

# BEST'S CREDIT REPORT

## Pacific Life Group

Omaha, Nebraska, United States 68106

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**AMB #:** 069720

**NAIC #:** N/A

**FEIN #:** N/A

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[Best's Credit Rating Methodology](#) | [Disclaimer](#) | [Best's Credit Rating Guide](#)

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## Pacific Life Group

### Credit Report

**Report Release Date:**

May 25, 2018

**Disclosure Information:** Refer to rating unit members for each company's Rating Disclosure Form

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**Associated Ultimate Parent:** [050799 - Pacific Mutual Holding Company](#)

**A.M. Best Rating Unit:** 069720 - Pacific Life Group

### Best's Credit Ratings for Group Members:

Rating Effective Date: May 9, 2018

| AMB#   | Company  | Rating Unit        | Best's Financial Strength Ratings |         |          | Best's Issuer Credit Ratings |         |          |
|--------|--|--------------------|-----------------------------------|---------|----------|------------------------------|---------|----------|
|        |  |                    | Rating                            | Outlook | Action   | Rating                       | Outlook | Action   |
| 069720 | <a href="#">Pacific Life Group</a>             | <i>Rating Unit</i> |                                   |         |          |                              |         |          |
| 006885 | <a href="#">Pacific Life Insurance Company</a> |                    | A+                                | Stable  | Affirmed | aa                           | Stable  | Upgraded |
| 009156 | <a href="#">Pacific Life &amp; Annuity Co</a>  |                    | A+                                | Stable  | Affirmed | aa                           | Stable  | Upgraded |

## Rating Rationale:

### Balance Sheet Strength: Strongest

- Very high level of risk-based capital supported by high BCAR levels in all VaR scenarios.
- High levels of liquidity driven by a robust asset/liability program, which is designed for liquidity in stressed scenarios.
- Highly liquid investment portfolio that is supported by significant levels of excess capital, which can support asset sales in volatile markets, should such a need arise.
- The group has materially de-risked its product liability structure over the past five years, which supports a more consistent view of capital.

### Operating Performance: Strong

- Solid earnings profile demonstrated through growth in net premium, strong underwriting performance, and low volatility in net income.

- Product sales growth is outpacing the overall industry in the group's core life and annuity.

## Business Profile: Favorable

- Group maintains itself as one of the top groups for life (including life reinsurance), annuity (variable, fixed, and institutional), and hybrid product sales.
- The group utilizes a variety of independent agents, financial advisors, banks, and registered representatives for new business sales and does not depend on any one single channel.
- High persistency among policyholders provides for a more stable and long-term profile for all constituents.

## Enterprise Risk Management: Very Strong

- ERM is considered developed and formalized throughout the entire organization.
- The group utilizes an economic capital model as a means to manage and communicate risk throughout the organization and is supported by strong quantitative modeling for each business segment and product line.
- The group continuously enhances its ERM program and makes appropriate changes as needed based on stated risk management preferences.

## Outlook

The stable outlooks reflect the group historically maintaining a high level of risk-based capital, strongest balance sheet assessment, and solid trend in profitable operating performance within business segments.

## Rating Drivers

Negative Rating Factors:

Decline in consolidated risk-adjusted capital trend and deterioration in quality of capital.

Unfavorable earnings trend.

Deterioration in investment performance.

## Financial Data Notes:

**Time Period:** Annual - 2017

**Status:** A.M. Best Quality Cross Checked

**Data as of:** 03/28/2018

**Key Financial Indicators:**

**Key Financial Indicators (000)**

|                         | Year End - December 31 |             |             |             |             |
|-------------------------|------------------------|-------------|-------------|-------------|-------------|
|                         | 2017                   | 2016        | 2015        | 2014        | 2013        |
| Assets                  | 135,236,993            | 124,671,793 | 118,927,425 | 118,142,044 | 114,388,899 |
| Policyholders' Surplus  | 9,312,882              | 8,548,420   | 7,762,480   | 7,171,552   | 6,502,887   |
| Asset Valuation Reserve | 611,759                | 692,568     | 705,472     | 655,273     | 554,738     |
| Net Premiums Written    | 9,788,498              | 8,764,026   | 9,381,276   | 9,042,896   | 9,157,458   |
| Net Investment Income   | 3,067,787              | 2,572,344   | 2,625,581   | 2,373,143   | 1,996,711   |
| Net Income              | 1,207,484              | 852,157     | 536,455     | 652,917     | 532,244     |

Source: Bestlink - Best's Statement File - L/H, US

(\*) Within several financial tables of this report, this company is compared against the Individual Annuity Composite.  
 (\*) Data reflected within all tables of this report has been compiled through the A.M. Best Consolidation of statutory filings.

