



PACIFIC LIFE RE

Pacific Life Re Global Limited

Consolidated Financial Statements
for the year ended December 31, 2020

Pacific Life Re Global Limited

Independent Auditors' Report

Independent auditor's report to the members of Pacific Life Re Global Limited

Report on the audit of the consolidated financial statements

Opinion

In our opinion the consolidated financial statements of Pacific Life Re Global Limited (the 'company'):

- present fairly, in all material respects the state of the company's affairs as at December 31, 2020, and its loss for the year then ended; and
- have been properly prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).

We have audited the consolidated financial statements which comprise:

- the consolidated statement of financial condition;
- the consolidated statement of operations;
- the consolidated statement of comprehensive income (loss);
- the consolidated statement of shareholders' equity;
- consolidated statement of cash flows; and
- notes to the consolidated financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is accounting principles generally accepted in the United States of America (US GAAP).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the consolidated financial statements, we have concluded that management use of the going concern basis of accounting in the preparation of the consolidated financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the consolidated financial statements are authorized for issue.

Our responsibilities and the responsibilities of management with respect to going concern are described in the relevant sections of this report.

Responsibilities of management

Management is responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Pacific Life Re Global Limited

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In preparing the consolidated financial statements, management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included The Insurance Act 1978, and amendments thereto, The Insurance Account Rules 2016, Companies Act 1981, Life Insurance Act 1978, as amended and Insurance Accounts Regulations 1980.

We discussed among the audit engagement team including significant component audit teams and relevant internal specialists such as tax, actuarial and IT specialists regarding the opportunities and incentives that may exist within the organization for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are described below:

- The significant risk of fraud in assumptions used in the actuarial reserving pertaining to the valuation assertion. In response to this risk we performed the following:
 - Obtained an understanding of the relevant controls over the actuarial reserving process;
 - Assessed the appropriateness of key management judgements used in the year end assumption setting process by studying the factors underlying morbidity and loss experience; and
 - Assessed completeness and accuracy of the data used to support the experience and reserves calculation.
- The significant risk of fraud in revenue recognition, specifically pertaining to the cut-off assertion. In response to this risk we performed the following:
 - Tested relevant controls over the revenue recording process; and
 - Performed independent recalculation of year end revenue accruals based on the accrual methodology in order to assess that revenue has been recognized in the correct period.

Pacific Life Re Global Limited

Independent Auditors' Report

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing correspondence with the Bermuda Monetary Authority.

Use of our report

This audit report will be made solely to the company's members, as a body, in accordance with section 90 of the Bermuda Companies Act 1981. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our audit work, for this report, or for the opinions we have formed.

Deloitte LLP

Deloitte LLP
Hill House
1 Little New Street
London
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22 April 2021

Pacific Life Re Global Limited

Consolidated Statement of Financial Condition For the year ended December 31

(in thousands)

| | Note | 2020 |
|---|------|------------------|
| | | \$ |
| Assets: | | |
| Investments: | | |
| Fixed maturity securities available for sale, at fair value | 3,4 | 1,442,855 |
| Total investments | | 1,442,855 |
| Cash and cash equivalents | | 58,500 |
| Restricted cash | 17 | 12,499 |
| Accrued investment income | | 7,099 |
| Reinsurance receivables | | 71,514 |
| Retrocession recoverables from affiliates | 8 | 530,113 |
| Retrocession recoverables from non-affiliates | 8 | 41,839 |
| Current tax recoverables | | 4,620 |
| Deferred policy acquisition costs | 5 | 27,516 |
| Value of business acquired | 7 | 4,466 |
| Other assets | 6 | 80,196 |
| Total assets | | 2,281,217 |
| Liabilities and stockholders' equity | | |
| Liabilities: | | |
| Future policy benefits | 8 | 1,378,073 |
| Reinsurance balances payable to affiliates | | 99,942 |
| Reinsurance balances payable to non-affiliates | | 3,740 |
| Deferred tax liabilities | 12 | 60,450 |
| Accounts payable and other liabilities | 9 | 61,578 |
| Total liabilities | | 1,603,783 |
| Commitments and contingencies (Note 17) | | |
| Stockholders' equity: | | |
| Common stock | 14 | 1,250 |
| Additional paid-in capital | 14 | 460,557 |
| Retained earnings | | 83,238 |
| Accumulated other comprehensive income | 13 | 132,389 |
| Total stockholders' equity | | 677,434 |
| Total liabilities and stockholders' equity | | 2,281,217 |

These consolidated financial statements have been approved by the Board of Directors on April 21, 2021.

DocuSigned by:

 3019DB41C9074E8

Director

See notes to consolidated financial statements.

Pacific Life Re Global Limited

Consolidated Statement of Operations For the year ended December 31

(in thousands)

| | Note | 2020 |
|--|------|-----------------|
| | | \$ |
| Revenues: | | |
| Net written premiums | 10 | 267,500 |
| Net investment income | 3 | 26,232 |
| Net investment gain | 3 | 15,991 |
| Other income | 11 | 7,504 |
| Total revenues | | 317,227 |
| Benefits and expenses: | | |
| Claims and other policy benefits | | 253,815 |
| Acquisition costs and other insurance expenses | | 1,976 |
| Commission expenses | | 33,282 |
| Operating expenses | | 40,306 |
| Interest expense | | 619 |
| Total benefits and expenses | | 329,998 |
| Loss before provision for income taxes | | (12,771) |
| Provision for income taxes | 12 | (9,181) |
| Net loss | | (21,952) |

See notes to consolidated financial statements.

Pacific Life Re Global Limited

Consolidated Statement of Comprehensive Income (Loss) For the year ended December 31

(in thousands)

| | 2020 |
|--|---------------|
| | \$ |
| Net loss | (21,952) |
| Other comprehensive income, net of tax: | |
| Net unrealized gains on securities | 53,084 |
| Net foreign currency translation adjustments and other | 33,961 |
| Other comprehensive income | 87,045 |
| Total comprehensive income | 65,093 |

See notes to consolidated financial statements.

Pacific Life Re Global Limited

Consolidated Statement of Shareholders' Equity For the year ended December 31

(in thousands)

| | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Total Shareholders' Equity |
|---|--------------|----------------------------|-------------------|--|----------------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Balance at January 1, 2020 | 250 | 141,490 | 105,190 | 45,344 | 292,274 |
| <u>Comprehensive income:</u> | | | | | |
| Net loss | | | (21,953) | | (21,953) |
| Other comprehensive income | | | | 87,045 | 87,045 |
| Total comprehensive income | | | | | 65,092 |
| Common stock issued to Pacific Life Re Holdings LLC | 1,000 | | | | 1,000 |
| Capital contribution received from Pacific Life Re Holdings LLC | | 75,000 | | | 75,000 |
| Contribution of investment in Pacific Life Re (Australia) Pty Limited | | 244,067 | | | 244,067 |
| Balance at December 31, 2020 | 1,250 | 460,557 | 83,238 | 132,389 | 677,434 |

See notes to consolidated financial statements.

