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CREDIT OPINION
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Update

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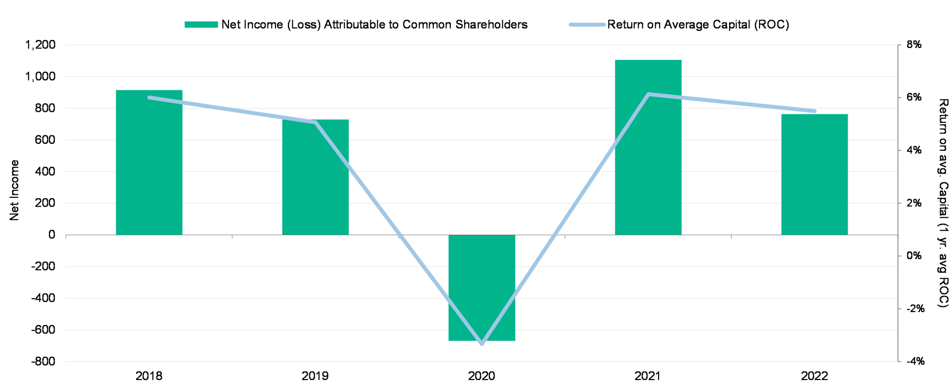
Pacific Mutual Holding Company

Diverse profitability, good capital and growing distribution boosts market position

Our credit view of Pacific Mutual Holding Company (unrated), Pacific LifeCorp (A3 senior debt, stable) and its US affiliated subsidiaries, Pacific Life Insurance Company and Pacific Life & Annuity Company (collectively Pacific Life, Aa3 IFS, stable), reflects the group's solid market position, strong capitalization, good risk management and diverse distribution of products and earnings both in the US and internationally. In the US, Pacific Life's market share reflects top-tier position in sale of life insurance, annuities and structured settlement products. Internationally, in the UK, Ireland and Australia, the company has had growing market share and now holds a presence in 9 countries in Asia. Overall, for Pacific Life, these strengths 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, which is not yet fully hedged on an economic basis, while we do note that the company has been actively adding interest rate hedges to mitigate against the potential volatility. While we view Pacific Life's investment portfolio as diverse and generally high-quality, the company could face elevated losses in a stress scenario from an above industry concentration in lower quality investment-grade fixed income securities (i.e. Baa-rated bonds currently represent over 50% of total bonds) and commercial mortgage loans (15% of investments), particularly to those with a greater exposure to office and select retail (like malls).

Exhibit 1
Decline in 2022 net income driven by market performance, higher rates and lower asset returns



Source: Moody's Investors Service and company filings

Credit strengths

» Established market positions in the high-end life insurance markets;

» Broad and balanced independent distribution;

» Good capitalization with a NAIC company action level (CAL) Risk-Based Capital (RBC) ratio of 486% as of year-end 2022.

Credit challenges

» Managing volatility in capital and earnings from capital market movements, especially interest rates;

» Strong competition in core affluent business and professional life insurance markets;

» Above-average exposure to Baa-rated bonds (50% of total bonds as of YE 2022).

Outlook

The outlook on Pacific Life is stable, reflecting strong market position, very good statutory capitalization and a commitment to its mutual philosophy (i.e., focus on policyholder value). Going forward, items to watch for include new business sales as well as volatility from exposure to equity market and interest rates, as well as the uncertainty in the commercial real estate assets, especially tied to office.

Factors that could lead to an upgrade

» Reduced capital and earnings sensitivity to capital market movements;

» GAAP return on capital consistently greater than 8%;

» Financial leverage below 15% (excluding AOCI); and

» Earnings coverage consistently above 8x.

Factors that could lead to a downgrade

» NAIC company action level RBC ratio falls below 400% (adjusting for captives) and/or lack of organic statutory capital generation;

» GAAP return on capital less than 6%;

» Financial leverage greater than 20% (excluding AOCI); or

» Earnings coverage below 6x.

Key indicators

Exhibit 2

Pacific Mutual Holding Company [1][2]	2022	2021	2020	2019	2018
As Reported (US Dollar Millions)					
Total Assets	199,324	209,486	190,672	171,473	157,699
Total Shareholders' Equity	6,728	17,005	17,452	16,055	13,072
Net Income (Loss) Attributable to Common Shareholders	763	1,102	(671)	725	913
Total Revenue	13,360	13,936	10,062	10,747	9,652
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	228.5%	77.6%	62.1%	53.6%	51.2%
Goodwill & Intangibles % Shareholders' Equity	124.2%	37.1%	31.9%	34.1%	44.2%
Shareholders' Equity % Total Assets	2.5%	7.5%	8.6%	8.8%	7.5%
Return on Average Capital (ROC)	5.5%	6.1%	-3.3%	5.1%	6.0%
Sharpe Ratio of ROC (5 yr.)	95.5%	93.6%	94.0%	787.3%	640.7%
Adjusted Financial Leverage	33.6%	14.4%	14.4%	12.1%	14.7%
Total Leverage	36.1%	15.8%	15.8%	13.7%	16.5%
Earnings Coverage	8.1x	11.3x	-6.3x	8.2x	8.9x
Cash Flow Coverage	18.0x	12.0x	19.7x	22.3x	23.8x

[1] Information based on US GAAP financial statements as of the fiscal year ended 31 December. [2] Certain items may have been relabeled and/or reclassified for global consistency.
Source: Moody's Investors Service and company filings

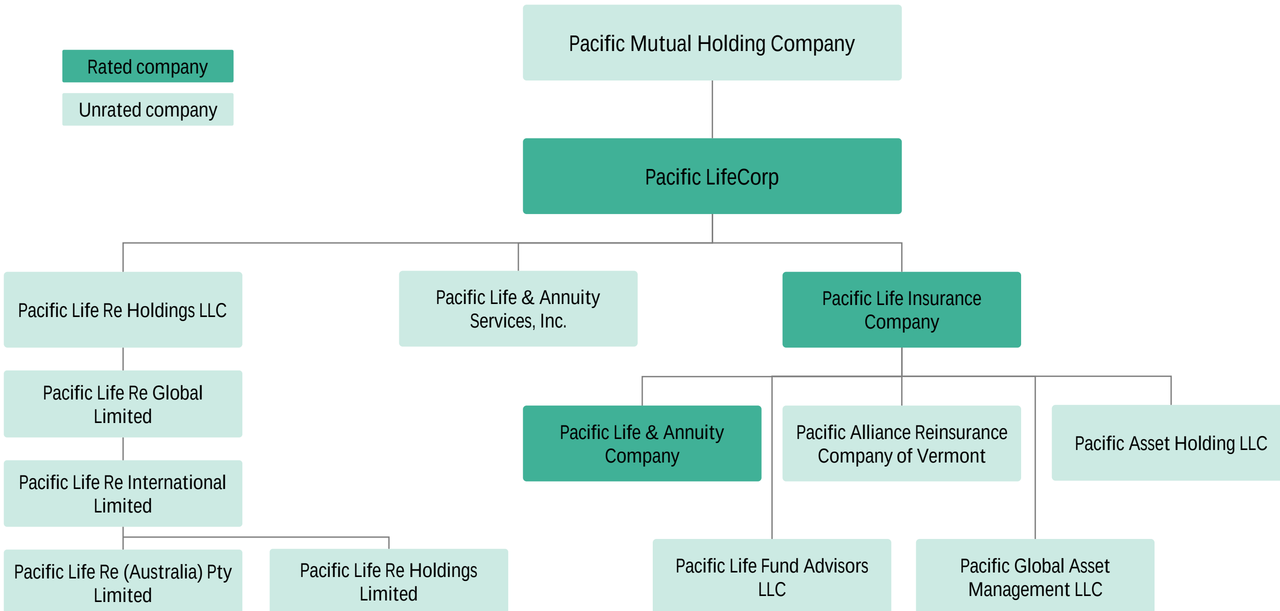
The significant increase in interest rates during 2022 reduced the carrying value of fixed income securities held by Pacific Life as available for sale, causing a reduction in reported equity through Accumulated Other Comprehensive Income (AOCI). Although the impact of higher rates on fixed income investments is generally economically offset by the impact on insurance reserve liabilities, under reporting standards in effect at year-end 2022, reported insurance liabilities were not affected by the increase in rates. The decline in equity affects metrics and ratios that use equity in the denominator, including leverage, return on capital and high risk asset ratios.

