MOODY'S
INVESTORS SERVICE

CREDIT OPINION
11 October 2016

Update

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RATINGS

Penn Mutual Life Insurance Company

Domicile	Philadelphia, Pennsylvania, United States
Long Term Rating	Aa3
Type	Insurance Financial Strength
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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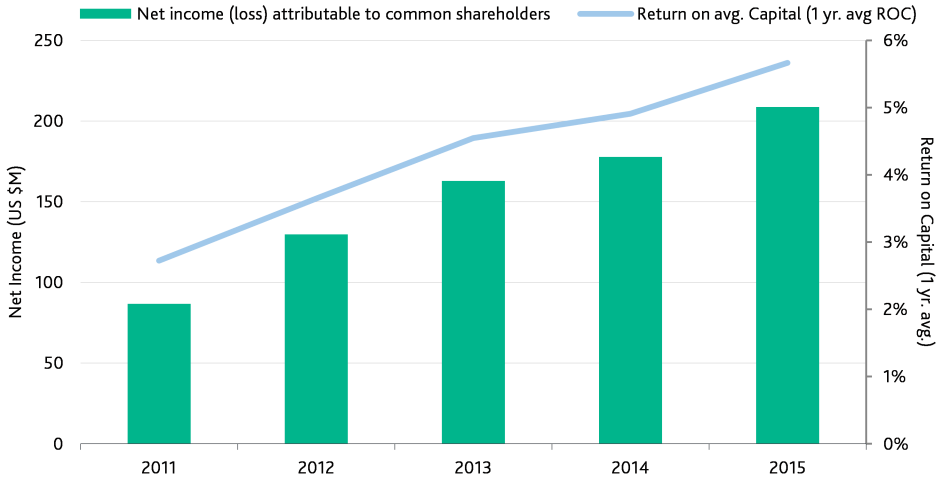
Penn Mutual Life Insurance Company

Semiannual Update

Summary Rating Rationale

Moody's Aa3 insurance financial strength rating of Penn Mutual Life Insurance Company (Penn Mutual) and its subsidiary Penn Insurance and Annuity Company (PIA) is based on the companies' exceptional capitalization, strong asset quality and liquidity, and recently improving--albeit modest--profitability. Penn Mutual's ratings also reflect the group's conservative risk profile on both sides of the balance sheet as well as its resilience under a stress scenario. The company's capital is strong, even without the $400 million of surplus notes included in its regulatory capital. In addition, Penn Mutual's investment portfolio is conservative and well diversified. These credit positives are somewhat offset by the companies' limited market presence, modest growth, and profitability, which is lower than expected for its overall rating level.

Exhibit 1
Net Income and Return on Avg. Capital



Source: Moody's Investors Service and Company Filings

Penn Mutual markets life insurance protection products to affluent individuals, professionals, and owners of small businesses through a multi-faceted career and independent agent distribution network. Penn Mutual's primary product offering is life insurance, supplemented by annuity products when appropriate for client needs. Penn Mutual has focused its business on its core insurance operations, carefully managed the company's financial and liability profile, and consistently expanded and strengthened producer relationships. Penn Mutual

remains committed to its mutual status and is focused on participating, as well as other permanent life insurance products.

On October 10, 2016, Penn Mutual announced that it had reached an agreement to acquire Vantis Life Insurance Company (unrated) and its operating subsidiary Vantis Life Insurance Company of New York for an undisclosed amount. The credit-positive acquisition will give Penn Mutual a new set of products with their own distribution network to an audience different than the company's historically affluent customer base. Both companies will continue to operate under their current brands and maintain their respective management teams and workforces.

Credit Strengths

» Excellent liquidity and strong asset quality

» Excellent capitalization

» Sales emphasis on protection-oriented products.

Credit Challenges

» Modest presence in the highly competitive professional and business owner markets

» Managing large block of interest sensitive liabilities, especially universal life insurance with secondary guarantees (ULSG)

» Modest, albeit improving, profitability.

Rating Outlook

The rating outlook is stable.

What to watch for:

» Changes in Penn Mutual's product risk profile

» Market share changes in a highly competitive environment.

