Pillar 2 framework. While we do not anticipate that this will have a material impact on our tax provision or effective tax rate, we continue to monitor evolving tax legislation in the jurisdictions in which we operate.

On December 27, 2023, Bermuda enacted a 15% corporate income tax regime (Bermuda CIT) that applies to Bermuda businesses that are part of multinational enterprise groups with annual revenue of €750 million or more and is effective for tax years beginning on or after January 1, 2025. The Company's financial statements reflect an immaterial amount for the impact of the enactment of the Bermuda CIT.

14. TRANSACTIONS WITH RELATED PARTIES

PLFA serves as the investment advisor for the PSF, PFST, and the Pacific Life Investment Grade Trade Receivable Fund. As a result of the sale of PAM LLC, PLFA no longer receives investment advisory fees from PFST. Investment advisory and other asset based fees, included in investment advisory fees on the consolidated statement of operations, amounted to $199 million and $251 million for the years ended December 31, 2023 and 2022, respectively.

Additionally, the PSF and PFST have service and other plans whereby the funds pay Pacific Select Distributors, LLC (PSD), a wholly owned broker-dealer subsidiary of Pacific Life, as distributor of the funds, a service fee in connection with services rendered to or procured for shareholders of the fund or their variable life insurance policyholders and variable annuity contract owners. These services may include, but are not limited to, payment of compensation to broker-dealers, including PSD itself, and other financial institutions and organizations, which assist in providing any of the services. For the years ended December 31, 2023 and 2022, PSD received $76 million and $89 million, respectively, in service and other fees from PSF and PFST, which are recorded in other income on the statement of operations. As a result of the sale of PAM LLC in April 2023, PSD no longer receives service and other fees from PFST.

15. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

As of December 31, 2023, the Company has $7.4 billion outstanding commitments that may be funded to make investments primarily in mortgage loans, limited partnerships, fixed maturity securities, and other investments. The Company expects most commitments will be invested over the next five years; however, these commitments could become due at any time upon counterparty request.

Pacific LifeCorp provides guarantees for the performance of certain obligations of Pacific Life Re (Australia) Pty Limited (PLRA) and RIBM, both entities being wholly owned indirect subsidiaries of Pacific LifeCorp. As stated in their respective guarantee agreements, if PLRA or RIBM are unable to meet their current obligations under reinsurance agreements, Pacific LifeCorp shall guarantee payment on any past, present and future obligations of PLRA or RIBM. Pacific Life also has agreements with PLRA and RIBM to guarantee the performance of reinsurance obligations of PLRA and RIBM, respectively. These guarantees are secondary to the guarantee provided by Pacific LifeCorp and would only be triggered in the event of nonperformance by PLRA or RIBM (in respect in their guarantees) and Pacific LifeCorp. Management believes that obligations, if any, related to the guarantee agreements are not likely to have a material adverse effect on the Company's consolidated financial statements. Effective January 1, 2023, Pacific LifeCorp no longer provides guarantees for the performance of certain obligations of PLRL.

Pacific LifeCorp provides a guarantee for the performance of certain loan obligations of RIBM. Pacific LifeCorp also has a commitment to provide up to $230 million of capital to RIBM. Management believes that obligations, if any, related to this guarantee and commitment are not likely to have a material adverse effect on the Company's consolidated financial statements.

Pacific LifeCorp has a capital maintenance agreement with RGBM.

CONTINGENCIES - LITIGATION

The Company is a respondent in a number of legal proceedings, some of which involve allegations for extra-contractual damages. Although the Company is confident of its position in these matters, success is not a certainty and a judge or jury could rule against the Company. In the opinion of management, the outcome of such proceedings is not likely to have a material adverse effect on the Company's consolidated financial statements. The Company believes adequate provision has been made in its consolidated financial statements for all probable and reasonably estimable losses for litigation claims against the Company, if any.

CONTINGENCIES - IRS REVENUE RULING

In 2007, the Internal Revenue Service (IRS) issued Rev. Rul. 2007-54, interpreting then-current tax law regarding the computation of the DRD. Later in 2007, the IRS issued Rev. Rul. 2007-61, suspending Rev. Rul. 2007-54 and indicating that the IRS would re-address this issue in a future regulation project. In 2014, the IRS issued Rev. Rul. 2014-7, stating that it would not address this issue through regulation, but instead would defer to legislative action. Rev. Rul. 2014-7 also expressly superseded Rev. Rul. 2007-54, and declared Rev. Rul. 2007-61 obsolete. With the enactment of the tax reform legislation in December 2017, DRD computations have been modified effective January 1, 2018. Therefore, the Company does not expect that any of the rulings described above will affect DRD computations in the future. However, in open tax years before 2018, the Company could still lose a substantial portion of its DRD claims, which could in turn have a material adverse effect on the Company's consolidated financial statements.

CONTINGENCIES - OTHER

In the course of its business, the Company provides certain indemnifications related to dispositions, acquisitions, investments, lease agreements or 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 time limitations that vary in duration, including contractual limitations and those that arise by operation of law, such as applicable statutes of limitation. The Company is also subject to state and federal regulatory inquiries and examinations from time to time, which could result in fines or penalties. Because the amounts of these types of indemnifications and regulatory actions are often not explicitly stated, the overall maximum amount of the obligation under such indemnifications and regulatory actions cannot be reasonably estimated. The Company has not historically made material payments for these types of indemnifications and regulatory actions. While the estimated maximum potential amount of future payments under these obligations is not determinable due to the lack of a stated maximum liability for certain matters, the Company may record a contingent reserve for such matters. Management believes that Company liabilities related to such matters, if any, are not likely to have a material adverse effect on the Company's consolidated financial statements.

Most of the jurisdictions in which the Company is admitted to transact business require insurance companies to participate in guaranty associations, which are organized to pay contractual benefits owed pursuant to insurance policies issued by insolvent insurance companies. These associations levy assessments, up to prescribed limits, on all member companies in a particular state based on the proportionate share of premiums written by member companies in the lines of business in which the insolvent insurer operated. Additionally, assessments in some states can be offset by tax credits. The Company has not received notification of any significant insolvency that is expected to result in a material guaranty fund assessment.

The Company had ceded and assumed reinsurance contracts in place with a reinsurer whose financial stability deteriorated. In March 2019, the reinsurer's domiciliary state regulator issued a rehabilitation and injunction order, in which the regulator shall conduct and continue business of the reinsurer. In July 2023, the court granted a liquidation order for the reinsurer, which terminated the reinsurance contracts as of September 30, 2023. The Company previously recorded an immaterial impairment, and the Company does not expect the liquidation of the reinsurer to have a material adverse effect on the Company's consolidated financial statements as of December 31, 2023.

In connection with the operations of certain subsidiaries, the Company has made commitments to provide for additional capital funding as may be required.

See Note 5 for discussion of contingencies related to restricted custodian accounts.

See Note 6 for discussion of contingencies related to derivative instruments.

See Note 13 for discussion of other contingencies related to income taxes.