

Pacific LifeCorp

And Affiliates Full Rating Report

Ratings

Security Class	Rating
Insurer Financial Strength	A+
Issuer Default Rating	A-
Senior Unsecured Debt	BBB+

Note: See page 16 for a complete ratings list.

Rating Outlook

Stable

Financial Data

(\$ Mil.)	12/31/10
Shareholders' Equity	7,292
Total Debt	2,197 ^a
Net Income	482
ROE (%)	7.1
Risk-Based Capital (%)	617

^aExcludes nonrecourse borrowings.
Note: Risk-based capital ratio for Pacific Life Insurance Company.

Related Research

[U.S. Life Insurance Statutory Dividend Capacity, Oct. 10, 2011](#)
[2011 Statutory Trends for the U.S. Life Insurance Sector, Aug. 17, 2011](#)
[Life Insurers' Mortgage Portfolios—Better than Expected, June 21, 2011](#)
[2011 Outlook: U.S. Life Insurance, Jan. 11, 2011](#)

Analysts

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Key Rating Drivers

Solid Competitive Position: Pacific LifeCorp and its insurance subsidiaries (collectively PLC) are 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. The company also benefits from an extensive distribution network.

Strong Statutory Capital: As of June 30, 2011, the company's total adjusted capital (TAC) has grown by almost \$3.0 billion since year-end 2006. Favorably, PLC has diversified its product portfolio and has been moving away from capital-intensive products. PLC has also strengthened its variable annuity (VA) hedging program, which should lessen the capital impact if equity markets experience significant deterioration.

Earnings Volatility Has Moderated: PLC's GAAP and statutory earnings have improved since 2009. Fitch Ratings expects prospective earnings to be less volatile but to lag precrisis levels due to elevated hedging costs, lower investment yields, and higher interest expenses. Further losses on the company's commercial mortgage and residential mortgage-backed securities (RMBS) portfolio should be manageable.

Macroeconomic Headwinds: A prolonged low interest rate environment will make it increasingly difficult for PLC to earn an adequate spread. The low interest rate environment is also an impediment to fixed annuity (FA) sales growth. PLC's large commercial mortgage and RMBS portfolio makes it susceptible to ongoing weakness in the real estate market.

Future Financial Flexibility Constrained: Fitch views PLC's future financial flexibility as constrained given the increased financial leverage, management's stated intention not to access the equity market as a mutual company, and more modest organic earnings generation prospects.

What Could Trigger a Rating Action

Reduced Leverage: PLC's total financing and commitments (TFC) ratio of 1.3x at June 30, 2011 is high relative to peers. Surplus notes represent 18% of statutory capital. A decline in the TFC ratio below 1.0x would be positive to the ratings. A decline in the surplus notes component of statutory capital below 15% could lead to an upgrade in the surplus notes rating.

Sustained Improvement in Operating Performance: Continued stability and growth in earnings could put positive pressure on the ratings. An improvement in GAAP EBIT-to-interest coverage ratios to near 10x would be viewed favorably.

Significant Earnings and Capital Volatility: A sustained decline in statutory capital of 10% or more could result in a downgrade. If equity market losses expose flaws in VA product design or hedging, PLC could be downgraded. Losses or rapid growth at the aircraft leasing subsidiary would be viewed negatively. Outsize losses on the company's commercial mortgage and RMBS portfolio due to further deterioration in the real estate market could pressure the ratings.

Successful Shift in Product Strategy: Proven success in expanding PLC's product lines and reducing the company's reliance on VA sales would be viewed as a positive.

Corporate Governance

Corporate governance and management are deemed adequate and neutral to the rating. PLC manages Sarbanes-Oxley and Model Audit Rule self-assessments as well as SEC independence and transparency standards. PLC reports results under U.S. GAAP, its insurance operating subsidiaries also report results under statutory accounting principles permitted or prescribed by their state of domicile. Deloitte & Touche is PLC's auditor. The audit opinion in 2010 was unqualified.

PLC's board members are elected by policyowners. Ten of the 12 members of the board are considered independent.

Market Position and Size/Scale

Solid Market Position and Size/Scale are Positive to the Rating

- Overall, PLC is a top 15 U.S. life insurer.
- Focus on universal life (UL).
- Reduced reliance on VA sales.
- Strong distribution channels.

Prior to 2008, the company's growth was largely driven by VA and universal life no-lapse guarantee (ULNLG) product sales. PLC is now focused on diversifying its product portfolio with a greater emphasis on fixed annuities (FA) and more simplified VA and UL products. PLC has also de-emphasized or exited certain institutional products, such as guaranteed investment contracts (GICs) and funding agreements.

Overall, PLC Is a Top 15 U.S. Life Insurer

PLC ranks among the 15 largest life insurers in the U.S., measured in terms of admitted assets or capital and surplus. The company has a solid competitive position in the affluent market. PLC is also among the largest 15 VA writers, 10 largest FA writers, and three largest structured settlement providers.

