MOODY'S INVESTORS SERVICE

CREDIT OPINION
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Update

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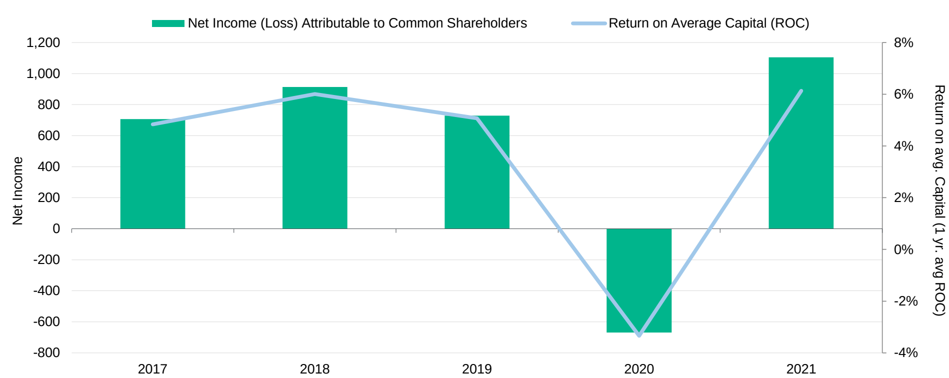
Pacific Mutual Holding Company

Strong capital, stable market position and robust financial flexibility

Our credit view of Pacific Mutual Holding Company (unrated), Pacific LifeCorp (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 strong market position, solid 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 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 (16% of investments), particularly to those with a greater exposure to lodging and retail.

Exhibit 1
Strong investment performance and higher fees drive profitability; 2022 results may be impacted by higher volatility, although rising rates is a benefit



2017 net income has been adjusted to exclude the one-time earnings benefit from tax-reform.
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;

» Strong capitalization with a NAIC company action level (CAL) Risk-Based Capital (RBC) ratio 586% as of year-end 2021).

Credit challenges

» Managing volatility in capital and earnings from capital market movements;

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

» Some long duration products that can be adversely impacted by low interest rates (e.g. structured settlements).

Outlook

The outlook on Pacific Mutual is stable, reflecting strong market position, strong statutory capitalization and a commitment to its mutual philosophy (i.e., focus on policyholder value). Going forward, items to watch for include mortality levels and the growth of institutional and the reinsurance businesses.

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

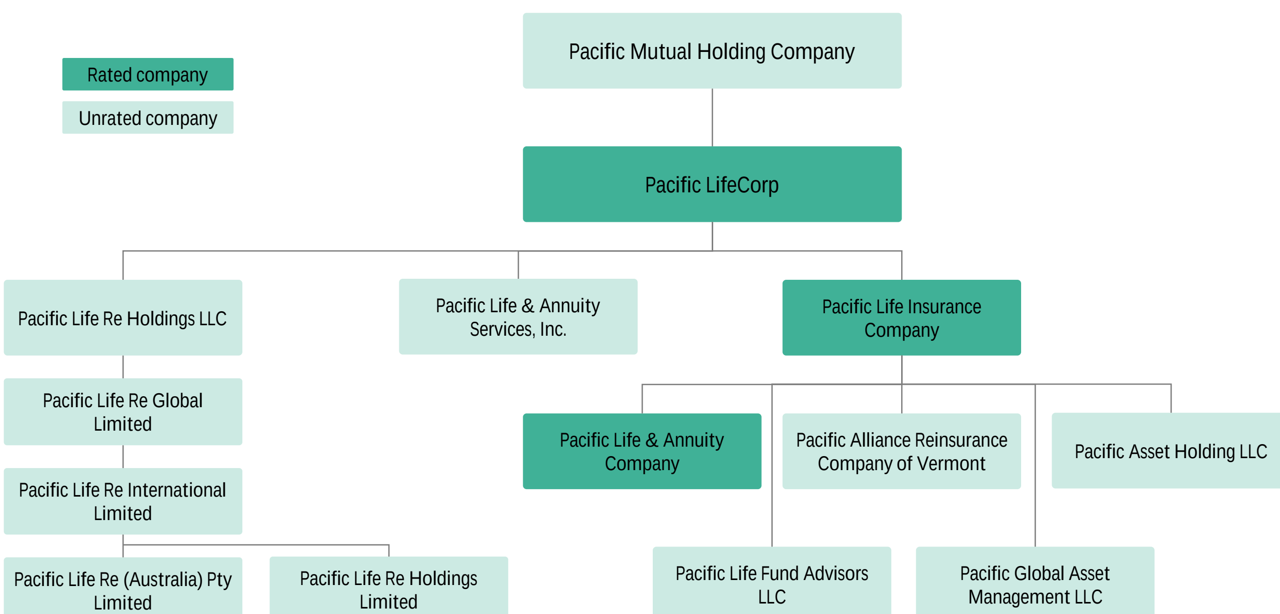
Pacific Mutual Holding Company [1][2]	2021	2020	2019	2018	2017
As Reported (US Dollar Millions)					
Total Assets	209,486	190,672	171,473	157,699	157,877
Total Shareholders' Equity	17,005	17,452	16,055	13,072	13,704
Net Income (Loss) Attributable to Common Shareholders	1,102	(671)	725	913	1,365
Total Revenue	13,936	10,062	10,747	9,652	9,510
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	77.6%	62.1%	53.6%	51.2%	47.6%
Goodwill & Intangibles % Shareholders' Equity	37.1%	31.9%	34.1%	44.2%	38.8%
Shareholders' Equity % Total Assets	7.5%	8.6%	8.8%	7.5%	8.0%
Return on Average Capital (ROC)	6.1%	-3.3%	5.1%	6.0%	4.8%
Sharpe Ratio of ROC (5 yr.)	93.6%	94.0%	787.3%	640.7%	596.7%
Adjusted Financial Leverage	14.4%	14.4%	12.1%	14.7%	13.1%
Total Leverage	15.8%	15.8%	13.7%	16.5%	14.9%
Earnings Coverage	11.3x	-6.3x	8.2x	8.9x	7.8x
Cash Flow Coverage	12.0x	19.7x	22.3x	23.8x	19.6x