Pacific Life Re Global Limited

Consolidated Statement of Cash Flows For the year ended December 31

(in thousands)

| | 2020 |
|---|------------------|
| | \$ |
| Cash flows from operating activities | |
| Net loss | (21,952) |
| Adjustment to reconcile net loss from continuing operations to new cash provided by operating activities: | |
| Net accretion on fixed maturity securities | (3,390) |
| Net change in deferred tax liabilities | 24,590 |
| Net change in current tax recoverables | (20,449) |
| Net realized investment gains | (15,991) |
| Net change in reinsurance receivables | (23,412) |
| Net change in accrued investment income | (986) |
| Net change in deferred policy acquisition costs | (5,577) |
| Net change in value of business acquired | 276 |
| Net change in other assets | (48,688) |
| Net change in future policy benefits | 167,366 |
| Net change in reinsurance balances payable to affiliates | 15,838 |
| Net change in reinsurance balances payable to non-affiliates | (2,937) |
| Net change in accounts payable and other liabilities | 21,301 |
| Net cash provided by operating activities | 107,941 |
| Cash flows from investing activities | |
| Available for sale securities: | |
| Purchases | (445,482) |
| Sales | 154,172 |
| Maturities and repayments | 39,848 |
| Net cash used in investing activities | (251,462) |
| Cash flows from financing activities | |
| Common stock issued to Pacific Life Re Holdings LLC | 1,000 |
| Capital contributed by Pacific Life Re Holdings LLC into Pacific Life Re (Australia) Pty Limited | 79,616 |
| Capital contribution received from Pacific Life Re Holdings LLC | 75,000 |
| Net cash provided by financing activities | 155,616 |
| Net change in cash, cash equivalents and restricted cash | (9,857) |
| Change in cash, cash equivalents and restricted cash due to foreign currency | 9,794 |
| Cash, cash equivalents and restricted cash, beginning of year | 71,062 |
| Cash, cash equivalents and restricted cash, end of year | 70,999 |
| Supplemental disclosures of cash flow information | |
| Income taxes paid (received), net | - |
| Reconciliation to consolidated statements of financial position | |
| Cash and cash equivalents | 58,500 |
| Restricted cash | 12,499 |
| Total cash, cash equivalents and restricted cash | 70,999 |

See notes to consolidated financial statements.

Pacific Life Re Global Limited

Notes to Consolidated Financial Statements

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND DESCRIPTION OF BUSINESS

Pacific Life Re Global Limited (“Global”), including its wholly owned and controlled subsidiaries (Pacific Life Re International Limited (“International”) and Pacific Life Re (Australia) Pty Limited (“PLRA”)) is a wholly owned subsidiary of Pacific Life Re Holdings LLC (“PLRH LLC”), which is in turn wholly owned by Pacific LifeCorp (“PLC”). Both PLRH LLC and PLC are intermediate Delaware stock holding companies. PLC is a wholly owned subsidiary of Pacific Mutual Holding Company (“PMHC”), a Nebraska mutual holding company (and ultimate parent of the Company). Unless the context indicates otherwise, the terms “the Company” or “our” means Pacific Life Re Global Limited and its consolidated subsidiaries. The Company provides life reinsurance and life retrocession solutions to its customers.

Both Global and International are Bermuda domiciled reinsurance companies licensed individually as Class E long-term insurers by the Bermuda Monetary Authority (“BMA”). Global assumes life retrocession business from affiliated and non-affiliated markets while International writes traditional reinsurance business through its direct subsidiary PLRA.

PLRA, an Australia domiciled reinsurance company, is a wholly owned and direct subsidiary of International. PLRA is engaged in providing traditional reinsurance which includes individual and group life and health, disability and critical illness and income protection reinsurance in Australia.

The Company is taking part in a significant multi-year corporate restructuring project (“Project Valentine”) with the objective of redomiciling the majority of PMHC’s global reinsurance business to Bermuda. Significant events associated with Project Valentine which occurred during the reporting period include:

- On March 31, 2020, Global moved its domicile from Barbados to Bermuda and was renamed Pacific Life Re Global Limited from Pacific Life Reinsurance (Barbados) Limited.
- On July 1, 2020, Pacific Life Reinsurance Company II (“PLRC”), an affiliated Barbados entity in the process of voluntary dissolution, novated two reinsurance treaties to Global.
- On October 1, 2020, the entire share capital of PLRA was contributed to Global from PLRH LLC and then contributed to International from Global.

On 1 January 2021, as part of Project Valentine, the entire share capital of Pacific Life Re Holdings Limited (“PLRH”) was contributed to Global from PLRH LLC. As a consequence of this, a wholly owned subsidiary of PLRH, Pacific Life Re Limited (“PLRL”) became an indirect subsidiary of Global. Global will contribute its direct interest in PLRH, and therefore its indirect interest in PLRL, to International on 1 July 2021. International will establish regulated branches in the UK, Canada, Singapore, and Korea and assume the reinsurance business currently undertaken by PLRL. The restructure of business, in the UK, will be undertaken by means of insurance business transfer under Part VII of the Financial Services and Markets Act 2000. All other business will be transferred by individual novation of cedent treaties and in accordance with local regulatory processes. All of these activities are planned to be completed during 2022. Refer to Note 18 for additional information regarding the contribution of PLRH.

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 Global and its wholly owned and controlled subsidiaries. All significant intercompany transactions and balances have been eliminated on consolidation.

Pacific Life Re Global Limited

Notes to Consolidated Financial Statements

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 period. 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:

- Other than temporary impairment (“OTTI”) losses of investments- there is judgement on whether an impairment is permanent.
- Value of Business Acquired (“VOBA”) – there are estimates on projected premiums, and judgements on recoverability and deterioration of financial performance leading to premium deficiencies.
- The liability for future policy benefits – estimates include cost of settling claims, reported and incurred but not reported claims.

For the purpose of these financial statements, “affiliated” and “related parties” refers to entities that are under common control of Global’s ultimate parent, PMHC.

The Company has evaluated events subsequent to December 31, 2020 through April 21, 2021, the date the consolidated financial statements were available to be issued. See Note 18.

A. Investments

Fixed maturity securities available for sale are reported at fair value, with unrealized gains and losses, net of deferred income taxes, recognized as a component of other comprehensive income (loss) (“OCI”). For asset-backed securities included in fixed maturity securities available for sale, the Company recognizes income using a constant effective yield 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.

Amortization of premium and accretion of discount on fixed maturity securities is recorded using the effective interest method.

Net Investment income consists primarily of interest income net of investment management expenses, and is recognized on an effective interest basis.

Available for sale securities are initially measured at fair value with subsequent remeasurement to fair value at each reporting period recognized in other comprehensive income. The change in unrealized gains or losses on available for sale securities is included in OCI. The unrealized gains or losses on available for sale securities in Accumulated Other Comprehensive Income (“AOCI”) are reclassified to net income once the investments are sold or when an impairment charge is recorded.