Focus on Universal Life

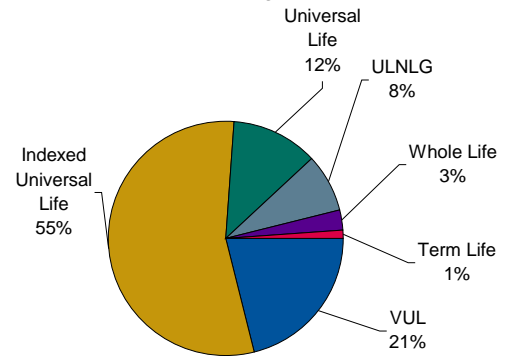
PLIC's largest life product line is UL, where it is the second-largest writer in the U.S. Since 2009, PLIC has migrated away from capital-intensive products such as ULNLG. Current ULNLG sales are less than 10% of total sales. PLC now maintains a diverse UL-based insurance product line with a focus on variable universal life (VUL) and indexed universal life (IUL). The company is also developing a set of long-term care (LTC) riders for use with its life insurance products. The company further enhanced its shift toward mortality risk with the recent purchase of Manulife's life retrocession business.

Reduced Reliance on VA Sales

VA sales accounted for 93% of total retirement solutions sales in 2007. PLC continues to focus on rebalancing its product mix and VA sales are now down to about half of total sales with FAs, mutual funds, and structured settlements

Life Division Sales

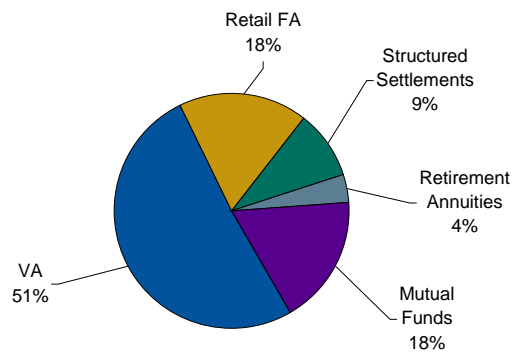
(For the Six Months Ending June 30, 2011)



ULNLG – Universal life no-lapse guarantee. VUL – Variable universal life
Source: PLC, Fitch.

Retirement Solutions Division Sales Mix

(For the Six Months Ending June 30, 2011)



Source: PLC, Fitch.

Related Criteria

- [Insurance Rating Methodology, Sept. 22, 2011](#)
- [Rating Hybrid Securities, July 28, 2011](#)

having a larger contribution to sales than in the past. Fitch also believes the risk profile of VA sales has improved. PLC has discontinued certain VA guarantee riders, reduced features, and increased fees aimed at managing changes in volatility and interest rates.

Ratings Range Based on Market Position and Size/Scale

	IFS:	AAA	AA	A	BBB	<BBB
	Debt:	AA	A	BBB	BB	<BB
Major Positions and Scale		←————→				
Modest Position and Scale			←————→			
Small, Narrow Focus				←————→		

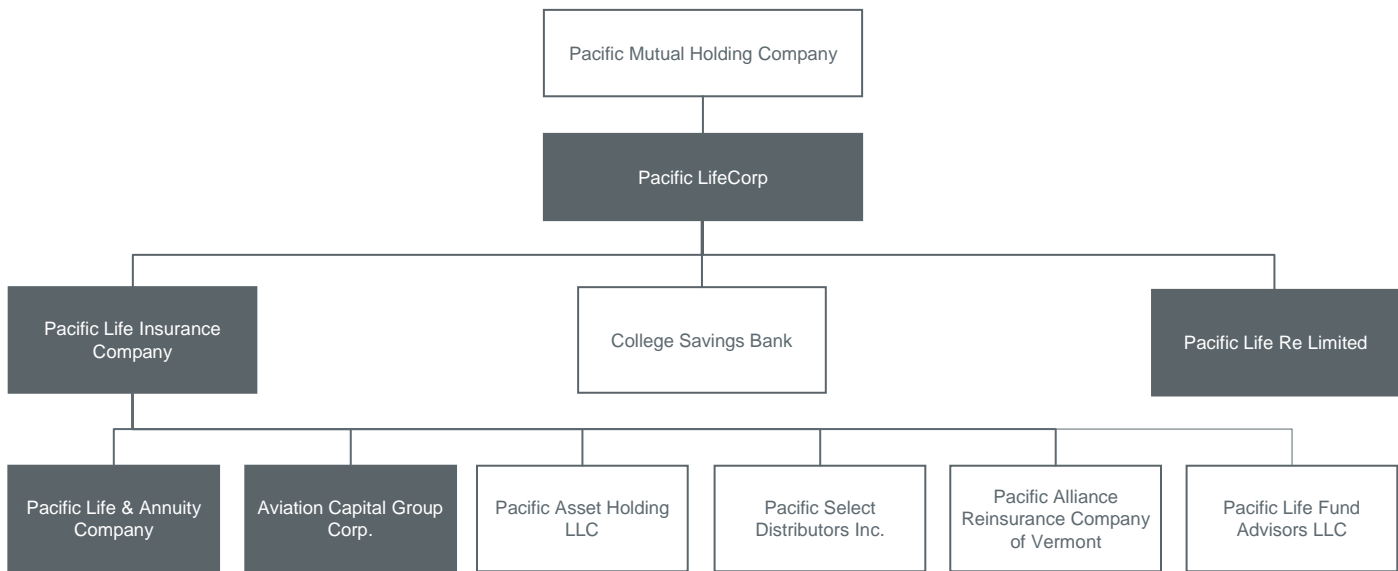
Strong Distribution Channels

PLC focuses on diverse third-party, independent distribution channels as opposed to captive distribution. While the independent channels require less fixed cost, the basis for competition is product design and compensation, which can be competitive areas. However, PLC has a long track record with many of these organizations, which should provide some stability as the company executes its product strategy.