**Best's Capital Adequacy Ratio Summary - AMB Rating Unit (%)**

| Confidence Level | 95.0 | 99.0 | 99.5 | 99.6 |
|------------------|------|------|------|------|
| BCAR Score       | 62.9 | 49.0 | 43.9 | 42.6 |

Source: Best's Capital Adequacy Ratio Model - L/H, US

**Credit Analysis:**

**Balance Sheet Strength: Strongest**

Pacific Life's general account invested assets totaled approximately \$71.2 billion at year-end 2017. Invested assets are primarily comprised of public/private corporate and government bonds (64% of invested assets), commercial mortgage loans (16%), policy loans (11%) and cash and other short-term investments (9%). Approximately 12% of the bond portfolio consisted of loan backed or structured securities, and Pacific Life has also allocated a portion of its surplus in equity investments, including private equity and real estate equity.

Pacific Life proactively manages its investment portfolio to maintain a favorable liquidity position. The company's strong cash flows and stable liability structure have provided significant liquidity benefits on an historical basis. Pacific Life's relatively higher proportion of policy loans results in a lower than average allocation to fixed income investments. However, the company does maintain a portfolio of short-term instruments to meet unexpected cash outflows, such as U.S. Treasuries and marketable long-term fixed maturity securities (including 144A securities). In addition, Pacific Life retains additional backup liquidity in the form of internal funding mechanisms and third party sources.

PLIC maintains a \$700 million commercial paper program, utilized from time to time for short-term liquidity needs. A \$400 million revolving credit facility serves as a back-up line of credit for the commercial paper program and matures in 2021. PLIC is also a member of the Federal Home Loan Bank (FHLB) of Topeka where it has additional funding borrowing capacity against pledged collateral. The company had no outstanding borrowings from the FHLB of Topeka.

PL&A has in place an Advances and Security agreement with Federal Home Loan Bank of San Francisco (FHLBSF) which expands financing availability from FHLBSF. This agreement currently has no amounts outstanding as part of this program.

Pacific LifeCorp has a revolving credit agreement with various banks for a \$600 million borrowing facility, which matures in 2021. The company has no plans to materially change its debt or liquidity profile.

Given its current composition of liabilities, A.M. Best believes the company's existing asset allocation provides strong liquidity protection under various stress scenarios to meet its cash flow needs.

## Capitalization:

Pacific Life's capital and surplus increased to slightly over \$9.3 billion at year-end 2017 compared to approximately \$8.5 billion at year-end 2016. PLIC's risk adjusted capitalization levels increased in 2017 due to strong operating performance and one-time benefits of tax reform. A.M. Best notes that Pacific Life's risk-based capitalization ratios typically exhibit volatility due to its sizeable variable annuity market risk. However, over recent years, volatility has decreased due to mitigation strategies. As part of its overall Enterprise Risk Management program, PLIC runs multiple stress scenarios in which it maintains a minimum RBC of 300%.

Pacific Life's TAC has grown significantly in recent years through organic earnings growth from positive statutory operations. During 2017 the company replaced some higher coupon surplus notes with lower coupon 50 year surplus notes , further improving financial flexibility and the capital profile of the company.

## Capital Generation Analysis

|                                     | Year End - December 31 |           |         |          |          |
|-------------------------------------|------------------------|-----------|---------|----------|----------|
|                                     | 2017                   | 2016      | 2015    | 2014     | 2013     |
| Pre-Tax Net Operating Gain (\$000)  | 892,697                | 1,009,181 | 709,064 | 780,381  | 597,731  |
| Realized Capital Gains (\$000)      | 414,732                | 35,109    | -93,613 | -34,324  | 5,106    |
| Income Taxes (\$000)                | 99,945                 | 192,133   | 78,995  | 93,140   | 70,593   |
| Unrealized Capital Gains (\$000)    | -298,154               | 29,315    | 118,521 | 312,797  | -93,205  |
| Change in AVR (\$000)               | 80,810                 | 12,903    | -50,199 | -100,535 | 192,690  |
| Other Changes (\$000)               | -225,678               | -108,434  | -13,850 | -196,514 | -303,944 |
| Change in Capital & Surplus (\$000) | 764,462                | 785,941   | 590,927 | 668,665  | 327,786  |
| Change in Capital & Surplus (%)     | 8.9                    | 10.1      | 8.2     | 10.3     | 5.3      |