Pacific Life Re Global Limited

Notes to Consolidated Financial Statements

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company's available for sale securities are assessed for OTTI, if impaired. If a decline in the fair value of an available for sale security is deemed to be other than temporary, the OTTI is recognized equal to the difference between the fair value and net carrying amount of the security. If the OTTI for a fixed maturity security is attributable to both credit and other factors, then the OTTI is bifurcated and the non credit-related portion is recognized in OCI while the credit portion is recognized in earnings, specifically OTTI. If the OTTI is related to credit factors only or management has determined that it is more likely than not going to be required to sell the security prior to recovery, the OTTI is recognized in earnings, specifically OTTI. OTTI is recognized under net investment gains in the consolidated statement of operations.

The evaluation of OTTI is a quantitative and qualitative process subject to significant estimates and management judgment. The Company has controls and procedures in place to monitor securities and identify those that are subject to greater analysis for OTTI. The Company reviews and evaluates securities for potential OTTI at minimum on a semiannual basis at the relevant investment committee.

In evaluating whether a decline in value is other than temporary, the Company considers many factors including, but not limited to, the following: the extent and duration of the decline in value; the reasons for the decline (credit event, currency, interest rate related, or spread widening); the ability and intent to hold the investment for a period of time to allow for a recovery of value; and the financial condition of and near-term prospects of the issuer.

For fixed maturity securities in unrealized loss positions, the Company evaluates whether it intends to sell, or will be required to sell the security before anticipated recovery of amortized cost. If a security meets either criteria, it is considered an OTTI. If a security does not meet either criteria, an analysis is performed on whether projected future cash flows are sufficient to recover the amortized cost.

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

B. Cash and Cash Equivalents

Cash and cash equivalents include all short-term, highly liquid investments with a maturity of three months or less from purchase date. Cash and cash equivalents consist primarily of operating bank accounts.

C. Restricted Cash

Restricted cash primarily consists of liquidity reserves related to security deposits, commitment fees, cash collateral, cash held in trusts.

D. Transfer of Entities Under Common Control

On October 1, 2020, as part of Project Valentine, the entire share capital of PLRA was contributed to Global from PLRH LLC and then contributed to International from Global. The results of operations for the Company for the year ended December 31, 2020 include the results of PLRA as of the beginning of the year in accordance with U.S. GAAP guidance ASC 805-50 on mergers of entities under common control.

Pacific Life Re Global Limited

Notes to Consolidated Financial Statements

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Deferred Policy Acquisition Costs

The direct and incremental costs associated with the successful acquisition of new or renewal business, have been deferred to the extent that such costs are deemed recoverable from future premiums or gross profits. Such costs include commissions and allowances as well as certain costs of policy issuance and underwriting. Management of the Company performs periodic tests to determine that the cost of business acquired remains recoverable, and if financial performance significantly deteriorates to the point where a premium deficiency exists, the cumulative amortization is re-estimated and adjusted by a cumulative charge or credit to current operations.

Deferred acquisition costs related to traditional life insurance contracts, substantially all of which relate to long-duration contracts, are amortized over the premium-paying period of the related policies in proportion to the ratio of individual period premium revenues to total anticipated premium revenues over the life of the policy. Such anticipated premium revenues are estimated using the same assumptions used for computing liabilities for future policy benefits.

For universal life-type contracts, capitalized acquisition costs are amortized over the life of the book of universal life-type contracts at a constant rate based on the present value of the estimated gross profit amounts expected to be realized over the life of the book of contracts.

Modifications or exchanges of contracts that constitute a substantial contract change are accounted for as an extinguishment of the replaced contract resulting in a release of unamortized deferred acquisition costs, unearned revenue and deferred sales inducements associated with the replaced contract.

The development, and amortization, of deferred acquisition costs for the Company's products requires management to make estimates and assumptions. Actual results could differ materially from those estimates. Management of the Company monitors actual experience, and should circumstances warrant, will revise its assumptions and the related estimates.

F. Value of Business Acquired

Global's life retrocession business was acquired from Manufacturers Life Insurance Company ("Manulife") and its Barbados branch. At the acquisition date VOBA was equal to the U.S. GAAP reserves less the fair value of liabilities ("FVL"). The FVL was calculated in accordance with the Codification's Fair Value Measurements and Disclosures Topic and is essentially the present value of policyholder liability cash flows. VOBA is amortized based on projected premiums. Management performs periodic tests to determine that VOBA remains recoverable, and if financial performance significantly deteriorates to the point where a premium deficiency exists, the cumulative amortization is re-estimated and adjusted by a cumulative charge or credit. Both annual amortization and any adjustment to cumulative amortization is charged to the current year's statement of operations.

G. Retrocession recoverables from affiliates and non-affiliates

Retrocession recoverables are balances due from retrocessionaires for paid and unpaid losses. Amounts receivable and balances payable are offset for account settlement purposes for contracts where the legal right of offset exists, as the Company intends to settle on a net basis.

Pacific Life Re Global Limited

Notes to Consolidated Financial Statements

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Other Assets

Other assets include balances due from affiliates. If the Company determines that a contract does not expose it to a reasonable possibility of a significant loss from insurance risk, the Company records the contract on a deposit method of accounting with the net amount receivable reflected in other assets on the consolidated statement of financial position. Amounts receivable and balances payable are offset for account settlement purposes for contracts where the legal right of offset exists, as the Company intends to settle on a net basis.

Other assets also include property, plant and equipment. These assets are recorded at cost and depreciated over their useful lives, estimated between 1 and 3 years.

I. Future Policy Benefits

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 reported and those that the Company believes have been incurred but have not yet been reported as of the statement of financial position date. The estimates used to determine the liability for unpaid claims are derived principally from the Company's historical experience.

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. 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.

Profit sharing exists in some contracts in the form of an experience refund provision. Where applicable, projected future experience refund payments net of past losses carried over from prior period, to the extent these losses are deemed recoverable from future profits, are included in the calculation of reserve for future policy benefits.

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.

J. Reinsurance Balances Payable

Balances payable to affiliates result from the coinsurance agreements between Pacific Life Insurance Company ("PLIC"), a wholly owned life insurance subsidiary of PLC, and Global, and between PLRL, a wholly owned subsidiary of PLC through PLRH, and PLRA, as described further in Note 15. Balances payable to non-affiliates represent amounts owed that are resulting from the coinsurance agreements between these non-affiliates and the Company. Amounts receivable and balances payable are offset for account settlement purposes for contracts where the right of offset exists.

Pacific Life Re Global Limited

Notes to Consolidated Financial Statements

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Reinsurance

In the ordinary course of business, the Company has ceded retrocession agreements with other insurance companies to limit potential losses and reduce exposure arising from larger risks. The ceding of risk does not discharge the Company from its primary obligations to retrocedents. To the extent that the retrocessionaires become unable to meet their obligations under reinsurance contracts, the Company remains contingently liable. Each retrocessionaire is reviewed to evaluate its financial stability before entering into each reinsurance contract and throughout the period that the reinsurance contract is in place.

As part of its risk management process, the Company routinely evaluates its retrocession programs and may change retention limits, retrocessionaires, or other features at any time. The Company along with its affiliates, PLIC, PLRL, manage retention across all affiliated entities on a group basis.