Ownership Is Neutral to Rating

PLC is an intermediate holding company formed in 1997 as the result of the conversion of Pacific Life Insurance Company (PLIC), the organization's key operating subsidiary, to a mutual holding company structure. PLC is owned by Pacific Mutual Holding Company, a mutual holding company that was also formed as a part of the conversion. Pacific Mutual Holding Company must always own at least 51% of PLC and PLC must always own 100% of PLIC.

Organizational Chart



Rated by Fitch.
Source: Company filings.

Industry Profile and Operating Environment

U.S. Life Industry Has Strong Balance Sheet Fundamentals

Sovereign and Country Related Constraints

Fitch rates the sovereign obligations of the United States of America at 'AAA' with a Stable Outlook, and the Country Ceiling is similarly 'AAA'. Therefore, the ratings of U.S. insurance organizations and other corporate issuers are not constrained by sovereign or macroeconomic risks.

A majority of U.S. life insurers in Fitch's rated universe have IFS ratings in the 'AA' and 'A' categories. Key industry risk factors include: fixed-income and equity investment risks, macroeconomic uncertainty, low interest rates, and intense price competition, as well as regulatory and accounting uncertainty. The industry withstood the 2008–2009 financial crisis reasonably well, with capital largely rebounding due to earnings, investment gains, and capital raises. Balance sheets reflect very strong liquidity, reasonable financial leverage, and improved asset quality. Improved earnings continue to lag precrisis levels due to low interest rates and increased hedging costs. The industry's large in-force book of variable annuity business will continue to be a drag on profitability over the near term and could cause a material hit to industry earnings and capital in an unexpected, but still plausible, severe stress scenario.

Ratings Range Based on Industry Profile/Operating Environment

	IFS:	AAA	AA	A	BBB	<BBB
	Debt:	AA	A	BBB	BB	<BB
Life Insurance		←	█	→		
Annuities		←	█	→		
Accident and Health			←	█	→	
Composite		←	█	→		

Peer Analysis

PLC Fits Well in the 'A+' Category

PLC generally compares favorably with other life and asset accumulation writers in the 'A+' category. PLC's risk-adjusted capitalization is strongest, however, its financial leverage is among the highest. The company's investment risk and operating leverage is considered average relative to peers and its operating results in 2010 are viewed as better than peers.

Peer Comparison

(\$ Mil., Year-End 2010)	IFS Rating	RBC (%)	TAC	Assets/ TAC (x)	General Account Liab./ TAC (x)	Risky Assets/ TAC (%)	Financial Leverage Ratio	Pretax Return on Total Assets Post-Dividend (%)	Operating Return on TAC (%)
Pacific Life	A+	617	6,131	16.7	6.6	65.0	23.8	0.9	13.1
Ameriprise	AA-	585	3,813	24.7	7.4	46.3	17.5	1.3	11.0
Lincoln	A+	546	8,148	21.6	9.5	79.3	22.0	0.7	6.6
Minnesota Life	AA-	517	2,136	12.0	4.0	60.7	3.8	0.4	3.3
Principal	A+	420	4,736	25.8	11.4	153.5	14.3	0.7	7.6
Prudential	A+	548	12,913	31.3	16.9	157.2	26.7	0.7	11.1

TAC – Total adjusted capital. RBC – Risk-based capital ratio.
Source: Highline Data, Fitch.

Capitalization and Leverage

	12/31/07	12/31/08	12/31/09	12/31/10	6/30/11	Fitch's Expectation
Total Adjusted Capital (\$ Mil.)	4,131	3,556	5,138	6,131	6,546	Fitch expects reported RBC to remain above 350%. If financial leverage rises above 30% or if the TFC ratio rises above 1.4x, the ratings could be pressured.
Risk-Based Capital (%)	779	566	597	617	618	
Adjusted Assets/Statutory Surplus (x)	23.9	24.2	19.1	16.7	15.9	
Equity Credit-Adjusted Leverage (%)	17.2	15.0	23.2	23.8	23.0	

Source: Highline Data, Fitch.

Statutory Capital Is Strong but Financial Leverage Is High

- Strong statutory capitalization remains susceptible to equity market volatility.
- Financial leverage is consistent with the rating category.
- TFC ratio is high.

PLC's insurance subsidiaries are well-capitalized for the rating level. However, considerable amounts of financial and operating leverage are employed. Surplus notes represent greater than 15% of TAC and Fitch has therefore widened notching on these notes. Leverage measured on the broader TFC basis is above industry norms and driven by the capital intensive profile of the company's aircraft leasing subsidiary, Aviation Capital Group (ACG).