Profile

Pacific Life Insurance Company and Pacific Life & Annuity Company are the primary operating subsidiaries of Pacific LifeCorp. Pacific Life Re Ltd. is also a subsidiary of Pacific LifeCorp. These insurance subsidiaries provide life insurance, individual annuities, pension risk transfer, structured settlements, mutual funds, life reinsurance and retrocession products. They serve individuals, businesses, and pension plans with a variety of investment products and services.

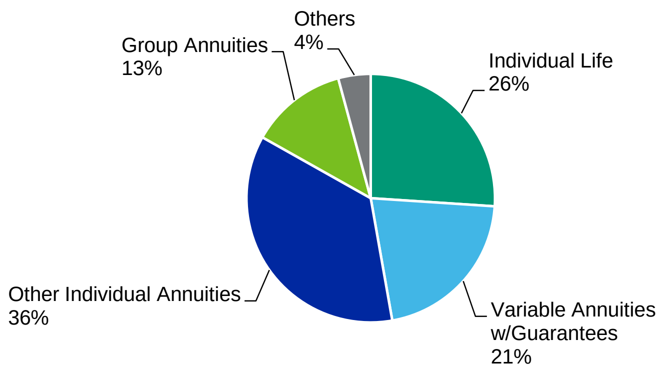
On 26 October 2022, Pacific Life announced that it had an agreement to sell subsidiary Pacific Asset Management (PAM) to Aristotle, a California-based asset management firm. The sale is credit positive for Pacific Life because it can use the sale proceeds to invest in its growing core insurance businesses, such as its life, annuities, reinsurance and institutional businesses.

Exhibit 3
Corporate structure as of December 31, 2022



Source: Schedule Y statutory statements, Moody's Investors Service research

Exhibit 4
Statutory revenues by segment shows a diversified business profile
Full-year 2022



Source: Company statutory statements

Detailed credit considerations

Moody's rates Pacific Life Aa3 for insurance financial strength, which is in line with the adjusted scorecard-indicated outcome.

Insurance financial strength

The key factors currently influencing the rating and outlook are:

Market position and brand: Focus on the high-end life insurance and recent product expansions to grow market share

Moody's views Pacific Life's market position and brand as being very strong. The A-adjusted score for the company's market position, which is in line with the unadjusted scorecard result, is supported by a strong, focused position in the high-end life insurance market serving the very affluent and businesses. The company holds a leading market share in most of the markets it competes in, including individual life insurance, structured settlements and annuities. Within its US individual life business, Pacific Life is the top provider of universal life insurance, which includes indexed universal life and variable universal life. Sales remained strong in 2022 despite the volatility in capital markets and higher interest rates drove annuity sales growth, especially fixed annuities. The adjusted rating for this factor reflects Pacific Life's market position internationally, including the UK and Ireland, where it sells life protection and longevity type products and in Australia and Asia, where they market protection and critical illness products.

