

to grow in 2024. PLC's global life reinsurance and institutional products continue to expand.

Very Strong Capital Position: Fitch Ratings views PLC's capitalization as very strong based on a Prism capital model score of 'Very Strong' at YE 2023, an NAIC risk-based capital (RBC) ratio of 508% at its core operating subsidiary Pacific Life Insurance Company (PLIC), and increase in PLIC's total adjusted capital (TAC) to \$13.2 billion. PLC's financial leverage ratio decreased modestly to 19% and remains in line with Fitch's expectations.

Strong Financial Performance: Financial performance continues to be strong, and in 2023 Pacific Mutual Holding Company (PMHC) reported consolidated net income attributable to the company of \$875 million, up from \$763 million in 2022. Operating results continued to reflect strong investment performance and the benefits of the higher interest rate environment, while

Rating Sensitivities

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'.

Factors that Could, Individually or

Company Profile

Favorable Business Profile

Fitch considers PLC's business profile to be 'Favorable' and scores the company at the 'aa-' level. PLC is well-diversified, with substantial operating scale and is positioned well competitively, all attributes that Fitch views positively. Partially offsetting this is PLC's moderate business risk profile, which Fitch believes has been improving as the company continues to diversify and de-emphasize more volatile liabilities.

PLC has a substantive business franchise and benefits from substantial competitive advantages. The company ranks among the 20 largest U.S. life insurers, measured in terms of admitted assets or surplus. Statutory admitted assets in 2023 totaled \$203 billion and surplus exceeded \$13 billion. PLC is a top 10 U.S. annuity writer, remaining in the top 10 for VAs and fixed annuities (FAs) through 1Q24. It is also a top 10 writer of individual life insurance and was the number two overall based on annualized premiums as of March 31, 2024. The company has a solid competitive position in the affluent and emerging affluent markets, and is establishing a presence in the middle market.

Fitch considers PLC's risk appetite to be on par with the industry as a whole. In recent years, the company changed its focus to more established, less volatile lines of business. In 2023, it fully established a workplace benefits segment, which provides supplemental life and health products including critical illness, hospital indemnity and accident insurance.

Fitch believes a mutual ownership structure has fewer conflicts in owner and creditor interests and generally has allowed management to hold more conservative levels of capital. During the financial crisis, mutual insurers generally benefited from having a stronger capital buffer than stock insurers more focused on growth and return targets.

Capitalization and Leverage

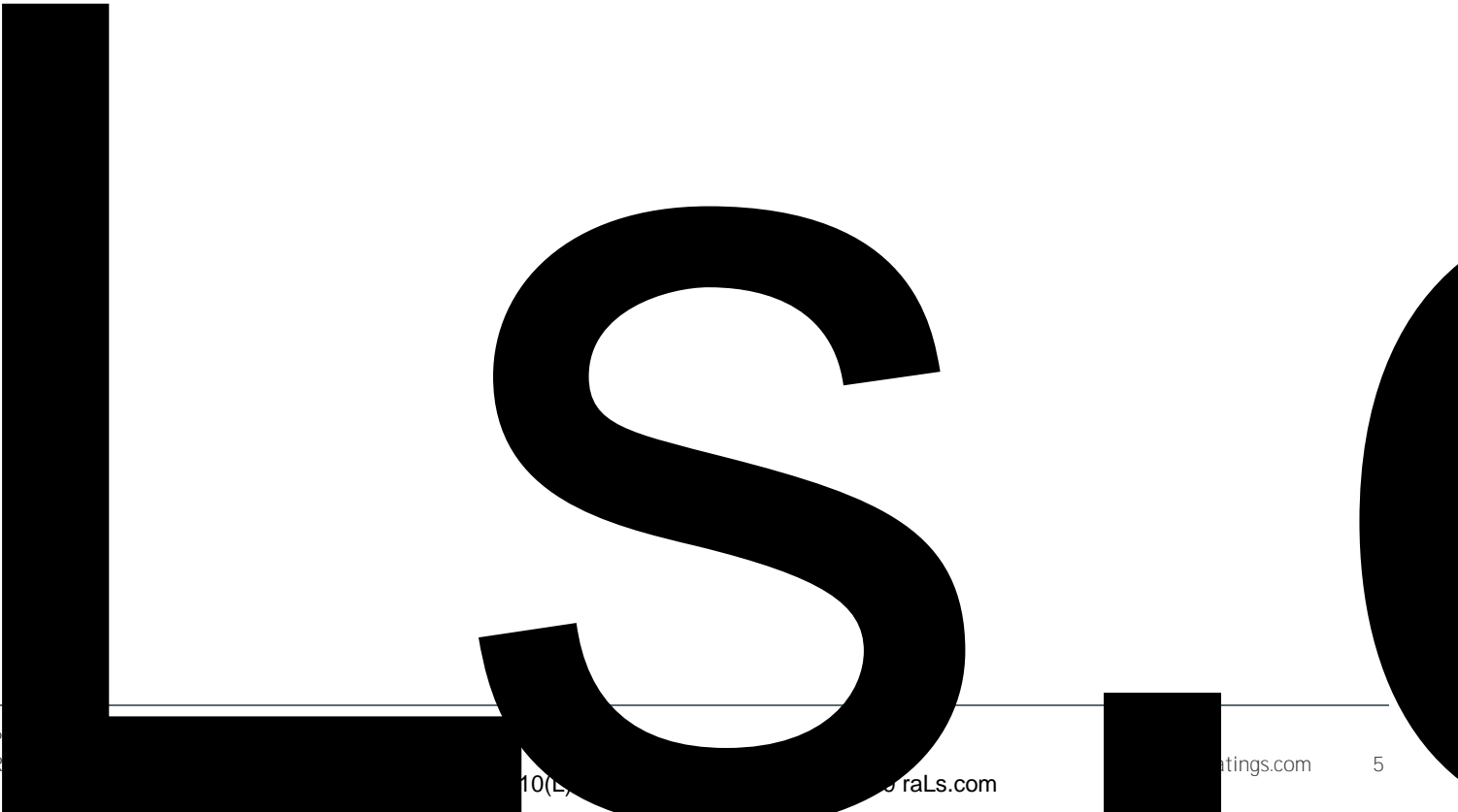
Capitalization and Leverage Remain Very Strong