Strong Statutory Capitalization Remains Susceptible to Equity Market Volatility

As of June 30, 2011, the company's TAC has grown by almost \$3.0 billion since year-end 2006. This was largely driven by various capital management initiatives implemented in 2009. Fitch views capital growth by these means as weaker than through retained earnings.

PLIC had more than \$52 billion in VA net account value at June 30, 2011. Approximately 70% of PLIC's account value had a guaranteed minimum death benefit (GMDB) plus some form of living benefits, the majority of which was a guaranteed minimum withdrawal benefit (GMWB). Fitch believes PLIC continues to be exposed to capital volatility particularly given recent declines in the equity markets and interest rates at the end of the third quarter of 2011.

Financial Leverage Is Consistent with the Rating Category

The total borrowings that Fitch ultimately views to be reliant on the insurance operations are almost \$2.2 billion and results in a debt/capital ratio of approximately 23%. Surplus notes represent 18% of TAC at June 30, 2011 versus 4% in 2008.

TFC Ratio Is High

PLC's TFC ratio was 1.3x at June 30, 2011 compared with the life insurance industry average of 0.65x. This is largely due to \$5.2 billion of ACG obligations. Fitch generally views these activities as well-managed and related risks are captured in Fitch's ratings and outlook. However, ACG may have difficulty meeting its obligations if the environment for aircraft lease finance companies deteriorates significantly or future funding proves more difficult. The TFC ratio also includes \$1.5 billion of Federal Home Loan Bank (FHLB) borrowings and \$390 million of LOCs outstanding for Pacific Alliance Reinsurance Company of Vermont (PAR Vermont).

Debt Service Capabilities and Financial Flexibility

	Fiscal Year				6M11	Fitch's Expectation
	2007	2008	2009	2010		
Total Interest Expense (\$ Mil.)	355	295	278	299	147	The median guideline for coverage is 7x at the 'A' rating level. Fitch expects PLC to remain below that level over the near term.
Adjusted Interest Expense (\$ Mil.)	67	57	98	157	85	
GAAP Interest Coverage (x)	12.7	7.4	6.9	5.4	6.3	
Maximum Statutory Dividend Capacity (\$ Mil.)	317	350	256	629	688	
Statutory Interest Coverage (x)	5.7	7.8	6.3	11.8	10.3	

GAAP Interest Coverage – Earnings before Interest and Taxes divided by Adjusted Interest Expense. Statutory Interest Coverage – Maximum statutory dividend capacity divided by Adjusted Interest Expense Less Interest Paid on Surplus Notes. Note: Adjusted Interest Expense excludes interest on operating debt, match-funded, and ACG debt.

Source: PLC financial statements, Fitch.

Adequate Coverage but Reduced Financial Flexibility

- Interest coverage down from historical levels.
- Financial flexibility remains constrained.
- Backup liquidity available.

Fitch views PLC's debt-servicing capabilities as adequate for the current rating level although down from historical levels. Financial flexibility is constrained but liquidity appears strong. PLC and PLIC have no debt due until 2020.

Interest Coverage Down from Historical Levels

Fitch views PLC's debt-servicing capabilities as adequate for the rating level. Based on PLC's increased financial leverage and Fitch's reduced earnings expectations, GAAP EBIT-to-interest coverage ratios are expected to remain in the 5x–7x range over the near term, which is below historical levels of 12x–14x. Maximum dividend capacity without regulatory approval in 2011 is \$688 million. In July 2011, PLIC declared a \$125 million ordinary cash dividend to PLC.

Financial Flexibility Remains Constrained

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.

Backup Liquidity Available

Other liquidity sources include PLC's \$750 million revolving credit facility that is in place through July 2013. PLIC maintains a \$700 million commercial paper program, which is backed by a \$400 bank line of credit that matures in 2012. At June 30, 2011, there was no outstanding debt under these facilities. The insurance companies also have access to funding from the FHLB of Topeka and FHLB of San Francisco, which depend on the value of the qualifying collateral.

Financial Performance and Earnings

(\$ Mil.)	Fiscal Year				6M11	Fitch's Expectation
	2007	2008	2009	2010		
Pretax Gain from Operations	361	(1,602)	744	877	356	Fitch expects operating return on TAC between 10%–12% in 2011.
Net Income	364	(1,644)	769	791	363	
Pretax Return on Total Assets Post-Dividend (%)	0.4	(1.7)	0.8	0.9	0.7	
Operating Return on TAC (%)	9.2	(35.0)	17.1	13.1	11.2	
Growth in Revenues (Before Realized Gains) (%)	11.7	(7.3)	(28.7)	(28.7)	12.3	

Note: Statutory accounting principles. Consolidated Pacific Life Insurance Company and Pacific Life & Annuity Company.
 Source: Highline Data, Fitch.