Distribution: Primarily independent distribution network, but strong relationships with core partners

Pacific Life relies primarily upon a wide variety of third parties such as independent agents, financial advisors, banks and registered representatives for its insurance product distribution. As a result, the company maintains less direct control over its distribution and could see relatively lower persistency and more volatile sales for its third-party sold products than those companies with more control over their distribution systems. However, it benefits from a strong market breadth in most major channels other than career agents, resulting in an A score for diversity of distribution. The company has had long-standing relationships with many key independent distributors, and a reputation for excellent customer service that benefits the company in the market, increasing its sustainability in the independent channels. We have therefore left this factor unchanged, which is the same as the unadjusted scorecard result of A.

Product focus and diversification: Measured approach to diversification reduces overall product risk

Pacific Life has a very diverse set of product offerings in life and annuity markets, including fixed and variable products, as well as institutionally oriented products. The product diversification also benefits from Pacific Life Re, its international, reinsurance and life retrocession operations. In the US, Pacific Life is particularly strong in serving the high net worth life insurance market and benefits from very strong persistency on its products. The middle-market segment helps improve the overall product risk profile (primarily term life insurance products) and creates opportunities to expands its customer base and cross-sell other insurance products, especially through other channels, such as BGA's and direct marketers.

We also believe Pacific Life benefits from a good balance between fixed and variable products, a partial result of its emphasis on risk management and diversification - including growing its institutional business, which has very little sensitivity to equity markets. Since virtually all of the life insurance business is of the nonparticipating variety, which limits its ability to share adverse experience with its policyholders and restricts upward movement for this rating factor, Moody's views Pacific Life's product focus and diversification score to be in-line with the unadjusted score and hence left this factor score unchanged at A.

Asset Quality: Good quality investment portfolio, although high exposure to certain assets, such as mortgage loans and Baa-rated bonds

Pacific Life's general account investment portfolio is diversified and consists primarily of fixed-income securities and commercial mortgages (15% of cash and invested assets). As of the end of 2022, Pacific Life's ratio of high-risk assets as a percentage of shareholders' equity was 229%, consistent with a Ba sub-factor score, which primarily emanates from its holdings in below-investment grade bonds, alternative investments and real estate. The dramatic increase in 2022 from the prior year was a result of a decline in reported shareholders' equity caused by a decline in AOCI (as explained above). Excluding AOCI from shareholders' equity, the ratio for 2022 is 102.8% (compared to 96.1% in 2021). We also note that half of Pacific Life's total bonds are rated in the Baa range, which is higher than its peers and could be a source of additional losses in a downturn. Moody's projects global speculative grade defaults at the end of March 2024 to reach 4.9% in the baseline scenario and 13.9% in the severely pessimistic scenario. As previously stated, the company held approximately 15% of commercial mortgages, with 22% invested in the office sub-sector. While there have been valuation reductions in major metropolitan cities, we expect further price pressures on office-related real estate over the next 12-18 months, though we believe the potential losses will be manageable in terms of earnings and capital.

Goodwill and other intangibles were also elevated at 124% of shareholders' equity, consistent with a Caa score. Excluding AOCI from shareholders' equity, the ratio for 2022 is 55.9% (compared to 46.0% in 2021). Looking at just the numerator - we believe deferred acquisition costs (DAC), which represents most of the intangibles as higher quality than goodwill, largely because of the greater likelihood that DAC will eventually be converted into tangible equity, as profits net of DAC amortization flow through income, given the generally consistent policyholder persistency. Overall, we view the asset quality to be thus better than the unadjusted score and hence have raised it to A-level for this sub factor.

Capital Adequacy: Very good RBC ratio, but can exhibit volatility from interest rate moves