Source: Bestlink - Best's Statement File - L/H, US

## Liquidity Analysis

|  | Year End - December 31 |           |           |           |           |
|--|------------------------|-----------|-----------|-----------|-----------|
|  | 2017                   | 2016      | 2015      | 2014      | 2013      |
| Operating Cash Flow (\$000)                | 5,016,800              | 4,360,799 | 4,045,692 | 3,866,994 | 3,286,928 |
| Non-Investment Grade Bonds / Capital (%)   | 24.2                   | 24.9      | 22.7      | 22.3      | 24.5      |
| Delinq & Foreclosed Mortgage / Capital (%) | ...                    | ...       | ...       | ...       | ...       |
| Mortgage Loans & RE to Capital (%)         | 118.1                  | 113.7     | 111.5     | 111.7     | 122.3     |
| Affiliated Investment to Capital (%)       | 33.5                   | 31.8      | 31.1      | 31.6      | 31.3      |

## Liquidity Ratios (%)

|                   | Company                |      |      |      |      | Industry Composite     |      |      |      |      |
|-------------------|------------------------|------|------|------|------|------------------------|------|------|------|------|
|                   | Year End - December 31 |      |      |      |      | Year End - December 31 |      |      |      |      |
|                   | 2017                   | 2016 | 2015 | 2014 | 2013 | 2017                   | 2016 | 2015 | 2014 | 2013 |
| Quick Liquidity   | 31.9                   | 33.5 | 34.7 | 38.8 | 33.6 | 41.9                   | 43.2 | 45.1 | 46.6 | 47.4 |
| Current Liquidity | 72.8                   | 73.4 | 73.3 | 72.2 | 69.4 | 86.1                   | 86.0 | 86.9 | 87.2 | 86.7 |

Source: Bestlink - Best's Statement File - L/H, US

Industry Composite: Individual Annuity Composite - Bestlink - Best's Statement File - L/H, US

**Capitalization: (Continued...)**

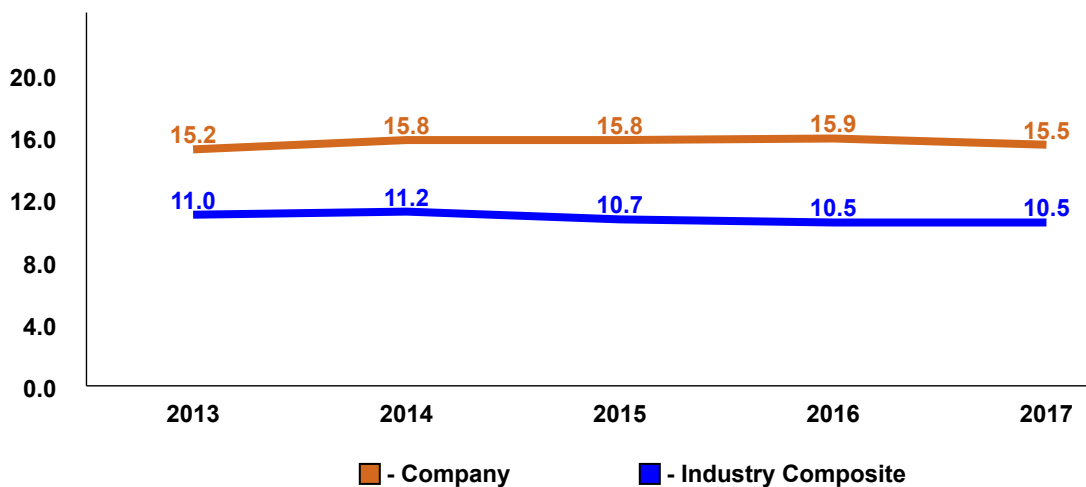
**Leverage Analysis (%)**

|                                  | Company                |      |      |      |      | Industry Composite     |       |       |       |       |
|----------------------------------|------------------------|------|------|------|------|------------------------|-------|-------|-------|-------|
|                                  | Year End - December 31 |      |      |      |      | Year End - December 31 |       |       |       |       |
|                                  | 2017                   | 2016 | 2015 | 2014 | 2013 | 2017                   | 2016  | 2015  | 2014  | 2013  |
| Capital & Surplus to Liabilities | 15.5                   | 15.9 | 15.8 | 15.8 | 15.2 | 10.5                   | 10.5  | 10.7  | 11.2  | 11.0  |
| Reinsurance Leverage             | 38.1                   | 40.7 | 41.8 | 42.2 | 42.8 | 214.9                  | 213.8 | 201.6 | 194.9 | 200.9 |
| NPW & Deposits to Total Capital  | 1.1                    | 1.1  | 1.2  | 1.2  | 1.4  | 1.5                    | 1.7   | 1.9   | 2.1   | 1.6   |
| Change in NPW & Deposits         | 9.5                    | -3.7 | 4.7  | -0.1 | 14.7 | -5.2                   | -7.4  | -8.2  | 36.1  | -7.1  |