Less Volatile, albeit Lower, Earnings Expected

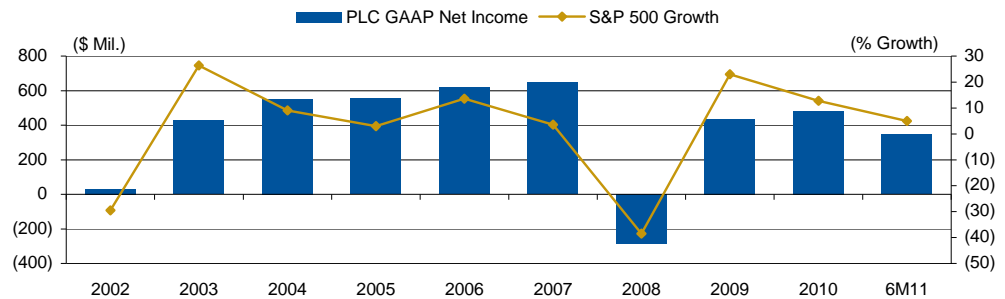
- Large equity market exposure due to VA block.
- Core life insurance performing well.
- Product diversification should reduce earnings volatility going forward.

PLC's earnings on both a GAAP and statutory basis have shown consistent improvement since 2009. However, results continue to lag precrisis levels due to elevated hedging costs, low investment yields, and higher interest expenses.

Large Equity Market Exposure Due to VA Block

PLC's large variable annuity exposure resulted in higher than expected statutory and GAAP earnings volatility over the past several years. Fitch expects earnings to be down in the second half of 2011 due to equity market and interest rate declines. However, Fitch does not expect PLC to report losses near the level seen in 2008 given the company's risk reduction initiatives.

PLC's GAAP Net Income Trends



Source: Company reports and Bloomberg.

Core Life Insurance Performing Well

Overall, Fitch views PLC's life insurance earnings quality to be strong. The company has had favorable mortality and persistency experience. Additionally, the company has pricing flexibility in its UL products since the crediting rate remains above the minimum guaranteed rate.

Product Diversification Should Reduce Future Earnings Volatility

In recent years PLC has diversified its earnings stream through expanded product offerings as well as through acquisitions. Longer term, Fitch expects earnings will be less volatile as PLC's policyholder account balances become more balanced between interest rate, mortality, and equity market risk.

Investment and Asset Risk

	As of Dec. 31				6M11	Fitch's Expectation
	2007	2008	2009	2010		
Cash and Invested Assets (\$ Mil.)	39,855	42,901	43,744	45,196	45,623	Fitch expects PLC to maintain a high-quality investment portfolio. Credit-related losses are expected to remain moderate.
Below Investment Grade Bonds/TAC (%)	25.9	45.9	53.1	46.2	35.0	
Risky Assets Ratio (%)	58.5	82.2	74.4	65.0	50.6	
Investment Yield (%)	6.1	8.0	1.8	4.1	4.2	

Note: Statutory accounting principles. Consolidated Pacific Life Insurance Company and Pacific Life & Annuity Company.
Source: Highline Data, Fitch.

Moderate Investment Risk

- Commercial mortgages and real estate investments performing well.
- Losses in the RMBS portfolio.
- High-quality corporate bond portfolio.

Mortgage loans, RMBS, CMBS, and real estate account for 29% of PLC's total investment portfolio, above the industry norm. Losses on the portfolio have stabilized and the company's performance has been better than many of its peers.

Commercial Mortgages and Real Estate Investments Performing Well

PLC's investment strategy for mortgage loans and real estate emphasizes niche property types that exhibit stable fundamental characteristics and allow PLC to employ conservative underwriting standards. As a result of this strategy, PLC has had only one mortgage loan written down in five years. Fitch believes this portfolio is well-managed and while PLC will not be immune from the challenges facing this sector, Fitch expects its losses will continue to trail that of its peers.

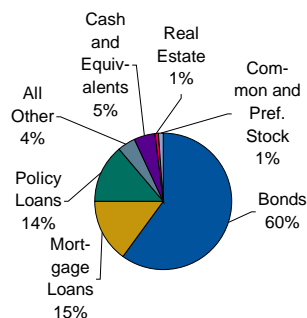
Losses in the RMBS Portfolio

PLC's \$5.0 billion RMBS portfolio, and more specifically Prime and Alt-A exposure is responsible for the vast majority of its unrealized loss position, credit migration, and other-than-temporary impairments (OTTI). Since 2008, PLC has reported \$282 million of OTTI losses through earnings on this portfolio. As of June 30, 2011, gross unrealized losses total \$470 million with 99% of those losses over 12 months old. As such, Fitch expects further losses on this portfolio but they should be manageable in context to PLIC's statutory capital and earnings.

High-Quality Corporate Bond Portfolio

PLC's bond portfolio is heavily weighted toward corporates, which account for 69% of the total bond portfolio. The average rating on the corporate bond portfolio is 'BBB' with 6% of the portfolio below investment grade. Fitch believes the corporate portfolio is well-diversified between sectors with minimal exposure to troubled corporate credit classes including consumer cyclicals and financials.

Investment Portfolio (As of June 30, 2011)



Note: GAAP Book Value.
Source: PLC Financial Statements.

Asset/Liability and Liquidity Management

	2006	2007	2008	2009	2010	Fitch's Expectation
Liquidity Ratio (%)	111.0	107.6	116.5	86.0	80.8	Fitch's median liquidity ratio guidelines are 75% for 'AA' and 60% for 'A'.
Operating Cash Flow Coverage (x)	1.0	1.1	1.3	1.4	1.3	
Total Adjusted Liabilities and Deposits (\$ Mil.)	84,048	94,478	82,325	92,782	96,523	

Note: Statutory accounting principles. Consolidated Pacific Life Insurance Company and Pacific Life & Annuity Company.
Source: Highline Data, Fitch.