PLC's and its insurance subsidiaries are very strongly capitalized when considering both risk and non-risk adjusted metrics. Financial leverage is consistent with the rating category and down modestly year-over-year.

The statutory capitalization of PLC's insurance subsidiaries exceeds expectations for the rating level. As of Dec. 31, 2023, PLIC reported TAC of \$13.2 billion, representing a four-

Debt Service Capabilities and Financial Flexibility

Strong Coverage and Adequate Financial Resources (A) / Heat (F) / Quality (A) / 1.020 0.2 rg0 86.25 36 re W/Im0 Do 0 \$t



Financial Highlights

(\$ Mil.)	2022	2023
GAAP pretax gain from operations	1,256	1,614
GAAP core operating income	992	1,275
GAAP operating ROE	7.3	8.8
Statutory return on TAC (%)	9	-9
GAAP growth in revenue before realized gains (%)	0	11

Source: Fitch Ratings, Pacific Mutual Holding Company, S&P Global Market Intelligence

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Variability in reported earnings to continue, although at reduced levels due to enhanced hedge program.

Investment and Asset Risk

Moderate Investment Risk

PLC has a generally high-quality corporate bond portfolio, and PLC's commercial mortgages and real estate investments continue to perform well despite continued pandemic-related stress, particularly among the office sub-class. PLC's risky-asset ratio has risen in recent years and now modestly exceeds the broader life insurance industry average, reflecting an increased allocation to Schedule BA assets, including private equity investments, and some migration within the company's commercial mortgage loan portfolio. The company's investment strategy largely

Appendix A: Peer Analysis

Peer Comparison

Click [here](#) for a report that shows a comparative peer analysis of key rating driver scoring.

Appendix B: Industry Profile and Operating Environment

Industry Profile and Operating Environment (IPOE)

Click [here](#) for a link to a report that summarizes the main factors driving the above IPOE score.

Appendix C: Other Rating Considerations

Below is a summary of additional ratings considerations that are part of Fitch's *Insurance Rating Criteria*.

Group Insurance Financial Strength (IFS) Rating Approach

Fitch's rating on Pacific Life & Annuity Company (PL&A) is based on the relationship with PLIC, and reflects Fitch's view that PL&A is a Core operating company within the organization. The two entities share common management, resources and branding.

Notching

For notching purposes, Fitch assesses the U.S. regulatory environment as being 'Effective' and classified as following a Ring-Fencing approach.

Notching Summary

IFS Ratings

A baseline recovery assumption of 'Good' applies to the IFS rating, and standard notching was used fro(g)3.993 005269MC q28.32

Short-Term Ratings

The holding company Short-Term Issuer Default Rating (IDR) was notched using standard long-term and short-term rating equivalencies, per Fitch criteria. The commercial paper program is supported by bank backup facilities.

The operating company's Short-Term IDR was notched using standard long-term and short-term ratings equivalencies, per Fitch's criteria.

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