The Company utilizes reinsurance accounting for ceded retrocession and assumed reinsurance 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 deductible 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 paid and unpaid losses. Reinsurance terminations and recapture gains are recorded in other income.

L. Accounts Payable and Other Liabilities

Accounts payable and other liabilities consist primarily of various expense accruals and other payables to affiliates and non-affiliates. These are stated initially at fair value and subsequently measured at amortized cost. Exchange gains and losses arising in respect of liabilities in foreign currency are added to the carrying amount of the respective liability.

M. Foreign Currency

The reporting currency for these consolidated financial statements is the U.S. Dollar ("USD"). The Company, due to its subsidiaries, uses a number of functional currencies; USD, Canadian Dollar ("CAD"), and Australian Dollar ("AUD"). 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 USD is performed for asset and liability accounts using current exchange rates in effect as of the last day of the year 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 recognized in OCI in the statement of comprehensive income and accumulated in AOCI in the consolidated statement 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 other income in the consolidated statement of operations in the period in which they occur.

Pacific Life Re Global Limited

Notes to Consolidated Financial Statements

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Revenues, Benefits and Expenses

Reinsurance premiums from life policies and health policies with life contingencies are recognized as revenue when due from policyholders. Life policies include those contracts with fixed, variable and guaranteed premiums and benefits, and consist principally of whole life, universal life and term insurance policies. Health policies consist of individual critical illness and disability risk coverages. Retrocession premiums and retrocession recoveries on benefits and claims incurred are deducted from their respective revenue, benefit and expense accounts.

Benefits and expenses are provided for as premiums are earned so as to result in the recognition of profits over the life of the contracts. This is achieved by means of the provision for future policy benefits and deferral and subsequent amortization of VOBA.

For each of its reinsurance contracts, the Company must determine if the contract provides indemnification against loss or liability relating to insurance risk, consisting of both underwriting and timing risk, and a reasonable possibility of a significant loss to the Company or retrocessionaire, in accordance with applicable accounting standards. To meet risk transfer requirements, a reinsurance contract must include insurance risk.

When deposit method of accounting is used, fees earned on the contracts are reflected as other income on the consolidated statements of operations.

O. Income Taxes

Under the provisions of the Bermuda Exempted Undertakings Tax Protection Act of 1966, the Company is exempt from paying any taxes on Bermuda profits during its first fifteen years of operation. This exemption will expire in March 2035.

Global has an election under Section 953(d) of the Internal Revenue Code, to be treated as a domestic insurance Company for U.S. federal income tax purposes. Global is subject to U.S. taxation as if it were a U.S. corporation, and included in the consolidated Federal income tax return of PMHC. International has made an election to be treated as a disregarded entity for U.S. federal income tax purposes upon inception.

PLRA is subject to tax in Australia.

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. As of December 31, 2020, the Company had no liability for uncertain tax positions.

Pacific Life Re Global Limited

Notes to Consolidated Financial Statements

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company recognizes interest and penalties related to unrecognized tax benefits in the provision (benefit) for income taxes in the consolidated statement of operations. Accrued interest and penalties are included in other liabilities in the consolidated statement of financial position.

Global is accounting for the taxes due on future U.S. inclusions in taxable income related to global intangible low-taxed income as a current period expense when incurred (i.e., using the period cost method).

P. 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.

Q. Future Adoption of Accounting Pronouncements

In 2018, the Financial Accounting Standards Board ("FASB") issued targeted improvements to the accounting for long-duration insurance contracts, Accounting Standards Update ("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 deferred policy acquisition costs 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 and interim periods within fiscal years beginning after December 15, 2025. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In March 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 certain criteria are met, an entity 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 certain criteria are met. 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. This standard may be elected and applied to contract modifications made between March 12, 2020 through December 31, 2022. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

Pacific Life Re Global Limited

Notes to Consolidated Financial Statements

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In 2016, the FASB issued 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 should be based on historical loss information, current conditions, and reasonable and supportable forecasts. The guidance also requires enhanced disclosures. This ASU is effective for fiscal years beginning after December 15, 2022 and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In 2016, the FASB issued ASU 2016-02 that provides guidance on leasing transactions. The new guidance requires a lessee to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current guidance, leases would be classified as finance or operating leases. However, unlike current guidance, the new guidance will require both types of leases to be recognized on the consolidated statement of financial position by the lessee. Lessor accounting will remain largely unchanged from current guidance except for certain targeted changes. This ASU is effective for fiscal years beginning after December 15, 2020 and interim periods within fiscal years beginning after December 15, 2021, and permits a modified retrospective transition approach which includes a number of optional practical expedients. Early adoption is permitted. The impact of this guidance on the consolidated financial statements is estimated to be as follows;

Recognition of Lease Liability of \$5.2 million

Recognition of Right of use asset of \$5.2 million

Impact on consolidated statement of operations of \$0.9 million per annum

R. Prior Year Comparatives

Disclosure of prior year comparatives have not been disclosed as these are not mandatory under US GAAP.

Pacific Life Re Global Limited

Notes to Consolidated Financial Statements

2. CAPITAL MANAGEMENT (unaudited)

GLOBAL DIVIDEND RESTRICTIONS

The payment of dividends by Global to its shareholders is subject to restrictions set forth in the regulations of insurance business in Bermuda. Global may declare dividends subject to it continuing to meet the minimum levels of solvency, liquidity, and its risk-based capital requirements. For Bermuda regulatory purposes no dividend payments shall be made which would result in the Enhanced Capital Requirement ("ECR") falling below 135%. The ECR is calculated using the Bermuda Solvency Capital Requirement model which is a risk-based capital model.

Proposed dividends cannot exceed 25% of total statutory capital and surplus reported in the Company's statutory statement of financial position in the previous financial year unless at least 7 days before payment of those dividends it files with the Bermuda Monetary Authority ("BMA") an affidavit signed by at least two directors of Global (one of whom must be a director resident in Bermuda), and by Global's principal representative in Bermuda, which states that in the opinion of those signing, declaration of those dividends has not caused the entity to fail to meet its solvency margin requirements. Any dividend payable would also require certification by Global's approved actuary. The actuary shall ensure that the value of the Company's assets in excess of its liabilities is greater than the ECR and that the amount of any such dividend shall not exceed that excess. The BMA will be notified of the payment of any dividends as part of the Company's normal communications with the supervisory team.

At December 31, 2020, the maximum dividend that Global could pay out of retained earnings, based on the aforementioned regulatory requirements, was \$425 million. The statutory financial return and capital and solvency return of the Company as at, and for the year ended, December 31, 2020 are due to be submitted to the BMA by April 30, 2021. The statutory financial return and capital and solvency return are subject to the review of the BMA.

The required and actual statutory capital and surplus of the Company at December 31, 2020 was as follows:

| | 2020 |
|--------------------------------------|-------------|
| <i>(in millions)</i> | \$ |
| Required statutory capital | 129 |
| Actual statutory capital and surplus | 597 |

In addition to the required statutory capital and surplus requirements in the table above, the Company assesses its own solvency capital needs taking into account factors which may not be fully reflected in the BMA statutory requirements. The Company's solvency capital requirements determined under these self-assessments may also impact the level of dividends paid to its parent, PLRH LLC.

