

01 SEP 2023

Fitch Affirms Pacific LifeCorp's Ratings; Outlook Stable

Fitch Ratings - Chicago - 01 Sep 2023: Fitch Ratings has affirmed Pacific LifeCorp's (PLC) Long-Term Issuer Default Rating (IDR) at 'A' and its senior unsecured debt at 'A-'. Fitch has also affirmed at 'AA-' the Long-Term Insurer Financial Strength (IFS) ratings of PLC's insurance operating subsidiaries, including Pacific Life Insurance Company (PLIC). The Rating Outlook is Stable.

The affirmation of the ratings reflects the group's favorable company profile, very strong capital position, strong financial performance and moderate investment risk, including the company's exposure to 'bbb' rated corporate securities and commercial mortgage loans.

Key Rating Drivers

Favorable Company Profile: PLC is one of the leading providers of individual life insurance and retirement savings products in the U.S. The company maintains a strong competitive position within the affluent market and benefits from an extensive distribution network. PLC continues to make meaningful progress in diversifying its revenues and earnings away from legacy variable annuities (VAs) and has seen material growth its global life reinsurance and institutional products over the last several years.

Very Strong Statutory Capital: Fitch views the capitalization of PLIC, PLC's key operating subsidiary, as very strong based on its RBC ratio of 486% and a Prism score of 'Very Strong' at YE 2022. Despite the decline in the company's reported RBC ratio, PLIC's total adjusted capital (TAC) increased 3% in 2022 to \$12.8 billion. PLC's financial leverage ratio increased modestly to 20% but remains in line with Fitch's rating expectations.

Strong Financial Performance: In 2022, Pacific Mutual Holding Company reported net income attributable to the company of \$763 million, down from \$1.102 billion in 2021. These results reflected continued strong investment performance, offset by somewhat by higher interest rates and equity market volatility net of the company's hedging program as well as assumption and model changes. Favorably, PLC has diversified and de-risked its product portfolio and strengthened its VA hedging program, which should diminish a potential capital impact from significant equity market deterioration.

Moderate Investment Risk: Fitch views the overall quality of PLC's investment portfolio as strong. However, the company maintains above-average exposure to corporate bonds rated 'BBB', which could have a material effect on earnings and capital in a severe credit market downturn. PLC also maintains material exposure to commercial mortgage loans, although Fitch believes the company has substantial headroom for losses as a result of pandemic-related disruptions.

Macroeconomic Environment: Sustained macroeconomic disruptions, including sustained equity market volatility, a further rapid rise in interest rates, and the potential for relatively short and mild recession, would have a negative, but modest, impact on PLC, although Fitch does not expect a material impact to either earnings or capital over the near term. While current levels of interest rates are expected to be a tailwind for the industry, a prolonged or severe downturn as a result would likely be a negative for the industry and PLC.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--A material change in the business risk profile that indicates a risk appetite lower than the life insurance sector as a whole;

--ROE above 10% and a GAAP based fixed-charge coverage maintained at or above 10x;

--Financial leverage of 15% or less.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Deterioration in the Prism capital model score below 'Very Strong';

--A financial leverage ratio sustained at or above 23%;

--Significant earnings and capital volatility, such as a 10% or more drop in TAC;

--The short-term ratings could be downgraded if the corresponding long-term ratings are downgraded. The short-term ratings could also be downgraded if either of PLIC's short-term debt service capabilities and financial flexibility and short-term asset/liability and liquidity management below 'aa'.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Pacific Life Global Funding II			
• senior secured LT	AA-	Affirmed	AA-

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Pacific Life Insurance Company	LT IDR	A+ ●	Affirmed	A+ ●
	ST IDR	F1+	Affirmed	F1+
	LT IFS	AA- ●	Affirmed	AA- ●
	ST IFS	F1+	Affirmed	F1+
• subordinated		A	Affirmed	A
• senior unsecured	ST	F1+	Affirmed	F1+
Pacific Life & Annuity Company	LT IFS	AA- ●	Affirmed	AA- ●
Pacific Life Corp	LT IDR	A ●	Affirmed	A ●
• senior unsecured	LT	A-	Affirmed	A-
Pacific Life Short Term Funding, LLC				
• senior secured	ST	F1+	Affirmed	F1+

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◊
NEGATIVE	⊖	◊
EVOLVING	◊	◆
STABLE	○	

Applicable Criteria

[Insurance Rating Criteria \(pub.20 Jul 2023\) \(including rating assumption sensitivity\)](#)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism U.S. Life Insurance Capital Model, v1.3.2-2022 (1)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Pacific Life & Annuity Company	EU Endorsed, UK Endorsed
Pacific Life Global Funding II	EU Endorsed, UK Endorsed
Pacific Life Insurance Company	EU Endorsed, UK Endorsed
Pacific Life Short Term Funding, LLC	EU Endorsed, UK Endorsed
Pacific LifeCorp	EU Endorsed, UK Endorsed

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