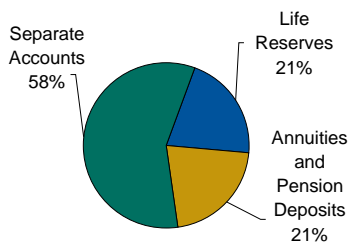
Asset/Liability and Liquidity Management Are Strong

- Main source of disintermediation risk is institutional products.
- Fixed annuities benefit from good surrender protection.
- Derivatives used to manage interest rate risk.

Fitch views PLC's asset/liability management (ALM) practices to be strong with the company targeting a zero duration mismatch in aggregate and in every product portfolio. At June 30, 2011, the company's net duration mismatch was negative 0.3 years. Fitch believes PLC maintains an ample liquidity position supported by cash and a large publicly traded bond portfolio. At June 30, 2011, PLC's highly marketable securities exceeded the company's surrenderable liabilities.

Adjusted Liabilities and Deposits

(As of Dec. 31, 2010)



Note: Statutory accounting principles. Consolidated Pacific Life Insurance Company and Pacific Life & Annuity Company.
Source: Highline, Fitch.

Main Source of Disintermediation Risk Is Institutional Products

The primary source of disintermediation risk for Pacific Life is related to PLC's institutional products, which the company has been winding down. This risk is managed through tight asset and liability matching and product design with very little early surrender optionality.

Fitch expects PLC will continue to limit product growth in its spread lending business. PLC's outstanding balance funding agreement-backed note programs has steadily declined to \$2.4 billion at June 30, 2011 from \$6.1 billion at Dec. 31, 2008. Similarly, Fitch expects PLC's utilization of the FHLB of Topeka for generating spread lending activities will decline over time (\$1.5 billion outstanding at June 30, 2011).

PLC's synthetic GIC portfolio of \$22.2 billion is the third largest in Fitch's rated universe. In addition to raising fees, PLC has improved contractual terms and instituted more conservative investment guidelines. At June 30, 2011, the market to book value ratio was 103.8%.

Fixed Annuities Benefit from Good Surrender Protection

Fitch believes that Pacific Life's fixed products are well-protected against product withdrawal risks due to contract provisions, duration and cash flow matching, and disciplined investment processes. At Dec. 31, 2010, 92% of the company's annuity actuarial reserves and deposit liabilities were subject to market value adjustments, surrender charges equal or above 5%, or were not subject to discretionary withdrawal, which discourage surrender and protect PLC from liquidity risks.

Derivatives Used to Manage Interest Rate Risk

The goal of PLC's hedging program is to protect statutory capital and smooth GAAP net income. PLC uses various interest rate swaps to better match the cash flow characteristics of certain assets and liabilities. They are also used to manage the company's exposure to variability in cash flows due to changes in foreign currencies and the benchmark interest rate.

Reinsurance and Risk Management

Enhanced Risk Mitigation Viewed as a Positive

- Reduced reinsurance appetite.
- Strengthened VA hedging program.
- Use of Vermont captive for bulk of ULNLG business.

PLC's risk management strategy has moved away from traditional reinsurance to a greater emphasis on hedging and the use of its wholly owned Vermont captive. PLC implemented a more robust hedge program beginning in the latter half of 2009. As such, Fitch expects less earnings and capital volatility should equity markets continue to deteriorate.

Reduced Reinsurance Appetite

PLC has reduced its reinsurance appetite. Living and death benefit riders on VA contracts issued between Jan. 1, 2007 and March 31, 2009 were partially covered under coinsurance agreements but PLC stopped reinsuring new VA business effective April 1, 2009. Additionally, PLC reinsured a portion of the VA business under modified coinsurance agreements between Jan. 1, 2006 and March 31, 2009. Currently, 12% of the company's VA rider risks are covered under reinsurance, concentrated in issue years 2007 and 2008.

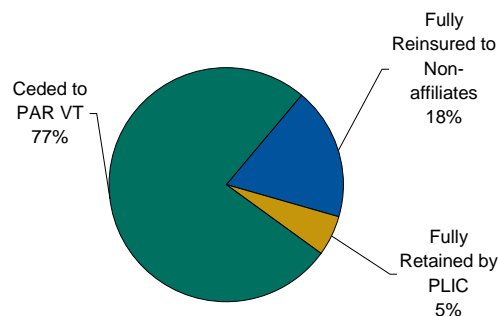
Strengthened VA Hedging Program

Under Actuarial Guideline 43 (AG43), PLC's current hedging program qualifies as a "clearly defined hedging strategy." The company follows a "statutory delta" strategy adjusting its hedge positions to equity market movements on VA statutory reserves. Fitch views positively the company's strengthened VA hedging program, which should lessen the capital impact and smooth GAAP net income if equity markets experience significant deterioration. PLC uses total return swaps and equity put options. Fitch believes PLC's derivative counterparty risk is low since all transactions are exchange-traded or with counterparties rated 'A' or better.

