

**Rating Action: Moody's affirms Pacific Life's ratings (Baa1 senior) ;
outlook changed to positive**

6 November 2019

New York, November 6, 2019 – Moody's Investors Service has affirmed the Baa1 senior unsecured debt rating of Pacific LifeCorp a subsidiary of Pacific Mutual Holding Company and the A1 insurance financial strength (IFS) rating of Pacific Life Insurance Company and Pacific Life & Annuity Company. The outlook on the ratings was changed to positive from stable. A complete list of ratings and outlooks is listed below.

RATINGS RATIONALE

According to Moody's, the rating affirmation and positive outlook primarily reflect Pacific Life's momentum in maintaining a strong market position in life insurance and annuities, which has been boosted by diversity in both product and distribution, excellent statutory capitalization and continued risk management actions to limit the volatility of variable annuity earnings on a prospective basis. Other noteworthy strengths include a strong business profile with an established market position in various insurance products, particularly with affluent customers as well as the company's excellent liquidity and careful asset-liability management. Pacific Life's strong statutory capital position (NAIC company-action level risk-based capital ratio (CAL RBC) of 552% as of year-end 2018) will benefit from the pending sale of its subsidiary Aviation Capital Group, which is expected to close by year-end. The positive outlook also reflects our expectation that Pacific Life will continue to generate strong financial results over the next 12 to 18 months while maintaining its market position and not increase the risk profile of its assets and liabilities.

These strengths are offset by risks arising from the variable annuity business' sensitivity to capital market movements, specifically sensitivity to earnings during the current period of a low interest rate environment. While we view Pacific Life's investment portfolio as diverse and generally of high-quality, we see modest risk from an above industry concentration in lower quality investment-grade fixed income securities (i.e. Baa-rated bonds).

RATING DRIVERS

Moody's commented that the following could result in an upgrade of Pacific Life's ratings: 1) reduced capital and earnings sensitivity to capital market movements; 2) GAAP return on capital consistently greater than 8%; and 3) adjusted financial leverage below 20% and earnings coverage consistently above 8x.

Given Pacific Life has a positive outlook, a downgrade is unlikely. However, the following could result in the outlook returning to stable from positive. 1) NAIC CAL RBC ratio falls below 400%; 2) adjusted financial leverage exceeds 25%; 3) GAAP return on capital less than 6%; or 4) an acquisition that increases the risk profile of Pacific Life.

The following ratings have been affirmed:

Pacific LifeCorp -- senior unsecured debt at Baa1;

Pacific Life Insurance Company -- insurance financial strength at A1; short-term insurance financial strength at P-1; commercial paper at P-1; surplus notes at A3 (hyb);

Pacific Life & Annuity Company -- insurance financial strength at A1;

Pacific Life Funding, LLC – backed senior secured at A1;

Pacific Life Global Funding – backed senior secured at A1;

Pacific Pilot Funding II – backed senior secured at A1;

Counts Trust, Series 2006-4 – backed senior secured at A1.

Outlook Actions:

..Issuer: Pacific LifeCorp

....Outlook, Changed To Positive From Stable

..Issuer: Pacific Life Insurance Company

....Outlook, Changed To Positive From Stable

..Issuer: Pacific Life & Annuity Company

....Outlook, Changed To Positive From Stable

..Issuer: Pacific Life Funding, LLC

....Outlook, Changed To Positive From Stable

..Issuer: Pacific Life Global Funding

....Outlook, Changed To Positive From Stable

..Issuer: Pacific Pilot Funding II

....Outlook, Changed To Positive From Stable

..Issuer: Counts Trust, Series 2006-4

....Outlook, Changed To Positive From Stable

Pacific Mutual Holding Company, headquartered in Newport Beach, CA, reported total GAAP consolidated assets of \$158 billion and total stockholders' equity of \$13 billion, as of December 31, 2018.

The principal methodology used in these ratings was Life Insurers published in May 2018. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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