Factors that Could Lead to an Upgrade

» Combines with another similarly-focused organization significantly increasing scale, distribution, and franchise reach and/or consumer awareness

» Increases return on capital to above 8%

» Grows participating whole life sales liabilities to represent a greater proportion of the company's sales and liabilities (currently 28% of total reserves).

Factors that Could Lead to a Downgrade

» Resumption of growth in ULSG relative to overall liabilities

» Total leverage rising above 25%

» NAIC company action level (CAL) risk based capital (RBC) ratio declining to below 400% for a sustained period

» Return on capital (ROC) consistently below 4%.

Key Indicators

Exhibit 2

Penn Mutual Life Insurance Company[1][2]	2015	2014	2013	2012	2011
As Reported (U.S. Dollar Millions)					
Total Assets	25,959	24,259	22,131	20,272	18,221
Total Shareholders' Equity	2,978	3,110	2,694	2,906	2,687
Net income (loss) attributable to common shareholders'	209	178	163	130	87
Total Revenue	2,290	2,104	1,859	1,849	1,658
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	42.1%	33.6%	25.8%	22.0%	24.5%
Goodwill & Intangibles % Shareholders' Equity	51.5%	36.4%	44.4%	31.3%	26.1%
Shareholders' Equity % Total Assets	11.4%	12.8%	12.3%	14.4%	14.8%
Return on avg. Capital (1 yr. avg ROC)	5.7%	4.9%	4.5%	3.6%	2.7%
Sharpe Ratio of ROC (5 yr. avg)	377.0%	383.3%	242.7%	NA	NA
Financial Leverage	13.4%	13.5%	18.9%	18.2%	17.7%
Total Leverage	16.1%	16.2%	21.7%	20.9%	20.5%
Earnings Coverage (1 yr.)	8.4x	7.4x	6.3x	5.6x	3.4x
Cash Flow Coverage (1 yr.)	NA	NA	NA	NA	NA

[1] Information based on US GAAP financial statements as of Fiscal YE December 31

[2] Certain items may have been relabeled and/or reclassified for global consistency

Source: Moody's Investors Service and Company Filings

Notching Considerations

The spread between Penn Mutual's surplus notes rating and its IFS rating is two notches, consistent with Moody's typical notching spread for surplus notes issued by life insurance companies.

Detailed Rating Considerations

Moody's rates Penn Mutual Aa3 for insurance financial strength, which is in line with the adjusted rating indicated by the Moody's insurance financial strength rating scorecard.

Insurance Financial Strength Rating

The key factors currently influencing the rating and outlook are:

MARKET POSITION AND BRAND: Baa - MODEST SIZE WITH FOCUS ON AFFLUENT MARKET

Penn Mutual and PIA combined have a modest market position based on their $22 billion in total statutory assets at year-end 2015. Penn Mutual markets its products primarily to affluent individuals, professionals, and owners of small businesses. Penn Mutual specializes in life insurance sales, and on this measure according to LIMRA it ranks in the top 20 companies in the industry. The company also ranks #17 in the sales of indexed universal life. Sales of ULSG products have been moderated, and a greater emphasis has been placed on whole life insurance sales (whole life sales constituted approx. 40% of total life sales in 2015 and during the first half of 2016). We believe that the company faces very large, entrenched competitors with considerably greater resources in the upscale, affluent individual and small business owner market with more substantial name recognition and influence with distributors and clients. However, in recognition that the metric used for this factor favors companies specializing in annuities over companies like Penn Mutual that are primarily life insurance oriented, we have adjusted upward Penn Mutual's score for this factor to Baa from Ba on the unadjusted scorecard given the company's stronger market position in the life insurance sector.

DISTRIBUTION: A - GOOD MIX OF DISTRIBUTION LEVERAGING CAREER AND INDEPENDENT AGENTS

Penn Mutual markets individual products through three primary channels: its Career Agency System (CAS), the Independence Financial Network (IFN) and Independent Broker/Dealers (IBD). As of year-end 2015, the company's combined distribution channels consisted of more than 5,000 agents. Penn Mutual focuses all of its operations on consistently meeting the needs of producers, whether they prefer operating as part of a career system or in a more independent distribution role. There is a continued focus on organic distribution growth and the company's four-year agent retention rates are consistently stronger than industry averages. The department of labor ruling, which raises fiduciary standards for variable annuities sold into qualified plans, will likely have an impact on Penn Mutual's sale of variable annuity products in the near-to-medium term. During the first six months of the year, Penn Mutual sold less than $200 million of variable annuities.