Use of Vermont Captive for Bulk of ULNLG Business

Universal Life with secondary guarantees is subject to rigorous reserving levels mandated by AG38 (also known as regulation AXXX). PLIC uses its wholly owned subsidiary, Pacific Alliance Reinsurance Company of Vermont (PAR VT), to reinsure certain reserves related to its ULNLG business. Statutory reserves ceded to the entity are supported by an LOC facility with a total capacity of up to \$650 million expiring in March 2012. The LOCs issued as of June 30, 2011 amounted to \$390 million. PLIC is working to find a more permanent funding solution for these reserves. Fitch would favorably view a solution that would reduce the company's refinancing and liquidity risk.

Direct ULNLG Rider Reserves
(As of June 30, 2011)



ULNLG – Universal life no-lapse guarantee. Note: Statutory accounting principles.
Source: PLIC, Fitch.

Key Non-Insurance Operations/Exposure

(\$ Mil.)	Fiscal Year					6M11	Fitch's Expectation
	2007	2008	2009	2010			
Total Revenue	611	609	592	650		316	Fitch expects ACG will continue to enhance the percentage and mix of unsecured funding in its capital structure, record stable profitability and cash flow, and produce sound credit quality metrics.
Total Outstanding Debt	4,174	4,281	4,477	4,707		5,065	
Total Equity	454	455	582	1,040		1,092	

Source: Aviation Capital Group and Fitch.

ACG Generates Stable Earnings but Increases PLC's Leverage

- Consistent profitability and stable cash flows.
- Strong commitment to aircraft leasing business.
- Reliance on capital markets but improved funding mix.

PLC's aircraft leasing operation, ACG, is considered among the top five aircraft lessors in the world, has a strong track record of generating stable operating earnings and cash flows, and has been the primary contributor of non-insurance earnings for the past several years.

Consistent Profitability and Stable Cash Flows

ACG's financial performance and profitability have remained strong despite difficult economic and capital market conditions. Lease revenues thus far in 2011 have remained flat as the addition of aircraft offset a decline in the net lease margin. Fitch expects ACG's financial performance to remain stable in the near to intermediate term. ACG expects to add 86 additional aircraft over the next three years with continued expansion into areas with higher growth potential, namely Asia and the Middle East.

Strong Commitment to Aircraft Leasing Business

Fitch considers PLC to be strongly committed to the aircraft leasing businesses. This is due to its current \$586 million of invested capital, bank covenants that require PLC to remain majority owner of ACG, and valuable tax benefits provided by the aircraft leasing business. The current ratings on both ACG and PLC implicitly assume that PLC would provide a modest level of support if necessary.

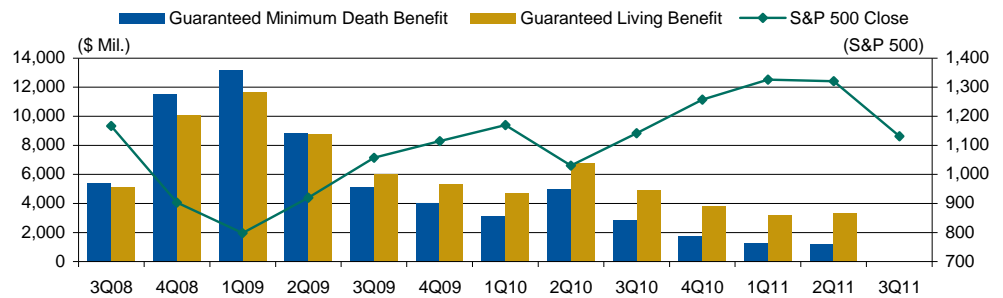
Reliance on Capital Markets but Improved Funding Mix

The aircraft leasing business is capital-intensive and ACG relies on access to the capital markets for attractive financing. However, Fitch believes ACG is well-positioned to support ongoing funding agreements with more than \$2 billion in available liquidity at June 30, 2011.

Fitch also views favorably ACG's progress on diversifying its overall capital structure and broadening its capital market access and other various funding sources to finance aircraft purchases. The proportion of unsecured debt to overall debt has grown to 34.5%. Over the next 2 years ACG plans to increase the overall percentage of unsecured debt to 50%. Use of unsecured debt provides ACG greater flexibility in managing its portfolio aircraft.

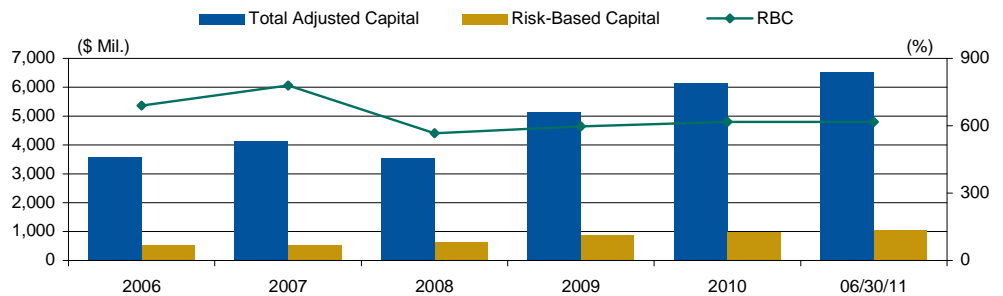
Appendix A: Additional Financial Exhibits

Net Amount at Risk for VA Riders



Source: Company reports, Bloomberg.

