

Pacific LifeCorp

And Affiliates Update

Ratings

Issuer Default Rating	A-
Senior Unsecured Debt	BBB+

Pacific Life Insurance Co. Pacific Life & Annuity Co.

Pacific Life Re Limited	
Insurer Financial Strength	A+

Rating Outlook

Stable

Financial Data

Pacific LifeCorp (\$ Mil.)	12/31/15
Shareholders' Equity	10,020
Total Debt ^a	2,369
Net Income	662
Operating ROE (%)	6.2
RBC (%)	632

^aExcludes nonrecourse borrowings.
ROE – Return on equity. Note: RBC
ratio for Pacific Life Insurance
Company.

Source: Company reports, Fitch.

Related Research

[North American Insurance Guide 2016
\(Compilation of Sector Outlook and
Entity Research Summaries\)
\(February 2016\)](#)

[2016 Outlook: U.S. Life Insurance \(Low
Interest Rates Remain an Earnings
Headwind\) \(December 2015\)](#)

[Life Insurers' Investment Portfolios
\(Results of Fitch's Year-End 2014
Survey\) \(August 2015\)](#)

Related Criteria

[Insurance Rating Methodology
\(May 2016\)](#)

Analysts

Tana M. Higman
+1 312 368-3122
tana.higman@fitchratings.com

Dafina M. Dunmore, CFA
+1 312 368-3136
dafina.dunmore@fitchratings.com

Key Rating Drivers

Solid Competitive Position: Pacific LifeCorp, with its insurance subsidiaries (collectively PLC), is 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: PLC's total adjusted capital (TAC) grew by \$640 million, or 8.2%, to \$8.5 billion in 2015. Over the past several years, the company diversified and derisked its product portfolio and moved away from the sale of capital-intensive products. PLC also has a robust variable annuity (VA) hedging program, which should lessen the capital impact if equity markets experience significant deterioration.

Reduced RBC Volatility: Pacific Life Insurance Company (PLIC) changed the valuation basis/method for VA statutory reserves, which produced statutory reserves greater than the required minimum standard basis. PLC also formed a captive subsidiary to reinsure a portion of its VA business. Both actions reduced RBC volatility. At year-end 2015, PLIC's RBC ratio of 632% was well above Fitch Ratings' median ratio guideline for the current rating level.

Earnings Volatility from Legacy VAs: PLC's \$17 billion block of legacy VA business with living and death benefit riders, which was primarily written between 2006 and 2008, caused higher than expected GAAP and statutory earnings volatility. Fitch expects prospective returns to be less volatile due to the company's more diversified earnings stream, but to lag precrisis levels due to hedging costs, lower investment yields and higher interest expenses.

Moderate Investment Risk: Fitch views the overall quality of PLC's investment portfolio as generally good. While not a new strategy for the company, Fitch notes that PLC's large exposure to corporate bonds rated 'BBB' could have a material effect on earnings and capital in a severe credit market downturn. PLC's large commercial mortgage portfolio makes it susceptible to weakness in the real estate market, although it is well managed.

Macroeconomic Uncertainty: Ongoing low interest rates and geopolitical uncertainty pose risks to Fitch's outlook for life insurers and could have a material negative effect on PLC's earnings and capital.

Rating Sensitivities

Reduced Leverage: A decline in financial leverage below 20% could lead to a positive rating action. PLC's total financing and commitments (TFC) ratio is high relative to peers. A decline in the TFC ratio below 1.0x would be favorable to the ratings.

Sustained Improvement in Operating Performance: Other factors that could result in an upgrade include sustained improvement in operating performance as evidenced by an increase in GAAP EBIT/interest coverage ratios to near 10x and proven success in expanding PLC's product lines and reducing the company's VA exposure.

Significant Earnings and Capital Volatility: Factors that could result in a downgrade include a sustained decline in statutory capital of 10%, losses or rapid growth at the aircraft leasing subsidiary or an increase in the TFC ratio above 1.4x.

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

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT 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. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2016 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.