Overall, Moody's believes that Penn Mutual is well positioned to meet the needs of producers desirous of consistency in operations compared to the constantly evolving strategic and operational modifications that occur at many of Penn Mutual's peers, and we have left the adjusted score at the unadjusted scorecard result of A for this factor.

PRODUCT FOCUS AND DIVERSIFICATION: Aa - PRODUCT RISK TO REMAIN MODEST WITH RECENT REDUCTION IN ULSG SALES

Penn Mutual has a relatively balanced life insurance product portfolio that is more geared towards individual life. Ordinary individual life reserves amounted to 44% of Penn Mutual's total statutory reserves as of year-end 2015, a very high proportion compared to most life insurers. In addition, total low risk reserves as a percentage of total reserves stood at 26% as of year-end 2015. While this is a strong credit positive for Penn Mutual, sales in 2012 and 2013 had been over-weighted in universal life with secondary guarantees, which Moody's considers a relatively higher risk life insurance product due to its exposure to low interest rates and low policyholder lapses. However, sales efforts since 2014 have focused on increasing lower-risk participating whole life insurance policies, which now constitute about 36% of overall life insurance sales for the company. Less than 45% of total reserves are held in separate accounts supporting variable life and annuity contracts that typically have some of the most limited guarantees in the industry, a fact that Moody's considers a mitigant to the equity risk exposure for Penn Mutual. In light of the focus on low-risk life insurance and good product diversification, we have left the adjusted score at the unadjusted scorecard result of Aa for this factor; however, increased growth in ULSG relative to the overall general account liabilities would pressure the score on this factor.

ASSET QUALITY: Aa - RELATIVELY LOW RISK INVESTMENT PORTFOLIO WITH OVERSIZED CMBS POSITION

Penn Mutual's investment portfolio consists primarily of cash and investment grade bonds, with fixed income securities amounting to approximately 86% of cash and invested assets as of year-end 2015. Below investment-grade bonds are low relative to industry peers, representing only 3.2% of cash and invested assets. As of year-end 2015, Penn Mutual's energy-related exposure was 6.8% of total fixed maturity securities, most of the exposure was rated investment-grade. The portfolio contains no commercial mortgage loans and only nominal amounts of real estate assets and equities. The bond portfolio consists of a well-diversified portfolio of publicly traded obligations. As a result, the high risk assets as a % of shareholders' equity was very strong at 42% as of year-end 2015.

We see a risk concentration in Penn Mutual's relatively large $2 billion CMBS portfolio, which is considered high quality with more than 90% of it rated NAIC 1 or equivalent as of year-end 2015 and 99% investment grade. The oversized CMBS position is offset somewhat by the lack of commercial mortgage loans, but the leverage inherent in CMBS securities increases the risk of loss in a stress scenario. Total asset impairments were less than $3 million for 2015 and less than $1 million for the first half of 2016

Goodwill and intangibles as a % of shareholders' equity of 51.5% at year-end 2015 is moderate and is consistent with a Baa rating. The increase in 2015 was due to higher deferred acquisition costs associated with writing new business. Given the relatively good performance of the investment portfolio and our expectation of limited credit losses, especially in the context of the company's outstanding capitalization, we believe that on an adjusted basis this factor is most appropriate at the Aa level, higher than the unadjusted score of A.

CAPITAL ADEQUACY: Aaa - OUTSTANDING CAPITALIZATION EXPECTED TO CONTINUE

Penn Mutual is extremely well capitalized, and Moody's believes the company is likely to remain so for the foreseeable future. In addition to a high capital-to-assets ratio of 11%, consistent with a Aa rating, Penn Mutual's RBC ratio at 612% (company action level) was one of the highest in the industry as of year-end 2015. We estimate the RBC ratio to remain above 500% for 2016. The company

currently reinsures less than half of its regulatory AXXX reserves related to ULSG to its special purpose captive reinsurance company, PIA Reinsurance Company of Delaware I, and receives approximately $1.4 billion of reserve credit. We believe the captive is well capitalized with an RBC ratio of more than 500%.