Pacific Life has very good capital adequacy despite a modest score of 2.5% for shareholders' equity as a percentage of total assets as of year-end 2022, which is a result of a decline in shareholders' equity. To assess the capital adequacy of US life insurers' we consider the RBC ratio to be a more reliable measure of capital adequacy. Pacific Life's RBC ratio is strong at 486% as of year-end 2022 despite the 100 point RBC decline from year-end 2021. The decline in RBC ratio was driven by a combination of new business growth, asset price appreciation and the impact of higher interest rates, all of which increased required capital. We do note that a large portion of the debt issuance at the holding company was dividended to the operating company during the year, without which the RBC would have declined even further. Looking ahead, it is our expectation that the company will continue to maintain strong RBC ratios going forward, including generating organic capital, which provides a cushion against tail risk events and is a key factor supporting Pacific Life current ratings. We do note that although Pacific Life has taken prudent risk management steps to protect capital in times of stress, its RBC ratio may exhibit some volatility in response to capital market movements, especially from interest rates movements and elevated volatility - although the company has added incremental hedges to protect against this volatility in 2022 and 2023. As a result, we believe that Pacific Life is best positioned in the Aa range on this factor, given its very good level of reported capital and RBC ratio, somewhat offset by its sensitivity to capital market changes.

Profitability: Diversified earnings, but sensitivity to capital market movements

Moody's views Pacific Life's profitability to be good and benefits from increasing diversification. As of year-end 2022, the company reported very good profitability with a return on capital ratio of 5.5%, which benefitted from a lower reported shareholders' equity. Net income was actually down when compared to year-end 2021 as a result of lower returns from alternatives (2021 had strong alternative investment income). Other drivers of profitability in 2022 included benefits of favorable investment performance, growth, wider spreads somewhat offset by impact of higher rates and volatile equity markets and model changes. Earnings still remain sensitive to equity market movement, particularly in the annuity business, but they are incrementally less so than in the past, particularly as the company implemented newer hedging strategies in recent years and as the older block of guarantees shrinks as newer more diversified business comes onto the balance sheet. Although we expect the mortality impact to not weaken profitability in 2023 (as the pandemic impact declines) relative to the prior year periods, the elevated volatility can lower fee income and impact certain businesses, such as annuities, whose earnings are sensitive to capital markets. Despite that, we have adjusted the score on this factor up to A from the unadjusted scorecard result of Baa, because we believe Pacific Life is well positioned to navigate the market volatility from a risk management and capital perspective.

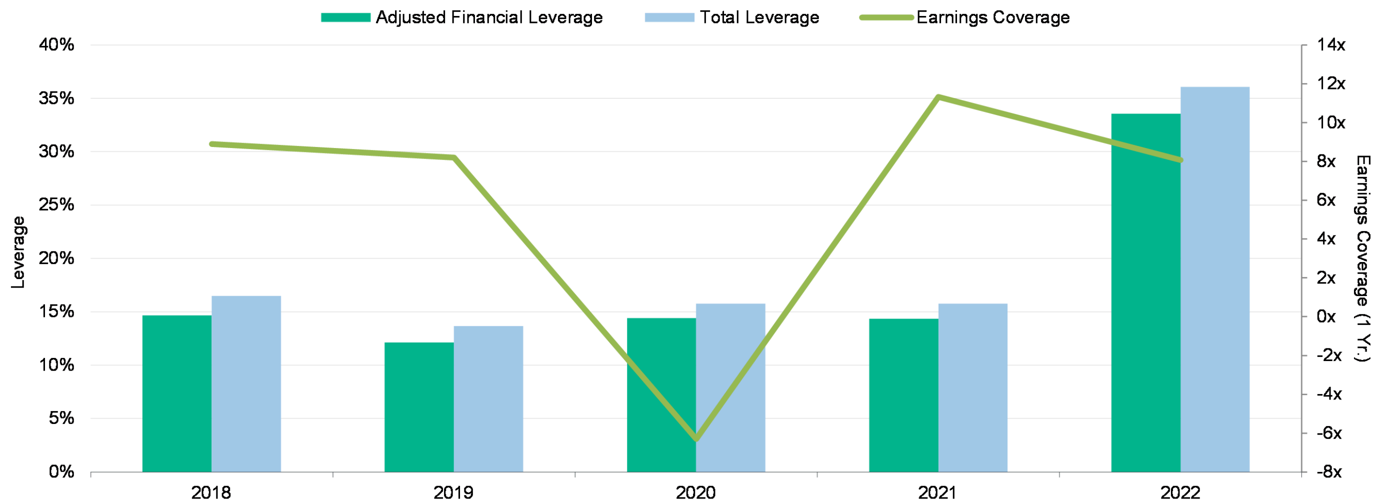
Liquidity and Asset/Liability Management (ALM): Generally stable liability profile, but VA adds ALM risk