PLRA DIVIDEND RESTRICTIONS

PLRA is subject to minimum regulatory capital requirements in accordance with Australian Prudential Regulation Authority ("APRA") Prudential Standards relevant to life insurers, in respect of the principal risks to which PLRA is exposed. In particular, minimum capital requirements in this context is the minimum capital base required to meet the Prudential Capital Amount (PCA) and, where different, the Prudential Capital Requirement (PCR) as defined in the Prudential Standards.

Pacific Life Re Global Limited

Notes to Consolidated Financial Statements

2. CAPITAL MANAGEMENT (unaudited) (continued)

PLRA monitors and maintains capital in accordance with its Board adopted Internal Capital Adequacy Assessment Process (“ICAAP”). This ensures that there is a low likelihood that PLRA will breach its regulatory requirements, and that PLRA will have sufficient capital to manage its near term business prospects and be able to take necessary action to deal with reasonably foreseeable adverse events that may impact the business.

Surplus capital above the Prudential Capital Amount at December 31, 2020 was \$140.4 million.

Pacific Life Re Global Limited

Notes to Consolidated Financial Statements

3. INVESTMENTS

The following table shows the net carrying amount, gross unrealized gains and losses, and fair value of the Company's available for sale investment assets. See Note 4 for information on the Company's fair value measurements and disclosure.

| As of December 31, 2020: | Net Carrying Amount | Gross Unrealized | | Fair Value |
|---|---------------------------|------------------|--------------|------------------|
| | | Gains | Losses | |
| <i>(in thousands)</i> | \$ | \$ | \$ | \$ |
| Debt securities issued by the U.S. Treasury and other US government corporations and agencies | 27,673 | 818 | (54) | 28,437 |
| Debt securities issued by foreign governments | 826,043 | 148,922 | (93) | 974,872 |
| Corporate debt securities | 413,075 | 25,936 | (234) | 438,777 |
| Short-term bonds | 769 | - | - | 769 |
| Total fixed maturity securities | 1,267,560 | 175,676 | (381) | 1,442,855 |

The amount of investments included in this caption which have been non-income producing for the twelve months preceding the statement of financial position date is nil. The net carrying amount and fair value of fixed maturity securities available for sale as of December 31, 2020, 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.

| As of December 31, 2020: | Net Carrying Amount | Gross Unrealized | | Fair Value |
|--|---------------------------|------------------|--------------|------------------|
| | | Gains | Losses | |
| <i>(in thousands)</i> | \$ | \$ | \$ | \$ |
| Due in one year or less | 51,029 | 477 | - | 51,506 |
| Due after one year through five years | 353,452 | 14,744 | (60) | 368,136 |
| Due after five through ten years | 406,818 | 32,558 | (93) | 439,283 |
| Due after ten years | 456,261 | 127,897 | (227) | 583,931 |
| Total fixed maturity securities | 1,267,560 | 175,676 | (381) | 1,442,855 |

The following tables present the fair value and gross unrealized losses on investments where the fair value has declined and remained continuously below the net carrying amount for less than twelve months and for twelve months or greater.

| As of December 31, 2020: | <u>Less than 12 Months</u> | | <u>12 Months or Greater</u> | | <u>Total</u> | |
|---|----------------------------|-------------------|-----------------------------|-------------------|---------------|-------------------|
| | Gross | | Gross | | Gross | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| <i>(in thousands)</i> | \$ | \$ | \$ | \$ | \$ | \$ |
| Debt securities issued by the U.S. Treasury and other US government corporations and agencies | 17,087 | (54) | - | - | 17,087 | (54) |
| Debt securities issued by foreign governments | 15,619 | (82) | 6,217 | (11) | 21,836 | (93) |
| Corporate debt securities | 21,823 | (231) | 893 | (2) | 22,716 | (233) |
| Total fixed maturity securities | 54,529 | (367) | 7,110 | (13) | 61,639 | (380) |

Pacific Life Re Global Limited

Notes to Consolidated Financial Statements

3. INVESTMENTS (continued)

The number of securities in the Company's portfolio with an unrealized loss position for less than 12 months as of December 31, 2020 were 8. The number of securities in an unrealized loss position for 12 months or greater as of December 31, 2020 were 2.

The Company has evaluated fixed maturity securities available for sale with gross unrealized losses and has determined that the unrealized losses are temporary. 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 net carrying amounts.

Certain assets related to Global's retrocession business (Note 15) are held as collateral in restricted reinsurance trusts. If the fair market value of the assets in these trusts falls below a minimum value, the Company is required to deposit additional funds into the trusts to account for any shortfall. As of December 31, 2020, fixed maturity securities available for sale and restricted cash with a fair value of \$826.2 million and \$12.5 million, respectively, were held in these trusts.

Major categories of the Company's investment income and related investment expense are summarized as follows:

| Year ended December 31: | 2020 |
|---|---------------|
| <i>(in thousands)</i> | \$ |
| Debt securities issued by the U.S. Treasury and other US government corporations and agencies | 638 |
| Debt securities issued by foreign governments | 17,004 |
| Corporate debt securities | 10,156 |
| Total investments income | 27,798 |
| Investment expense | (1,566) |
| Net investment income | 26,232 |

The components of net investment gain are as follows:

| Year ended December 31: | 2020 |
|--------------------------------|---------------|
| <i>(in thousands)</i> | \$ |
| Fixed maturity securities: | |
| Gross gains on sales | 16,066 |
| Gross losses on sales | (75) |
| Net investment gain | 15,991 |

Concentrations of Financial Instruments

As of December 31, 2020, our most significant investments in one issuer were our investments in government issued bonds by the Commonwealth of Australia with a fair value of \$163.9 million or 11.4% of total investments. Other significant investments include our holdings in state issued bonds from the State of New South Wales and corporate bonds from Hydro Quebec with a fair value of \$55.1 million and \$52.4 million, respectively, or 3.8% and 3.6% of total investments respectively.

Pacific Life Re Global Limited

Notes to Consolidated Financial Statements

4. 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, 2020.

| As of December 31, 2020: <i>(in thousands)</i> | Level 1 | Level 2 | Level 3 | Total |
|---|----------|------------------|----------|------------------|
| | \$ | \$ | \$ | \$ |
| Assets: | | | | |
| Debt securities issued by the U.S. Treasury and other US government corporations and agencies | - | 28,436 | - | 28,436 |
| Debt securities issued by foreign governments | - | 973,026 | - | 973,026 |
| Corporate debt securities | - | 440,624 | - | 440,624 |
| Short-term bonds | - | 769 | - | 769 |
| Total fixed maturity securities | - | 1,442,855 | - | 1,442,855 |

The following methods and assumptions were used to estimate the fair value of these financial instruments as of December 31, 2020:

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 SECURITIES

The fair values of fixed maturity securities available for sale 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. Fair values for mortgage-backed securities and other asset-backed securities are determined by evaluating prices from third-party pricing services.