Even though the quality of regulatory capital is somewhat diminished by the significant amount (approximately $400 million) of surplus notes outstanding, the company has resilient capital levels under a stress scenario and limited use for excess capital besides funding new business growth. In a stress scenario, they have the ability to cut dividends, which amounted to over $50 million during 2015. As a result, we have left the adjusted score for this factor at Aaa, same as the unadjusted score.

PROFITABILITY: A - MODEST BUT GROWING PROFITABILITY PRESSURED BY ROBUST CAPITAL LEVELS

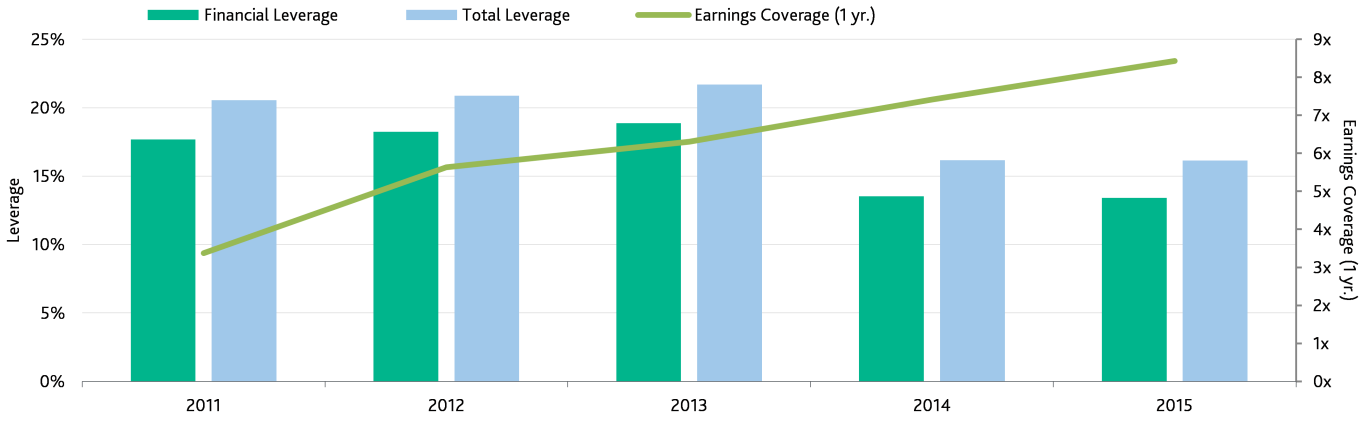
Penn Mutual's GAAP net income for 2015 improved to $208 million, from $178 million in the prior year period, primarily driven by growth in product revenue and lower DAC amortization, offset by less favorable mortality and higher fixed expenses. For the first half of 2016, the company reported GAAP net income of $74 million, down from $110 million reported during the first half of 2015, mostly due to lower investment income from alternative assets. We note that Penn Mutual's strong capitalization depresses the 5-year average ROC of 4.3% as of year-end 2015, making it difficult for Penn Mutual to achieve ROC metrics consistent with its overall Aa3 rating level. Moody's expects Penn Mutual to remain profitable on an operating basis, and due to its conservative investment portfolio. In addition, the company's net income should remain relatively stable compared to most peer companies even under stressed market conditions. Given the very stable profitability as evidenced by the Sharpe ratio of ROC (377% as of year-end 2015), the improving trend in reported earnings, and our expectation that Penn Mutual will continue to report mid-single digit ROC in the near to medium term, we have kept the adjusted score for this factor at A, the same as the unadjusted score.

