

# MOODY'S

## INVESTORS SERVICE

### **Rating Action: Moody's affirms Pacific LifeCorp (Baa1 senior debt) and Pacific Life Insurance (A1 IFS rating); Stable Outlook**

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Global Credit Research - 19 May 2016

New York, May 19, 2016 -- Moody's Investors Service has affirmed the Baa1 senior debt rating of Pacific LifeCorp and the A1 long-term and P-1 short-term insurance financial strength (IFS) ratings of its key life insurance operating subsidiary, Pacific Life Insurance Company (PLIC). Moody's has additionally affirmed the remaining ratings in the issuer family. The outlook on the ratings remains stable.

A full list of affected ratings can be found at the end of this Press Release.

#### RATINGS RATIONALE

The affirmation favorably reflects Pacific Life's capital structure and actions to increase product diversification. The affirmation also considers the company's strong market position in the high end life insurance market, excellent capitalization as of year-end 2015, broad product distribution and continued actions to help mitigate the volatility of variable annuity earnings going forward. Other strengths leading to the affirmation include Pacific Life's strong business profile, which includes established market positions in variable and universal life, a modest position in fixed annuities as well as the company's excellent liquidity and careful asset-liability management.

The company's strengths are somewhat offset by guarantees on VAs that are challenging to hedge, although mitigated on new products; strong competition in core affluent business and professional life insurance markets; and some long duration products that can be adversely impacted by prolonged low interest rates.

#### WHAT COULD CHANGE THE RATING UP/DOWN

Moody's commented that the following could lead to an upgrade of PLIC's ratings: 1) reduced capital and earnings sensitivity to capital market movements; 2) GAAP return on capital consistently > 8%; and 3) adjusted financial leverage below 20% and earnings coverage consistently above 8x. Conversely, the following could result in a downgrade of PLIC's ratings: 1) NAIC company action level RBC ratio falls below 350% (632% company action level as of 31 December, 2015); 2) adjusted financial leverage exceeds 30%; 3) GAAP return on capital < 4%; 4) Aviation Capital Group (ACG) > 25% of statutory surplus.

Pacific LifeCorp, headquartered in Newport Beach, CA, reported total GAAP consolidated assets of \$137.3 billion and total stockholders' equity of \$10.1 billion, as of 31 December, 2015.

The principal methodology used in these ratings was Global Life Insurers published in April 2016. Please see the Ratings Methodologies page on [www.moody's.com](http://www.moody's.com) for a copy of this methodology.

Moody's insurance financial strength ratings are opinions of the ability of insurance companies to pay punctually

senior policyholder claims and obligations.

#### LIST OF AFFECTED RATINGS

The following ratings were affirmed with stable outlooks:

Pacific Life Insurance Company -- Insurance Financial Strength at A1; ST 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 LifeCorp -- Senior Unsecured at Baa1

Pacific Life Funding, LLC -- BACKED Senior Secured at A1

Pacific Life Global Funding - BACKED Senior Secured at A1

Pacific Pilot Funding - BACKED Senior Secured at A1

Pacific Pilot Funding II - BACKED Senior Secured at A1

COUNTS Trust, Series 2006-4, 2007-2 - BACKED Senior Secured at A1

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