[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.
Sources: Moody's Investors Service and company filings

Profile

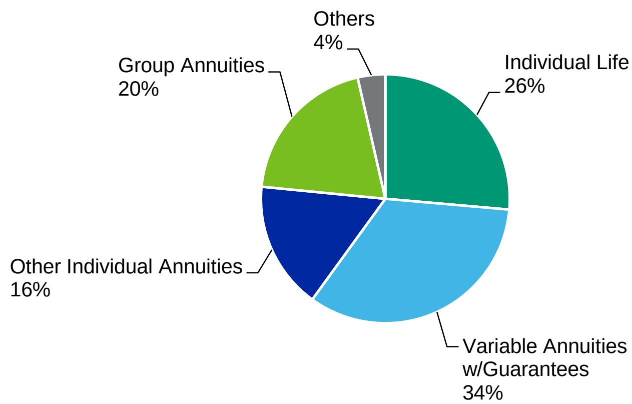
Pacific Life Insurance Company and Pacific Life and Annuity Company are the primary operating subsidiaries of Pacific LifeCorp. Pacific Life Re Ltd. is a subsidiary of Pacific LifeCorp. These insurance subsidiaries provide life insurance, individual annuities, pension risk transfer, structured settlements,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

Exhibit 3
Corporate structure as of December 31, 2021



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

Exhibit 4
Statutory revenues by segment shows a diversified business profile
Full year 2021



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. It is also a leading provider of life insurance policies with limited long-term care benefits. 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. Sales remained strong in 2021 despite pandemic-related disruptions and we expect continued measured growth in 2022, as well as some relief from rising interest rates, although demand for certain products are likely to be impacted because of the volatile equity market (e.g. variable annuities)

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 in the future.

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 (16% of invested assets). As of the end of 2021, Pacific Life's ratio of high-risk assets as a percentage of shareholders' equity was 78%, consistent with a A sub-factor score, which primarily emanates from its holdings in below-investment grade bonds, alternative investments and real estate. The increase in 2021 from the prior year was a result of higher carrying value of alternative assets and an increase in below-investment grade bonds. Other than temporary impairments (OTTI) were about $88 million in 2021, down from $90 million in the prior year. Despite the increase in high-risk assets, Moody's projects global speculative grade defaults at the end of February 2023 of 2.8% in the baseline forecast and 9.1% in the pessimistic scenario.

Goodwill and other intangibles are equal to approximately 37% of shareholders' equity, consistent with a A score. We believe deferred acquisition costs (DAC), which represents most intangibles, to be of 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 strong policyholder persistency. Overall, we view the asset quality to be the same as the unadjusted score and hence have left the factor unchanged.