Source: Bestlink - Best's Statement File - L/H, US

Industry Composite: Individual Annuity Composite - Bestlink - Best's Statement File - L/H, US

**Capital & Surplus to Liabilities**

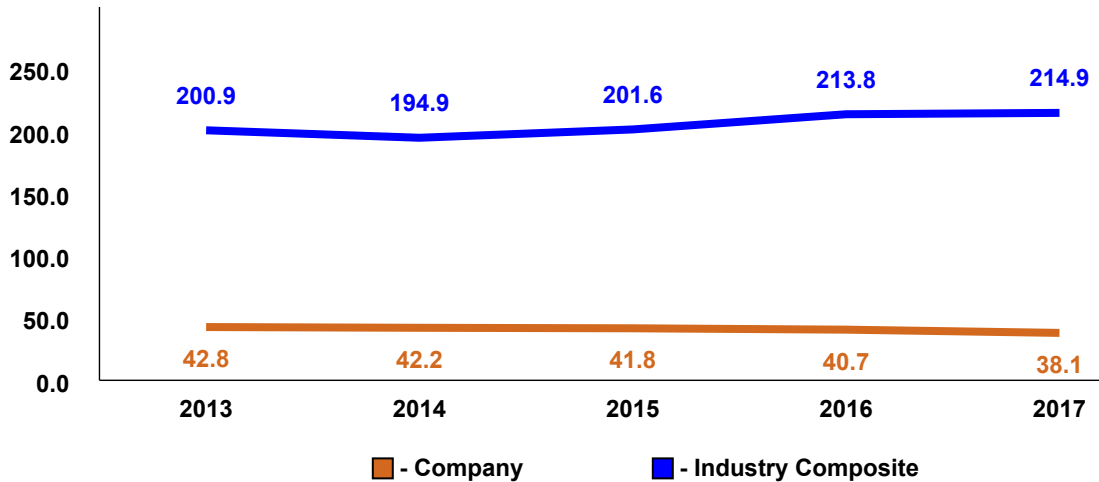


Source: Bestlink - Best's Statement File - L/H, US

Industry Composite: Individual Annuity Composite - Bestlink - Best's Statement File - L/H, US

**Capitalization: (Continued...)**

**Reinsurance Leverage**



Source: Bestlink - Best's Statement File - L/H, US  
Industry Composite: Individual Annuity Composite - Bestlink - Best's Statement File - L/H, US

**Asset Liability Management – Investments:**

Pacific Life's general account invested assets totaled approximately \$71.2 billion at year-end 2017. Invested assets are primarily comprised of public/private corporate and government bonds (64% of invested assets), commercial mortgage loans (16%), policy loans (11%) and cash and other short-term investments (9%). Approximately 12% of the bond portfolio consists of loan backed or structured securities, and Pacific Life has also allocated a portion of its surplus to equity investments, including private equity and real estate equity.

On a statutory basis, Pacific Life's bond portfolio, as of year-end 2017, included 5% in below investment grade securities (BIG) bonds, and the overall bond portfolio represented roughly 64% of general account invested assets. While below investment grade bonds are well within industry averages, its exposure to NAIC class 2 bonds is elevated relative to the industry. The sector allocation to corporate bonds remains well diversified as follows: Utilities (20%), Industrials (17%), Consumer Noncyclical (21%), Financials (14%), Energy (8%), Telecom (10%), Real Estate (7%), and Consumer Cyclical (3%). The corporate bond portfolio has global diversification in primarily developed economies outside of the U.S.

Pacific Life's structured security portfolio includes residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS). The vast majority of RMBS was invested in prime non-government agency backed bonds with modest amounts of sub-prime and Alt A investments.

The commercial mortgage portfolio represents roughly 16% of assets and the amount of direct real estate investments was minimal, comprising less than 1% of total investments. The company maintains a well-diversified mortgage loan and real estate portfolio diversified among apartment complexes, office buildings, resorts, retail properties and hotels with modest amounts of mixed use, industrial and mobile home communities.