Statutory Capital and Risk-Based Capital (RBC) Trends



Source: Company reports.

Pacific LifeCorp Debt

(\$ Mil., As of June 30, 2011)

Insurance Debt

9.25% Surplus Notes due June 15, 2039	1,000
7.90% Surplus Notes due Dec. 30, 2023	150
6.00% Senior Notes due Feb. 10, 2020	447
6.60% Senior Notes due Sept. 15, 2033	600
Total Insurance Debt	2,197

Non-Insurance Debt

Debt recourse only to ACG	3,220
ACG Nonrecourse	576
ACG VIE	1,269
College Savings Bank/Repurchase Agreements	147
Other	80
Other VIE	6
Total Financial Services Debt	5,298

Total Debt	7,495
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Reported Shareholders' Equity	7,889
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Accumulated Other Comprehensive Loss

(Primarily SFAS 115 and SFAS 133)	531
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Adjusted Shareholders' Equity	7,358
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Total Capital	14,853
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Insurance Capital	9,555
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Total Debt/Total Capital (%)	50.5
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Total Insurance Debt/Total Capital (%)	23.0
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Total Financing and Commitments Ratio (x)	1.3
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ACG – Aviation Capital Group. VIE – Variable interest entity.

Source: Company reports, Fitch Ratings.

Appendix B: Other Ratings Considerations

Below is summary of additional ratings considerations of a “technical” nature that are also part of Fitch’s ratings criteria.

Group IFS Rating Approach

Fitch’s rating on Pacific Life & Annuity Company (PL&A) is based on its relationship with PLIC, and reflects Fitch’s view that PL&A is a core operating company within the organization.

PLC owns London-based Pacific Life Re Limited (PLR). To help support PLR, a guarantee agreement exists between PLR and PLC. In the agreement, obligations of PLR align with the senior unsecured obligations of PLC. A second guarantee agreement was put in place between PLIC and PLR in March 2010 that would only be triggered in the event of nonperformance by both PLR and PLC. Pacific Life Re’s (PLR) ratings are tied to PLIC’s ratings based on this support agreement.

Notching

The rated insurance subsidiaries are located in the U.S. and the U.K., both of which have regulatory environments that Fitch considers as “strong.”

Notching Summary

Holding Company

Standard notching from the licensed insurance companies to the holding company parent (three notches from the insurance company insurer financial strength (IFS) rating to holding company senior unsecured notes) was used. Notching was not widened or narrowed due to leverage, coverage, or other considerations.

IFS Ratings

Standard notching in a strong regulatory environment uses a baseline recovery assumption of Good, which results in the IFS rating being notched up one relative to the implied Issuer Default Rating (IDR) of the insurer.

Debt

Obligations of the holding company are subordinated to the obligations of the insurance companies that results in the IDR of the holding company being one notch lower than the implied IDR of the insurers. For senior unsecured debt, a baseline recovery assumption of Below Average was used. Thus, senior unsecured debt is notched down one notch from the holding company IDR. This is standard notching.

Hybrids

The surplus notes are deeply subordinated and a baseline recovery assumption of poor was used. An additional notch was applied since the financial leverage ratio of the insurance company (counting surplus notes as debt) exceeds 15%.

Short-Term Ratings

PLIC’s short-term IDR rating of ‘F1’ is based on the company’s long-term IDR rating of ‘A’.

Hybrids — Equity/Debt Treatment

Hybrids Treatment

Hybrid	Amount (\$ Mil.)	CAR Fitch (%)	CAR Reg. Override (%)	FLR Debt (%)
Pacific Life Insurance Co.				
Surplus Notes	1,150	0	100	100

CAR – Capitalization ratio. FLR – Financial leverage ratio. Note: The CAR percentage shows a portion of the hybrid value included as Available Capital, both before (Fitch %) and the Regulatory Override. For FRL, percentage shows a portion of the hybrid value included as debt in numerator of leverage ratio.

Exceptions to Criteria/Ratings Limitations

None.

Appendix C: Complete Ratings List

Ratings

Issuer	Security Class	Rating
Pacific LifeCorp	Long-Term Issuer Default Rating	A-
Pacific LifeCorp	Senior Unsecured Debt	BBB+
Pacific Life Funding, LLC	Funding Agreement-backed Note Program	A+
Pacific Life Global Funding	Funding Agreement-backed Note Program	A+
Pacific Life Insurance Company	Long-Term Issuer Default Rating	A
Pacific Life Insurance Company	Short-Term Issuer Default Rating	F1
Pacific Life Insurance Company	Commercial Paper	F1
Pacific Life Insurance Company	Subordinated Debt	BBB+
Pacific Life Insurance Company	Insurer Financial Strength	A+
Pacific Life & Annuity Company	Insurer Financial Strength	A+
Pacific Life Re Limited	Insurer Financial Strength	A+

Source: Fitch.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

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