Moody's believes that Pacific Life has excellent liquidity to meet its near-term policyholder obligations based on the unadjusted scorecard metric, and this is supported by a stable liability profile of life insurance business. While the company historically has faced some challenges from the low interest rate environment, especially in long duration lines such as structured settlements, newer structured settlement sales have been focused on shorter duration products which somewhat minimizes these challenges. Moody's believes the company has ample liquidity to manage through a stressful liquidity scenario.

On ALM, appropriately managing the risks from a book of VAs containing embedded guarantees is a challenging task at best and requires the company to employ a hedging program to mitigate any market disruptions. These factors make interest rate and equity hedging more relevant, and make the company's ALM more challenging, and support a downward adjustment for the factor score to A from the unadjusted result of Aa.

Financial Flexibility: Good financial flexibility driven by strong cash flow coverage

Exhibit 5
Unrealized losses drive leverage higher; Ex-AOCI leverage remains in-line with expectations



Source: Moody's Investors Service and company filings

Pacific Life's adjusted financial leverage (33.6% as of year-end 2022) and total leverage (36.1% as of year-end 2022) is high despite no dramatic increase in reported debt and all the increase in a result of lower reported shareholders' equity. Excluding AOCI, adjusted financial leverage and total leverage at year-end 2022 were 19.2% and 20.6%, respectively, which are more in-line with our rating expectations. Earnings coverage, which has historically been very strong, decreased to 8x in 2022 driven by lower earnings. We expect Pacific Life to continue to remain under 20% adjusted financial leverage in the future and continue to report strong coverage metrics. Given the company is organized in a mutual holding company structure, we believe that raising external equity is not a realistic alternative for the company. However, we still believe that an Aa rating for this factor is appropriate given the modest financial leverage and generally strong cash flow coverage ratios as discussed above. As a result, we have left the adjusted score to be at the same level as the unadjusted score.

Liquidity analysis

Pacific Life Insurance Company has a $700 million commercial paper program with no commercial paper outstanding as of December 31, 2022.

In June 2021, Pacific Life amended and extended two existing revolving credit facilities for Pacific LifeCorp and Pacific Life Insurance Company into a single unified $1 billion five year co-borrowed revolving credit facility (RCF) maturing June 2026. The unified RCF replaced standalone five-year revolving credit facilities of $600 million and $400 million for Pacific LifeCorp and Pacific Life Insurance Company, respectively. There were no amounts outstanding as of June 30, 2022 and the facilities contain no material adverse change clauses.

As of December 31, 2022, the company held approximately $808 million in cash and liquid investments at the holding company. Pacific Life's statutory dividend capacity in 2023 is $1,133 million without requiring special regulatory approval. Total cash needs at the holding company in 2022 include $63 million of interest expense. The company has $134 million in surplus notes coming due in 2023 and then no further maturities until 2033.

ESG considerations

PACIFIC LIFECORP's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 6
ESG Credit Impact Score

CIS-2
Neutral-to-Low

NEGATIVE IMPACT POSITIVE IMPACT

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

Pacific LifeCorp's ESG Credit Impact Score is neutral-to-low (CIS-2), reflecting the limited credit impact of environmental and social risks on the rating to date. The insurer's good risk management and capital adequacy, supported by its mutual ownership structure, help mitigate its exposure to environmental and social risks, in particular carbon transition, customer relations, and societal and demographic risks.