Pacific Life Re Global Limited

Notes to Consolidated Financial Statements

4. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The Company's management analyzes and evaluates these prices 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. Based on this analysis, prices received from third parties may be adjusted if the Company determines that there is a more appropriate fair value based on available market information. All securities priced by a major independent third-party service have been classified as Level 2, as management has verified that the inputs used in determining their fair values are market observable and appropriate. The Company only invests in highly liquid investment grade credit. The fair values of fixed maturity securities available for sale are determined by reference to third party pricing sources.

The Company did not have any significant nonfinancial assets or liabilities measured at fair value on a nonrecurring basis resulting from impairments as of December 31, 2020. The Company has not made any changes in the valuation methodologies for nonfinancial assets and liabilities.

The fair value table excludes the following financial instruments: accrued investment income, receivables and payables. The fair value of these financial instruments, which are primarily classified as Level 2, approximates carrying value as they are short-term in nature such that there is minimal risk of material changes in fair value due to changes in interest rates.

CASH, CASH EQUIVALENTS AND RESTRICTED CASH

Cash, cash equivalents and restricted cash are considered Level 1. The carrying amounts approximate fair values due to the short-term maturities of these instruments.

5. DEFERRED POLICY ACQUISITION COSTS

The table below shows the Company's DAC components:

| As of December 31: | 2020 |
|--------------------------------|---------------|
| <i>(in thousands)</i> | \$ |
| Balance, January 1 | 15,497 |
| Additions: | |
| Capitalized during the year | 16,428 |
| Amortization: | |
| Impact of assumption unlocking | (5,639) |
| All other | 1,230 |
| Total amortization | (4,409) |
| Balance, December 31 | 27,516 |

Pacific Life Re Global Limited

Notes to Consolidated Financial Statements

6. OTHER ASSETS

Components of the Company's other assets are as follows:

| As of December 31: | 2020 |
|-------------------------------|---------------|
| <i>(in thousands)</i> | \$ |
| Amount due from affiliates | 75,370 |
| Prepayments | 3,673 |
| Property, plant and equipment | 600 |
| Funds withheld | 553 |
| Total other assets | 80,196 |

There are no receivables at December 31, 2020 that have been assessed as impaired and no allowance for doubtful debts.

7. VALUE OF BUSINESS ACQUIRED

Components of the Company's VOBA are as follows:

| As of December 31: | 2020 |
|---|--------------|
| <i>(in thousands)</i> | \$ |
| Gross carrying value at January 1 | 11,979 |
| Amortization at January 1 | (7,318) |
| Amortization expense during the year | (147) |
| Adjustment to cumulative amortization during the year | (48) |
| Amortization at December 31 | (7,514) |
| Net carrying value at December 31 | 4,466 |

The estimated aggregate amortization expense for each of the five succeeding fiscal years is as follows:

| | Estimated Amortization |
|-------------------------------|-----------------------------------|
| <i>(in thousands)</i> | \$ |
| The year to December 31, 2021 | 289 |
| The year to December 31, 2022 | 275 |
| The year to December 31, 2023 | 263 |
| The year to December 31, 2024 | 250 |
| The year to December 31, 2025 | 233 |

Pacific Life Re Global Limited

Notes to Consolidated Financial Statements

8. POLICYHOLDER LIABILITIES

FUTURE POLICY BENEFITS

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

| As of December 31: | 2020 |
|---|-----------------------|
| <i>(in thousands)</i> | \$ |
| Claims incurred but not reported | 564,340 |
| Unpaid claims and claim expenses | 51,449 |
| Future policy benefits | 761,703 |
| Unearned premiums | 581 |
| Total future policy benefits | <u>1,378,073</u> |
| Retrocession recoverables from affiliates | (530,113) |
| Retrocession recoverables from non-affiliates | (41,839) |
| Total net liability | <u>806,121</u> |

Interest rate assumptions used to estimate life insurance reserves ranged from 0.3% to 4.9%.

9. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Components of the Company's accounts payable and other liabilities are as follows:

| As of December 31: | 2020 |
|---|----------------------|
| <i>(in thousands)</i> | \$ |
| Amount due to affiliates | 56,410 |
| Accounts payable and accrued expenses | 5,168 |
| Total accounts payable and other liabilities | <u>61,578</u> |

10. 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 retrocession.

The components of premiums written are as follows:

| Year ended December 31: | 2020 |
|--------------------------------|-----------------------|
| <i>(in thousands)</i> | \$ |
| Reinsurance assumed | 589,035 |
| Ceded retrocession | (321,535) |
| Net written premiums | <u>267,500</u> |

Pacific Life Re Global Limited

Notes to Consolidated Financial Statements

11. OTHER INCOME

The components of the Company's other income are as follows:

| Year ended December 31: | 2020 |
|---------------------------------|--------------|
| <i>(in thousands)</i> | \$ |
| Risk fee income from PLIC | 7,000 |
| Realized foreign currency gains | 406 |
| Interest income | 98 |
| Total other income | 7,504 |

The risk fee income relates to the PLIC to Global treaty. See note 15 for further details.

12. INCOME TAXES

The provision for income taxes is as follows:

| Year ended December 31: | 2020 |
|-----------------------------------|----------------|
| <i>(in thousands)</i> | \$ |
| Current: | |
| United States | (2,774) |
| Australia | (82) |
| Total current | <u>(2,856)</u> |
| Deferred: | |
| United States | 5,954 |
| Australia | 6,083 |
| Total deferred | <u>12,037</u> |
| Provision for income taxes | 9,181 |

Pacific Life Re Global Limited

Notes to Consolidated Financial Statements

12. INCOME TAXES (continued)

The net deferred tax liability is comprised of the following tax effected temporary differences:

| As of December 31: | 2020 |
|--|------------------------|
| <i>(in thousands)</i> | \$ |
| Deferred tax assets: | |
| Tax net operating loss carryforwards | 108,063 |
| DAC | 768 |
| Investments including derivatives | 531 |
| Other | 3 |
| Total deferred tax assets | <u>109,365</u> |
| Deferred tax liabilities: | |
| Policyholder reserves | (59,572) |
| Other | (938) |
| Total deferred tax liabilities | <u>(60,510)</u> |
| Net deferred tax asset/(liability) from operations | 48,854 |
| Valuation allowance adjustment | (84,698) |
| Unrealized gain on securities available for sale | (24,607) |
| Net deferred tax liability | <u>(60,450)</u> |

The Company has \$112 million U.S. life company Federal loss carryovers that expire between 2026 and 2032.

Management has assessed that it is more likely than not that the deferred tax assets recognized on the consolidated statement of financial position as of December 31, 2020 will be realized through projected future taxable income and the reversal of existing deferred tax liabilities listed above, with the exception of the Australian tax loss carryovers.

The Company also has \$282.3 million of Australian loss carryovers that do not expire. Australian tax loss carryovers have not been recognized as a deferred tax asset on the statement of financial position as there is insufficient evidence that they will be realized through projected future taxable income.

