



Fitch Affirms Pacific Life Ratings; Outlook Stable Ratings

26 Oct 2011 5:47 PM (EDT)

Fitch Ratings-Chicago-26 October 2011: Fitch Ratings has affirmed the ratings of Pacific LifeCorp (PLC) and certain of its subsidiaries, including Pacific Life Insurance Company (PLIC). At the same time, Fitch has upgraded the Insurer Financial Strength (IFS) rating of Pacific Life Re Limited (PLR) to 'A+' from 'BBB+'. The Rating Outlook is Stable. A full rating list is at the end of this release.

The rating affirmation is based on PLC's diverse business profile, strong statutory capitalization, good liquidity and stabilizing operating and investment performance. Somewhat offsetting these positives are the increased leverage across the organization and expectations of lower earnings which will pressure organic capital generation.

The upgrade of PLR's rating is based on a second guarantee agreement that was put in place between PLR and PLIC in 2010. In the agreement, obligations of PLR are guaranteed by PLIC in the event PLC is unable to support PLR under the terms of its own support agreement. Previously the rating of PLR was tied to PLC's senior debt rating of 'BBB+'. The rating of PLR is now tied to PLIC's IFS rating of 'A+'.

PLIC had statutory capitalization of \$6.5 billion. Favorably, PLIC has diversified its product portfolio and has been moving away from capital intensive products. The company has also strengthened its VA hedging program, which should lessen the capital impact if equity markets experience significant deterioration. Fitch expects PLIC's reported RBC to exhibit more volatility than peers since PLIC has not moved the business to a captive affiliate.

PLC's statutory and GAAP earnings have improved since 2009. Fitch expects prospective earnings to be less volatile but lag pre-crisis levels due to elevated hedging costs, lower investment yields and higher interest expenses. Fitch believes further investment losses, particularly in the company's commercial mortgage and RMBS portfolio, should be manageable in context with PLIC's statutory capitalization and earnings.

Fitch views PLC's future financial flexibility as constrained given the increased financial leverage, limited access to external equity capital and modest organic statutory earnings generation prospects. While PLC's traditional GAAP-based financial leverage ratio at 23% is consistent with industry norms, the high total financing and commitments (TFC) ratio at 1.3 times (x) as well as the heavy use of surplus notes at PLIC at 18% of statutory capitalization diverges from that of life industry peers. The high TFC ratio is driven by the capital intensive profile of the company's aircraft leasing subsidiary, Aviation Capital Group (ACG). PLIC's statutory carrying value of ACG was \$1 billion at year-end 2010.

The key rating triggers that could result in an upgrade include:

- Decline in surplus notes component of statutory capital below 15% could lead to an upgrade in surplus notes rating;
- Decline in TFC ratio to 1.0x or below;
- Sustained improvement in operating performance as evidenced by an increase in GAAP EBIT-to-interest coverage ratios to near 10x;
- Demonstrated success in executing shift in product and distribution strategy.

The key rating triggers that could result in a downgrade include:

- Financial leverage ratio at or above 30%;
- TFC ratio above 1.4x;
- Decline in statutory capital of 10% or more;
- Significant earnings and capital volatility;
- Losses or rapid growth at aircraft leasing subsidiary;
- Significant change in macro environment (tax law changes, interest rate spike, etc.).

Fitch has affirmed the following ratings with a Stable Outlook:

Pacific LifeCorp

- Long-term Issuer Default Rating (IDR) at 'A-';
- \$450 million 6% senior notes due 2020 at 'BBB+';
- \$600 million 6.6% senior notes due 2033 at 'BBB+'.

Pacific Life Insurance Company

- Long-term IDR at 'A';
- Insurer Financial Strength (IFS) at 'A+';
- \$150 million 7.9% surplus notes due 2023 at 'BBB+';
- \$1,000 million 9.25% surplus notes due 2039 at 'BBB+';
- Short-term IDR at 'F1';
- Commercial paper at 'F1'.

Pacific Life & Annuity Company

- IFS at 'A+'.

Pacific Life Funding, LLC

- Funding agreement-backed note program at 'A+'.

Pacific Life Global Funding

- Funding agreement-backed note program at 'A+'.

Fitch has upgraded the following rating with a Stable Outlook:

Pacific Life Re Limited

- IFS upgraded to 'A+' from 'BBB+'.

Contact:

Primary Analyst

Tana M. Higman
Director
+1-312-368-3122
Fitch, Inc.
70 W. Madison Street
Chicago, IL 60602

Secondary Analyst

Julie A. Burke, CPA, CFA
Managing Director
+1-312-368-3158

Committee Chairperson

Brian C. Schneider, CPA, CPCU
Senior Director
+1-312-606-2321

Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549, Email: brian.bertsch@fitchratings.com.

Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:

- 'Insurance Rating Methodology' (Sept. 22, 2011);
- 'Short Term Ratings Criteria for Corporate Finance' (Nov. 2, 2010).

Applicable Criteria and Related Research:

Short-Term Ratings Criteria for Corporate Finance
Insurance Rating Methodology

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE '[WWW.FITCHRATINGS.COM](http://www.fitchratings.com)'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE.

Copyright © 2011 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries.