



INVESTORS SERVICE

Rating Action: Moody's upgrades Pacific Life's ratings (senior unsecured rating to A3); stable outlook

21 July 2021

New York, July 21, 2021 – Moody's Investors Service ("Moody's") has upgraded the long-term senior unsecured debt ratings of Pacific LifeCorp (Pacific Life), a subsidiary of Pacific Mutual Holding Company, to A3 from Baa1. Moody's has also upgraded the insurance financial strength (IFS) rating of Pacific Life's two life insurance operating subsidiaries, Pacific Life Insurance Company (PLIC) and Pacific Life & Annuity Company to Aa3 from A1 and the surplus notes rating for PLIC are upgraded to A2 (hyb) from A3 (hyb). The outlook on all ratings was changed to stable from positive.

RATINGS RATIONALE

According to Moody's, Pacific Life and its insurance subsidiaries' ratings have been upgraded to reflect the company's strong market position, excellent statutory capitalization, ongoing risk management actions and a commitment to its mutual philosophy (i.e., focus on policyholder value). Pacific Life, through its insurance subsidiaries, holds a top tier market share in the sale of life insurance and a competitive position in the sale of annuities, both of which have been bolstered by product and distribution diversity. The company has demonstrated excellent and consistent capital levels, as evidenced by an NAIC company-action level risk-based capital ratio (CAL RBC) of 628% as of year-end 2020. The credit profile benefits from a financial leverage ratio (excluding accumulated and other comprehensive income (AOCI)) of less than 20%, which gives it additional financial flexibility, as well as initiatives to diversify its earnings by expanding its institutional and reinsurance businesses.

These positive credit factors are partially offset by risks arising from its legacy variable annuity (VA) business' sensitivity to capital market movements, specifically with respect to earnings from movement in interest rates. While 2020 earnings were a net loss, we anticipate 2021 to return to a net profit as evidenced by a strong first quarter. Other challenges include above industry concentration in lower quality investment-grade fixed maturity securities (Baa-rated bonds represent over 50% of total bonds) and commercial mortgage loans (CMLs, 15% of investments).

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

According to Moody's, Pacific Life's ratings could go up as a result of 1) reduced capital and earnings sensitivity to capital market movements; 2) GAAP return on capital consistently greater than 8%; 3) financial leverage below 15% (excluding AOCI) and 4) earnings coverage consistently above 8x.

Pacific Life's ratings could go down as a result of 1) NAIC CAL RBC ratio falls below 400% (adjusting for captives) and/or lack of organic statutory capital generation; 2) GAAP return on capital less than 6%; 3) financial leverage greater than 20% (excluding AOCI); or 4) earnings coverage below 6 times.

The following ratings have been upgraded:

Pacific LifeCorp -- senior unsecured debt to A3 from Baa1;

Pacific Life Insurance Company -- insurance financial strength to Aa3 from A1; surplus notes to A2 (hyb) from A3 (hyb);

Pacific Life & Annuity Company -- insurance financial strength to Aa3 from A1;

Pacific Life Global Funding II – senior secured to Aa3 from A1; senior secured MTN (foreign) to (P)Aa3 from (P)A1; senior secured MTN (domestic) to (P)Aa3 from (P)A1;

The following ratings have been affirmed:

Pacific Life Insurance Company -- short-term insurance financial strength at P-1; commercial paper at P-1;

Pacific Life Short Term Funding, LLC – commercial paper rating at P-1.

Outlook Actions:

..Issuer: Pacific LifeCorp

....Outlook, Changed To Stable From Positive

..Issuer: Pacific Life Insurance Company

....Outlook, Changed To Stable From Positive

..Issuer: Pacific Life & Annuity Company

....Outlook, Changed To Stable From Positive

..Issuer: Pacific Life Global Funding II

....Outlook, Changed To Stable From Positive

The principal methodology used in these ratings was Life Insurers Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1187348. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Pacific Mutual Holding Company, the ultimate holding company of Pacific Life, is headquartered in Newport Beach, California and reported total GAAP consolidated assets of \$191 billion and total stockholders' equity of \$17 billion, as of December 31, 2020. The company reported total revenues of \$10 billion and net loss attributable to common shareholders of \$671 million as of December 31, 2020.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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