Global considers the earnings in the foreign subsidiary 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. subsidiary, including undistributed earnings.

Global is included in the consolidated Federal income tax return of PMHC since 2017. PMHC is under continuous audit by the Internal Revenue Services ("IRS"). The IRS will begin the examination of tax years 2017 and 2018 in the first quarter of 2021. Global's separate Federal income tax returns for the years 2015 through 2016 remain open to examination by the IRS.

As of December 31, 2020, the amount of life and health reserves in Global are approximately \$2,124 million (unaudited), if computed pursuant to the methods adopted by the National Association of Insurance Commissioners. The equivalent tax reserves are estimated to be \$863 million (unaudited), as of December 31, 2020.

Pacific Life Re Global Limited

Notes to Consolidated Financial Statements

13. OTHER COMPREHENSIVE INCOME

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

| <i>(in thousands)</i> | Unrealized Gain (Loss) on Securities Available for Sale, Net \$ | Foreign Currency Translation Adjustments and Other, Net \$ | Total OCI \$ |
|--|--|---|-----------------|
| Balance as of January 1, 2020 | 74,052 | (28,708) | 45,344 |
| Net change during the year | 63,800 | 35,798 | 99,598 |
| Income tax expense | (10,716) | (1,837) | (12,553) |
| Balance as of December 31, 2020 | 127,136 | 5,253 | 132,389 |

14. PAID-IN CAPITAL

The increase in paid-in capital, additional paid in capital and other capital reserves during the year to December 31, 2020 was as follows:

| <i>(in thousands)</i> | Common Stock \$ | Additional Paid-In Capital \$ |
|---|--------------------|-------------------------------------|
| Balance as of January 1, 2020 | 250 | 141,484 |
| 1,000,000 Equity shares of \$1 issued in the year | 1,000 | - |
| Additional capital injected in the year | - | 75,000 |
| Contribution of investment in PLRA | - | 244,067 |
| Balance as of December 31, 2020 | 1,250 | 460,551 |

15. TRANSACTIONS WITH AFFILIATES

The Company is a wholly owned and controlled entity of the PMHC and enters into transactions with other affiliated companies. These transactions include reinsurance agreements, promissory notes, guarantee arrangements and service agreements. All transactions are made on normal commercial terms and at market rates.

REINSURANCE AGREEMENTS

Global has a reinsurance agreement with PLIC. The underlying reinsurance is comprised of coinsurance and yearly renewable term ("YRT") treaties. PLIC retrocedes the majority of the underlying YRT U.S. Treaties on a 100% coinsurance with funds withheld basis to Global. Global received funding from PLIC to establish a reinsurance trust in order to satisfy the obligations of the Global to the beneficiary, PLIC.

Pacific Life Re Global Limited

Notes to Consolidated Financial Statements

15. TRANSACTIONS WITH AFFILIATES (continued)

The Global Agreement is treated as deposited accounting under U.S. GAAP. A risk fee is paid to Global by PLIC and is calculated as 0.5% of the treaty's qualified collateral (see Note 11). The transactional amounts relating to this agreement including interest expenses and the risk fee income are recognized in the statement of operations. The agreement also generates statement of financial position items that are recognized in reinsurance payable to affiliates and accrued interest expenses. The amount impacting the primary statement has been outlined in the related parties table below.

PLRA has an automatic ceded retrocession quota share arrangement in place with PLRL. This arrangement covers all of the business lines PLRA reinsures in Australia.

Global has an inwards reinsurance arrangement in place with PLRL. PLRL retrocedes excess of loss on a small amount of protection business as part of a retrocession pool. PLRL further retrocedes a share of risk on certain mortality policies. This retrocession arrangement is based on arm's length commercial terms and conditions.

For the PLRA to PLRL retrocession agreement and the Global to PLRL reinsurance agreement, the transactional amounts relating to these agreements are recognized in the consolidated statement of operations in the net written premiums, claims and other policy benefits, as well as acquisition costs and other insurance expenses. The agreements also generate consolidated statement of financial position items that are recognized in reinsurance receivables, other assets and reinsurance payable to affiliates. The amount impacting the primary statements has been outlined in the related parties table below.

PROMISSORY NOTES

On November 6, 2019, PLC issued a promissory note to Global to draw up to \$50 million at an interest rate of London Inter-Bank Offered Rate ("LIBOR") plus 3.375% per annum. The debt outstanding and accrued interest are payable on the maturity date of December 31, 2021. The total debt outstanding was \$6 million as of December 31, 2020 and the interest amount charged to Global for the year ended December 31, 2020 was \$0.4 million. Global pays PLC a fee of 0.3% on the undrawn amount annually, payable quarterly. The fee charged to Global for the year ended December 31, 2020 was \$0.1 million. The expense is included in the operating expenses on the consolidated statements of operations. The outstanding balance is located within amounts due to related parties. See table below for the amount as at December 31, 2020.

GUARANTEE ARRANGEMENTS

PLC and PLIC, wholly owned subsidiaries of PMHC, provide guarantees to International and PLRA for the performance of its non-affiliate reinsurance obligations. The PLIC guarantee is secondary to the agreement provided by PLC and will only be triggered in the event of non-performance by PLC. There is also a similar guarantee in place for a subset of the Global business novated from an affiliated company that was dissolved during the year as part of Project Valentine.

The Company pays fees to PLC and PLIC for these guarantees which are settled on an annual basis and are recognized under operating expenses in the consolidated statement of operations. The amount payable to PLIC and PLC are detailed in the table below.

Pacific Life Re Global Limited

Notes to Consolidated Financial Statements

15. TRANSACTIONS WITH AFFILIATES (continued)

SERVICE AGREEMENTS

Global has service agreements with PLIC and Pacific Services Canada Ltd (“PSCL”). The services provided include management, IT Infrastructure and administrative services.

PLRA has a support services agreement with Pacific Life Re Limited Singapore Branch (“PLRSB”). The services provided by PLRA to PLRSB and Pacific Life Re Limited, Korea Branch (“PLRKB”) include, executive management, legal and risk management services and PLRA receives from PLRSB selected executive management and human resources services.

PLRA has a support services agreement with Pacific Life Re Services Limited (“PLRS”). The services provided by PLRS to PLRA include management, IT Infrastructure and administrative services.

UnderwriteMe Australia Pty Limited (“UMAL”) has entered into a support services agreement with PLRA. The services provided by PLRA include tenancy, management, finance, legal and administration services. PLRA also recharged amounts to UnderwriteMe Technology Solutions Limited, PLRSB and PLRKB.

PLRA has a support services agreement with PSCL and charges PLRA for selected research and development services.

PLRA has entered into a specific security deed with PLRL which provides the PLRA with a security interest over PLRL’s AUD investment portfolio in respect of specific exposures PLRA has to PLRL.

All service agreement intercompany transactions are settled on a quarterly basis.

SECURITY DEEDS

PLRA has entered into a specific security deed with PLRL which provides PLRA with a security interest over PLRL’s AUD investment portfolio in respect of specific exposures PLRA has to PLRL. No financial statement line items have been impacted by this deed for the year ended December 31, 2020.