LIQUIDITY AND ASSET/LIABILITY MANAGEMENT (ALM): Aa - EXCELLENT LIQUIDITY DRIVEN BY STABLE LIABILITY PROFILE

In Moody's opinion, Penn Mutual's liquidity position is very strong. A majority of the company's liabilities are related to retail life insurance products and consequently are quite sticky. In addition, the company's assets are also highly liquid with an investment focus primarily on publicly traded fixed income securities. The company's asset/liability management is based on duration and cash flow testing of assets and liabilities. The results of Moody's liquidity stress testing indicate that this rating factor is consistent with a Aaa score. However, we have adjusted this factor down to Aa because we believe a Aaa liquidity profile should have little or no disintermediation risk and little or no liability optionality. The majority of Penn Mutual's life insurance and annuity liabilities do have surrender options and guarantees.

FINANCIAL FLEXIBILITY: Aa - MODEST LEVERAGE AND CONSERVATIVE FOCUS LEADS TO STRONG FINANCIAL FLEXIBILITY

Exhibit 3
Financial Flexibility



Source: Moody's Investors Services Company Filings

Moody's believes that Penn Mutual has strong financial flexibility. The company's adjusted financial leverage and total leverage was very strong at 13.4% and 16.1%, respectively, at year-end 2015 compared to 13.5% and 16.2%, respectively, at year-end 2014. Penn Mutual's access to debt capital markets has been demonstrated by two separate issuances of $200 million surplus notes in 2004 and 2010. However, we note that as a mutual company, Penn Mutual does not have access to the equity market, and because of its relatively small size, its access to the debt capital market is somewhat constrained. Penn Mutual's 5-year average earnings coverage is modest at 6.2x as of year-end 2015, which is consistent with an A score. We expect earnings, and therefore earnings coverage, to improve modestly over the next year. Cash flow coverage is not meaningful for Penn Mutual since there is no holding company in the group. In addition, since the company has only recently used financing solutions to offset the capital strain from its AXXX reserves, we

believe the company has additional capacity to raise regulatory capital. We have left the adjusted score for this factor at Aa, same as the unadjusted score.

Liquidity Analysis

Penn Mutual's debt consists of long term surplus notes, $200 million maturing in each of 2034 and 2040. Interest expense is approximately $32 million per year. As of 31 December, 2015, Penn Mutual had about $13 billion in total cash and investments, 86% of the portfolio concentrated primarily in fixed income, 12% in others, leaving 2% ($313 million) in cash and short term investments at the operating company.

Rating Methodology and Scorecard Factors

Exhibit 4

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adjusted Score
Business Profile								Baa	A
Market Position and Brand (15%)								Ba	Baa
- Relative Market Share Ratio					X				
Distribution (10%)								A	A
- Distribution Control		X							
- Diversity of Distribution				X					
Product Focus and Diversification (10%)								Aa	Aa
- Product Risk		X							
- Life Insurance Product Diversification			X						
Financial Profile								Aa	Aa
Asset Quality (10%)								A	Aa
- High Risk Assets % Shareholders' Equity		42.1%							
- Goodwill & Intangibles % Shareholders' Equity				51.5%					
Capital Adequacy (15%)								Aa	Aaa
- Shareholders' Equity % Total Assets		11.4%							
Profitability (15%)								A	A
- Return on Capital (5 yr. avg)			4.3%						
- Sharpe Ratio of ROC (5 yr. avg)		377.0%							
Liquidity and Asset/Liability Management (10%)								Aaa	Aa
- Liquid Assets % Liquid Liabilities	X								
Financial Flexibility (15%)								Aa	Aa
- Financial Leverage	13.4%								
- Total Leverage		16.1%							
- Earnings Coverage (5 yr. avg)			6.2x						
- Cash Flow Coverage (5 yr. avg)									
Operating Environment								Aaa - A	Aaa - A
Aggregate Profile								A1	Aa3

[1] Information based on US GAAP financial statements as of Fiscal YE December 31

[2] The Scorecard rating is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis

Source: Moody's Investors Service and Company Filings

Ratings

Exhibit 5

Category	Moody's Rating
PENN MUTUAL LIFE INSURANCE COMPANY	
Rating Outlook	STA
Insurance Financial Strength	Aa3
Surplus Notes	A2 (hyb)

PENN INSURANCE AND ANNUITY COMPANY	
Rating Outlook	STA
Insurance Financial Strength	Aa3

Source: Moody's Investors Service

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