Exhibit 7
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-4	G-2
Moderately Negative	Highly Negative	Neutral-to-Low

Source: Moody's Investors Service

Environmental

Pacific LifeCorp has moderate exposure to carbon transition risk through the long-duration assets held in its investment portfolio and inherent asset leverage, while emerging stakeholder focus on environmental stewardship in its investment portfolio gives rise to strategic and reputational risk. This risk is mitigated by Pacific Mutual's portfolio risk management capabilities and its developing focus on managing climate risk.

Social

Pacific LifeCorp faces moderate customer relations risk in relation to its sale of products and significant interaction with retail customers against a background of regulatory focus on the fair treatment of customers, which is mitigated by well-developed policies and procedures. In addition, because of its mutuality, the insurer benefits from a strong alignment of interests with policyholders and a generally conservative product design, which reduces customer relations risk relative to that of some peers. High cyber and personal data risks, amplified by increasing digital product distribution, are mitigated by a strong technology framework. High exposure to demographic and societal risks can make the operating environment more difficult ; however, an aging population supports the demand for the firm's longevity products.

Governance

Pacific LifeCorp faces neutral-to-low governance risks. As a mutual, management's interests are strongly aligned with those of policyholder/owners as the management team does not deviate from its core policyowner-oriented principles. The insurer has solid governance practices, risk management processes and internal controls. Its stable and seasoned management team has a good performance track record.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

The notching between Pacific LifeCorp's A3 senior unsecured debt rating and the Aa3 insurance financial strength rating of its operating subsidiaries is three notches, which is typical notching practice for US insurance holding company structures.

Rating methodology and scorecard factors

Exhibit 8
Pacific Mutual Holding Company

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adj Score
Business Profile								A	A
Market Position and Brand (15%)								A	A
-Relative Market Share Ratio			X						
Distribution (10%)								A	A
-Distribution Control			X						
-Diversity of Distribution			X						
Product Focus and Diversification (10%)								A	A
-Product Risk			X						
-Life Insurance Product Diversification			X						
Financial Profile								Baa	Aa
Asset Quality (10%)								B	A
-High Risk Assets % Shareholders' Equity					228.5%				
-Goodwill & Intangibles % Shareholders' Equity							124.2%		
Capital Adequacy (15%)								Ba	Aa
-Shareholders' Equity % Total Assets					2.5%				
Profitability (15%)								Baa	A
-Return on Capital (5 yr. avg.)				3.9%					
-Sharpe Ratio of ROC (5 yr.)					95.5%				
Liquidity and Asset/Liability Management (10%)								Aa	A
-Liquid Assets % Liquid Liabilities		X							
Financial Flexibility (15%)								Aa	Aa
-Adjusted Financial Leverage			33.6%						
-Total Leverage			36.1%						
-Earnings Coverage (5 yr. avg.)			6.0x						
-Cash Flow Coverage (5 yr. avg.)	19.2x								
Operating Environment								Aaa - A	Aaa - A
Preliminary Standalone Outcome								Baa1	Aa3

[1] Information based on US GAAP financial statements as of fiscal year ended December 31, 2022. [2] The Scorecard rating is an important component of the company's published rating, reflecting the standalone financial strength before other considerations (discussed above) are incorporated into the analysis.
Source: Moody's Investors Service

Ratings

Exhibit 9

Category	Moody's Rating
PACIFIC LIFECORP	
Rating Outlook	STA
Senior Unsecured	A3
PACIFIC LIFE INSURANCE COMPANY	
Rating Outlook	STA
Insurance Financial Strength	Aa3
ST Insurance Financial Strength	P-1
Surplus Notes	A2 (hyb)
Commercial Paper	P-1
PACIFIC LIFE & ANNUITY COMPANY	
Rating Outlook	STA
Insurance Financial Strength	Aa3
PACIFIC LIFE GLOBAL FUNDING II	
Rating Outlook	STA
Senior Secured	Aa3

Source: Moody's Investors Service

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