REINSURANCE TRUSTS

In connection with the acquisition of the life retrocession business from Manulife Financial Corporation on August 31, 2011, PLIC entered into agreements to reinsure a block of U.S. life reinsurance business on a 100% coinsurance basis. The underlying reinsurance is comprised of coinsurance and yearly renewable term (YRT) treaties. Upon closing the transaction in August 2011, PLIC retroceded the underlying YRT treaties on a 100% modified coinsurance basis to the Company effective July 1, 2011. Global received \$30 million in funding from PLIC to establish a reinsurance trust in order to satisfy the obligations of Global to the beneficiary, PLIC. The current value of this Reinsurance Trust, including current year interest charges, are presented in the table below.

Pacific Life Re Global Limited

Notes to Consolidated Financial Statements

15. TRANSACTIONS WITH AFFILIATES (continued)

The amount of transactions with affiliates during the year and amounts outstanding at December 31, 2020 were as below:

| | Amounts due from/(to) related party at 1 January 2020 | Amount of transactions for the period | Settlements paid/(received) during the period | Foreign currency gains/(losses) | Amounts due from/(to) related party at 31 December 2020 |
|--|---|---|--|---------------------------------------|--|
| <i>(in thousands)</i> | \$ | \$ | \$ | \$ | \$ |
| Management services | | | | | |
| Pacific Life Insurance Company | - | (1,134) | 1,117 | - | (17) |
| Pacific Services Canada Limited | - | (2,350) | 2,424 | (27) | 47 |
| Pacific Life Re Services Limited | 1,048 | (16,006) | 14,062 | 196 | (700) |
| UnderwriteMe Australia Pty Limited | 331 | 498 | (709) | - | 120 |
| Pacific Life Re Limited Singapore Branch | 1,073 | (195) | (961) | (4) | (87) |
| Pacific Life Re Holdings LLC | - | 312 | (276) | (8) | 28 |
| Pacific Life Re Limited Korea Branch | - | 139 | (139) | - | - |
| UnderwriteMe Technology Solutions Limited | - | 79 | - | - | 79 |
| Pacific Life Re Limited | 4 | 2,291 | (2,222) | (6) | 67 |
| Retrocession arrangements | | | | | |
| Pacific Life Re Limited* | (75,348) | (78,484) | 68,603 | (4,058) | (89,287) |
| Pacific Life Insurance Company | 55,926 | - | 19,145 | - | 75,071 |
| Guarantee arrangements | | | | | |
| Pacific Life Insurance Company | (484) | (857) | 496 | (296) | (1,141) |
| Pacific Life Corp | (85) | (151) | 88 | (52) | (200) |
| Promissory note | | | | | |
| Pacific Life Corp | - | (16,268) | 10,000 | - | (6,268) |
| Reinsurance trust | | | | | |
| Pacific Life Insurance Company | (35,359) | (711) | - | - | (36,070) |
| Total | (52,894) | (112,837) | 111,628 | (4,255) | (58,358) |

*The balance due to PLRL consists of commissions receivable of \$31.1m, premiums payable of (\$117.4m), and expenses allowance of (\$4.0m), due to the PLRA and PLRL retrocession agreement.

16. TRANSFER OF ENTITIES UNDER COMMON CONTROL

On October 1, 2020, Global acquired 100% of the shares in PLRA by way of contribution from PLRH LLC. Global then transferred this to its direct subsidiary International by way of contribution. PLRA is engaged in providing traditional reinsurance which includes individual and group life and health, disability and critical illness and income protection reinsurance.

There is no goodwill generated as this is a transaction under common control.

This transaction was accounted for on the carryover basis. An amount of \$244.1million was recognized in Additional Paid-In Capital as part of the transfer of PLRA to International.

Pacific Life Re Global Limited

Notes to Consolidated Financial Statements

17. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

The Company leases office facilities in Australia under various operating leases, which in most, but not all cases, are non-cancellable. Rent expense, which is included in operating and other expenses, in connection with these leases was \$1.3 million for the year ended December 31, 2020. Aggregate minimum future office lease commitments are as follows:

Year ended December 31:

(in thousands)

| | | |
|--|--------------|----|
| Aggregate minimum future office lease commitments: | | \$ |
| 2021 | 1,652 | |
| 2022 | 1,718 | |
| 2023 | 1,738 | |
| 2024 | 1,752 | |
| 2025 | 579 | |
| 2026 and thereafter | - | |
| Total | 7,439 | |

LETTER OF CREDIT

On August 19, 2016, Global entered into a letter of credit for \$420 million issued by Credit Agricole (the "Letter of Credit"). As of December 31, 2020, the Letter of Credit exposure is \$345 million. The Letter of Credit has been issued as collateral to the benefit of PLC, as part of a 100% coinsurance with funds withheld reinsurance agreement between PLC and Global. The Letter of Credit matures on August 19, 2021.

In connection with the Letter of Credit, PLC, Global's parent, has provided an unconditional and irrevocable guarantee to Credit Agricole. As part of the Letter of Credit, assets are held in a reinsurance trust in order to satisfy the obligations of Global to the beneficiary, PLC. The assets are included in the investments (restricted) and restricted cash on the consolidated statement of financial position.

PLEDGED ASSETS

As general and continuing collateral security for the due payment, performance and satisfaction of the obligations under the coinsurance agreements with Manulife and its Barbados Branch, Global has pledged assets to the benefit of these counterparties. Monthly, Global ensures that the fair value of pledged assets is greater than or equal to the minimum value as per the Reinsurance Security Agreements. Should the fair value of pledged assets fall below the minimum value, Global will promptly deposit additional assets into the account to cover any shortfall. The assets are included in the investments (restricted) and restricted cash on the consolidated statement of financial position. The restricted assets are held by a custodian in Canada and the amounts pledged are presented in table below.

Pacific Life Re Global Limited

Notes to Consolidated Financial Statements

17. COMMITMENTS AND CONTINGENCIES (continued)

| Year ended December 31: | 2020 |
|---|----------------|
| <i>(in thousands)</i> | \$ |
| Pledged assets | |
| Fixed maturity securities | 826,183 |
| Cash | 12,493 |
| Other restricted cash | 6 |
| Total restricted investments | 826,183 |
| Total restricted cash | 12,499 |
| Total restricted assets | 838,682 |
| Total as a percentage of investable assets | 55% |

18. SUBSEQUENT EVENTS

On 1 January 2021 the entire share capital of PLRH (and therefore, indirectly, the entire share capital of PLRH's subsidiary, PLRL) was contributed to Global. PLRL, a wholly owned direct subsidiary of PLRH, is an international reinsurance company registered in the United Kingdom and regulated and authorized by the Prudential Regulatory Authority and the Financial Conduct Authority. A further in-specie contribution of the entire share capital of PLRH from Global to International is scheduled for 1 July 2021. PLRL writes life reinsurance business in Europe, Asia, and Canada and provides retrocession services to PLRA.

On February 24, 2021, the Company received a capital contribution of \$47 million from its direct parent company PLRH LLC.