Capital Adequacy: Solid RBC ratio, but can exhibit modest volatility during a downturn

Pacific Life has strong capital adequacy, as measured by shareholders' equity as a percentage of total assets of 7.5% as of year-end 2021, which is in line with Moody's expectation for an A-rated company. However, for US firms we consider the RBC ratio to be a more reliable measure of a US insurer's capital adequacy. Pacific Life's RBC ratio is very strong at 586% as of year-end 2021. The decline in RBC ratio from 625% as of year-end 2020 was driven by primarily by a $450 million dividend to the holding company and required capital strain from general account growth. As of Q1 2022, total capital was largely unchanged and it is our expectation that the company will continue to maintain an exceptional RBC ratio going forward, which provides a cushion against tail risk events. 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. As a result, we believe that Pacific Life is best positioned in the Aa range on this factor, given its high level of reported capital and RBC ratio, somewhat offset by its sensitivity to capital market changes.

Profitability: Diversified earnings, but sensitive still remains sensitive to capital market movements

Moody's views Pacific Life's profitability to be good and benefits from diversification. As of year-end 2021, the company returned to profitability with a return on capital ratio of 6.1%, which was a result of strong private equity returns, positive investment performance, higher fees and spreads, and net impact from higher interest rates, partially offset by assumptions and modeling changes, higher COVID-19 claims, and expenses. Although earnings still remain sensitive to equity market movement, particularly in the retirement solutions business (RSD), they are expected to be far 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 2022 relative to the prior year period, the elevated volatility and the decline in equity markets can lower fee income and impact certain businesses, such as RSD, 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): Stable liability profile, but VA adds ALM risk

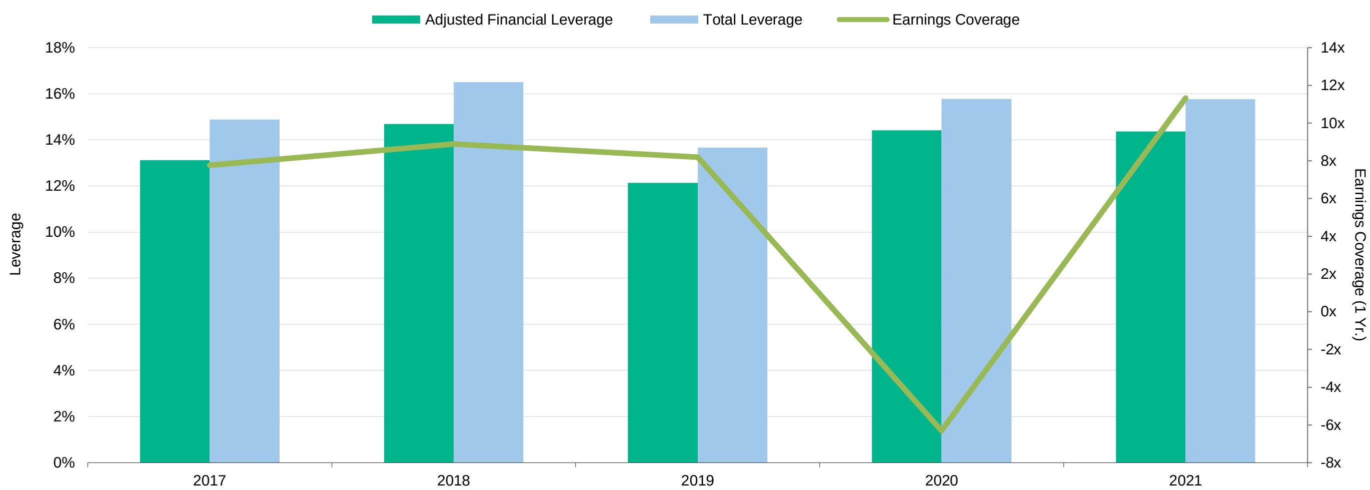
Moody's believes that Pacific Life has excellent liquidity to meet its near-term policyholder obligations based on the unadjusted scorecard metric, and this is supported by a stable liability profile of life insurance business. While the company historically has faced some challenges from the low interest 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: Low leverage and strong cash flow coverage, expected to remain steady in 2022

Exhibit 5

Financial leverage expected to remain low; Strong coverage metrics expected to continue into 2022



Sources: Moody's Investors Service and company filings

Pacific Life's adjusted financial leverage (14.4% as of year-end 2021) is low and consistent with Aaa-rated insurers. Total leverage, which was modestly higher at 15.8% as of year-end 2021, includes hybrid equity credit on the outstanding surplus notes. Financial leverage (excluding AOCI) was 17.1% as of year-end 2021 Earnings coverage, which has historically been very strong, increased to 11.0x in 2021 driven by record earnings. The company continues to have strong financial flexibility supported by modest financial leverage and strong cash flow coverage relative to modest holding company interest expenses (approximately $64 million).

