



Moody's Investors Service

Rating Action: **Moody's rates Pacific LifeCorp debt Baa1; outlook changed to stable**

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\$2.1 billion in debt affected

New York, February 04, 2010 -- Moody's Investors Service has assigned a Baa1 senior debt rating to the planned \$350 million issuance of Pacific LifeCorp 10 year senior notes and has affirmed the ratings of Pacific LifeCorp and its life insurance subsidiaries, led by Pacific Life Insurance Company (Pacific Life -- insurance financial strength (IFS) rating at A1). Moody's has also changed the outlook for the companies to stable from negative. The rating agency said that it expects the proceeds of the senior note issue to be contributed to Pacific Life as additional capital.

Moody's says that the change in Pacific Life's outlook to stable reflects: 1) significant increase in the company's statutory capital base, including the proceeds from the recently announced debt issue; 2) expanded hedging efforts to manage the equity market risks associated with the company's variable annuity business; and 3) expectations that 2010 investment credit losses should subside from the highly elevated levels of 2008-09.

Moody's Senior Credit Officer Arthur Fliegelman commented: "Despite continued challenges and pressures from the variable annuity block and losses on the investment portfolio, we believe that Pacific Life's current IFS rating of A1 adequately reflects a downside stress scenario given its significant capital raise over the past year." Pacific Life's regulatory capital position--which benefited from the \$1 billion surplus note issuance last June together with the planned \$350 million from the senior note issuance--is now better positioned to manage the company's high level of capital sensitivity to equity market movements driven by its \$50 billion book of variable annuities containing secondary guarantees. However, this capital benefit is somewhat mitigated by Pacific Life's diminished financial flexibility as its financial leverage (debt to capital) has increased from approximately 18% as of year-end 2008 to 28% pro forma for the debt issuance. Earnings coverage will also weaken given the additional debt and the expectation that the company's earnings will stabilize at a level below the earnings reported before the financial crisis. Moody's believes that following this debt issuance, Pacific Life is at its financial leverage

capacity for its current rating level.

The rating agency also noted that Pacific Life's NAIC risk-based capital (RBC) ratio will benefit substantially from the NAIC's revised capital requirements for non-agency residential mortgage-backed securities (RMBS). Pacific Life's \$4.9 billion portfolio of non-agency RMBS has been subject to significant credit losses since the credit crisis began, including \$227 million of impairments reported in 2008 and an additional \$93 million of losses during the first nine months of 2009. Moody's expects that losses on RMBS will continue to be recognized by Pacific Life in 2010, but at a slower pace than in the past. The rating agency also noted that elevated levels of losses are expected to be reported by Pacific Life on its \$6 billion commercial mortgage loan portfolio over the next two years given the continued weak economy.

Moody's commented that Pacific Life's A1 IFS rating reflects its strong market position in the high-end life insurance market, its broad product distribution, strong capitalization, and its good profitability.

According to Moody's, a downgrade of Pacific Life's ratings could result from the following: 1) the NAIC company-action-level RBC falls below 325%; 2) financial leverage (debt to capital) exceeds 30%; or 3) investment losses exceed \$750 million pre-tax in 2010. Conversely, an upgrade could result if the following occurs: 1) the company largely eliminates its capital and earnings sensitivity to market movements; 2) GAAP return on equity is sustained at above 10%; and 3) financial leverage is maintained below 20% and earnings coverage is consistently above 8x.

The following ratings were affirmed with a stable outlook:

Pacific LifeCorp -- senior unsecured debt at Baa1;

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

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

Pacific Life Funding, LLC -- senior secured debt at A1;

Pacific Life Global Funding -- senior secured debt at A1;

Pacific Pilot Funding -- senior secured debt at A1;

Pacific Pilot Funding II -- senior secured debt at A1;

COUNTS Trust, Series 2006-4 -- senior secured debt at A1;

COUNTS Trust, Series 2007-2 -- senior secured debt at A1.

The last rating action on Pacific Life took place on June 18, 2009 when Moody's assigned an A3 rating with a negative outlook to \$1 billion in surplus notes issued by Pacific Life.

Pacific LifeCorp is an insurance and financial services organization headquartered in Newport Beach, California. It had approximately \$108 billion in GAAP assets and \$6.1 billion in total stockholder's equity as of September 30, 2009. Net income for the nine months ending September 30, 2009 was \$447 million, up from \$341 million for the comparable 2008 period.

The principal methodology used in rating Pacific LifeCorp was Moody's Global Rating Methodology for Life Insurers, published in September 2006 and available on www.moody.com in the Rating Methodologies subdirectory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies subdirectory on Moody's website.

Moody's insurance financial strength ratings are opinions of the ability of insurance companies to punctually pay senior policyholder claims and obligations.

For more information please visit Moody's website at www.moody.com/insurance.

New York
Arthur Fliegelman
VP - Senior Credit Officer
Life Insurance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
Robert Riegel
Managing Director
Life Insurance Group
Moody's Investors Service

JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653



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