

Rating Action: Moody's Ratings affirms Pacific Life's ratings with a stable outlook

15 November 2024

New York, November 15, 2024 – Moody's Ratings (Moody's) has affirmed the A3 senior unsecured debt ratings of Pacific LifeCorp (Pacific Life), a subsidiary of Pacific Mutual Holding Company, and the Aa3 insurance financial strength (IFS) ratings of its insurance subsidiaries. The outlook on the ratings of Pacific Life and its insurance subsidiaries remains stable. Please see the complete list of ratings at the end of this press release.

RATINGS RATIONALE

The rating affirmation and stable outlook reflect Pacific Life's solid market presence, strong capital levels, effective risk management, and the broad distribution of its products and earnings, both domestically and internationally. In the US, Pacific Life boasts a leading position in the life insurance, annuities, and structured settlements markets. Internationally, the company has established a strong presence in key markets, particularly in the UK, Ireland, and Australia, while also building a growing foothold in Asia. Pacific Life demonstrates solid capital levels, as evidenced by a consolidated NAIC company-action level risk-based capital ratio (CAL RBC) of 508% as of December 31, 2023 and we expect the ratio to remain in the 500% range for full year 2024. These strengths are tempered by the sensitivity of its legacy variable annuity business to fluctuations in the capital markets, particularly the impact of interest rate movements on earnings. While not completely hedged economically, the company has added interest rate hedges to reduce potential volatility, a credit positive. In addition, while Pacific Life's investment portfolio is well diversified and predominantly high-quality, there is a risk of heightened losses in a stressful financial environment due to a higher allocation in Baa-rated bonds (46% of total bonds) and commercial mortgage loans (15% of total investments). This risk is particularly pronounced for commercial mortgage loans exposed to office spaces and certain retail sectors, like shopping malls.

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

The following could result in an upgrade of the ratings of Pacific Life and its insurance subsidiaries: 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.

The following could result in a downgrade of the company's ratings: 1) 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 6x.

LIST OF AFFECTED RATINGS

Issuer: Pacific LifeCorp

Affirmation:

..Senior unsecured, affirmed A3

Outlook Action:

..Outlook remains Stable

Issuer: Pacific Life Insurance Company

Affirmations:

..Insurance financial strength, affirmed Aa3

..Surplus notes, affirmed A2 (hyb)

..ST insurance financial strength, affirmed P-1

..Commercial paper, affirmed P-1

Outlook Action:

..Outlook remains Stable

Issuer: Pacific Life & Annuity Company

Affirmation:

..Insurance financial strength, affirmed Aa3

Outlook Action:

..Outlook remains Stable

Issuer: Pacific Life Global Funding II

Affirmations:

..Senior secured, affirmed Aa3

..Senior secured medium-term note program, affirmed (P)Aa3

Outlook Action:

..Outlook remains Stable

Issuer: Pacific Life Short Term Funding, LLC

Affirmation:

..Commercial paper, affirmed P-1

The principal methodology used in these ratings was Life Insurers published in April 2024 and available at <https://ratings.moodys.com/rmc-documents/418351>. Alternatively, please see the Rating Methodologies page on <https://ratings.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 \$217 billion and total stockholders' equity (including AOCI) of \$9.8 billion, as of December 31, 2023.

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 on <https://ratings.moodys.com/rating-definitions>.

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