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 low financial leverage and 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. These unsecured notes rank pari passu with Pacific's other unsubordinated indebtedness. Pacific had no commercial paper outstanding as of December 31, 2021.

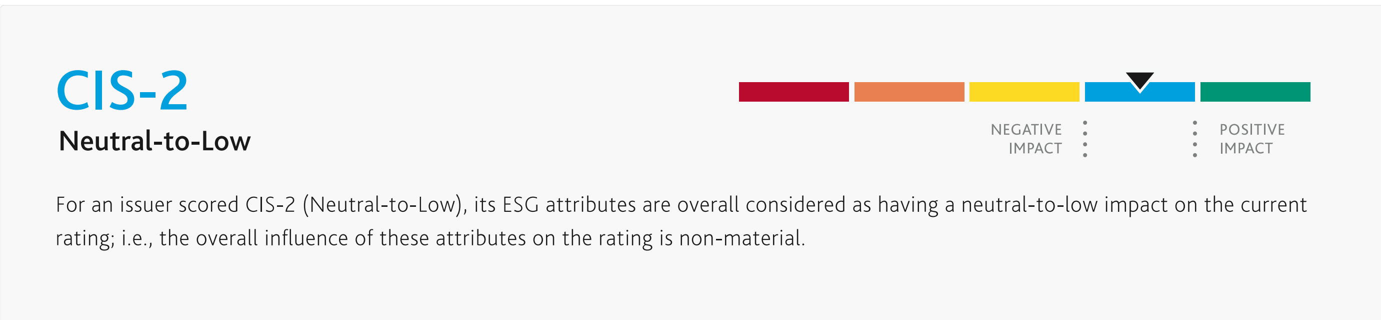
In June 2021, Pacific Life amended and extended two existing revolving credit facilities for Pacific LifeCorp and Pacific Life Insurance Company into a single unified $1 billion five year co-borrowed revolving credit facility (RCF) maturing June 2026. The unified RCF replaced standalone five-year revolving 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, 2021 and the facilities contain no material adverse change clauses.

As of December 31, 2021, the company held approximately $632 million in cash and liquid investments at the holding company. Pacific Life's statutory dividend capacity in 2022 is $769 million without requiring special regulatory approval. Total cash needs at the holding company in 2021 include $39 of interest expense.

ESG considerations

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

Exhibit 6
ESG Credit Impact Score



Source: Moody's Investors Service

Pacific Mutual'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

Source: Moody's Investors Service

Environmental

Pacific Mutual 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 Mutual 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 Mutual 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								A	Aa
Asset Quality (10%)								A	A
-High Risk Assets % Shareholders' Equity			77.6%						
-Goodwill & Intangibles % Shareholders' Equity			37.1%						
Capital Adequacy (15%)								A	Aa
-Shareholders' Equity % Total Assets			7.5%						
Profitability (15%)								Baa	A
-Return on Capital (5 yr. avg.)				3.7%					
-Sharpe Ratio of ROC (5 yr.)					X				
Liquidity and Asset/Liability Management (10%)								Aa	A
-Liquid Assets % Liquid Liabilities		X							
Financial Flexibility (15%)								Aa	Aa
-Adjusted Financial Leverage	14.4%								
-Total Leverage		15.8%							
-Earnings Coverage (5 yr. avg.)			6.0x						
-Cash Flow Coverage (5 yr. avg.)	19.5x								
Operating Environment								Aaa - A	Aaa - A
Preliminary Standalone Outcome								A2	Aa3

[1] Information based on US GAAP financial statements as of fiscal year ended December 31, 2021. [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

Moody's related publications

Sector Research:

- Life Insurance – US: Inflation: rising interest rates, higher wages buoy top-line growth, June 2022
- Insurance – US: LDTI: Big balance sheet changes, little economic impact, June 2022
- Life Insurance – US: Capital levels increase on strong asset returns; RBC ratio is steady, April 2022
- Life Insurance - Global: Long COVID early assessment: despite likely rise in claims, credit effects limited, March 2022
- Life Insurance - US; Regulator's proposed models for life insurers are more aligned with economics, a credit positive, March 2022
- Life Insurance – US: Profitability declines on increased pandemic claims; investment volatility ahead, March 2022
- Life Insurance – US: Solid Q3 earnings as investment performance outweighs increased claims, November 2021
- Life Insurance – US: Illiquid assets rise, increasing returns while raising portfolio risk, November 2021

Industry Outlook:

- Life Insurance – US: 2022 outlook stable, as US economic recovery solidifies, December 2021

Methodology:

- Life Insurers Methodology, September 2021

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