**Asset Liability Management – Investments: (Continued...)**

**Bond Portfolio - 2017 Bonds Distribution by Maturity (%)**

|                            | Years      |             |             |             |             | Years Average Maturity |
|----------------------------|------------|-------------|-------------|-------------|-------------|------------------------|
|                            | 0-1        | 1-5         | 5-10        | 10-20       | 20+         |                        |
| Government                 | 0.1        | 0.7         | 0.4         | 0.1         | 1.3         | 15.3                   |
| Government Agencies        | 0.2        | 0.6         | 0.5         | 0.7         | 0.5         | 11.6                   |
| Industrial & Miscellaneous | 2.9        | 20.8        | 42.8        | 11.1        | 17.1        | 10.3                   |
| Affiliated                 | ...        | ...         | ...         | 0.1         | ...         | 15.0                   |
| Hybrid Securities          | ...        | 0.1         | ...         | ...         | ...         | 8.1                    |
| <b>Total</b>               | <b>3.2</b> | <b>22.1</b> | <b>43.8</b> | <b>12.0</b> | <b>18.9</b> | <b>10.5</b>            |

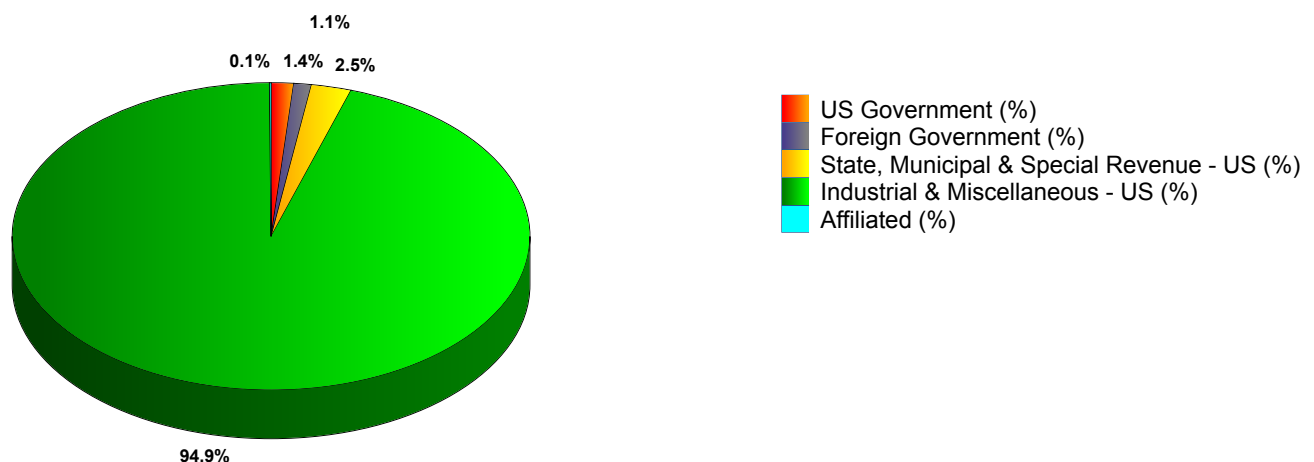
Source: Bestlink - Best's Statement File - L/H, US

**Bond Distribution by Issuer Type**

|   | Year End - December 31 |            |            |            |            |
|---|------------------------|------------|------------|------------|------------|
|   | 2017                   | 2016       | 2015       | 2014       | 2013       |
| Bonds (\$000)                               | 45,223,147             | 41,703,478 | 37,613,808 | 33,014,559 | 30,607,221 |
| US Government (%)                           | 1.4                    | 1.5        | 1.8        | 2.0        | 0.7        |
| Foreign Government (%)                      | 1.1                    | 1.3        | 1.4        | 1.8        | 2.2        |
| State, Municipal & Special Revenue - US (%) | 2.5                    | 2.8        | 3.2        | 4.0        | 4.9        |
| Industrial & Miscellaneous - US (%)         | 94.9                   | 94.3       | 93.6       | 92.2       | 92.1       |
| Affiliated (%)                              | 0.1                    | ...        | ...        | ...        | 0.1        |

Source: Bestlink - Best's Statement File - L/H, US

**2017 Bond Distribution By Issuer Type**



Source: Bestlink - Best's Statement File - L/H, US

**Operating Performance: Strong**



On a statutory basis, total revenue increased to \$13.6 billion, or 12%, in 2017 driven by solid growth in premiums and net investment income. Strong operating earnings led to statutory capital generation of \$764 million in 2017 and \$786 million in 2016. The slight decline in 2017 was primarily attributable to an increase in dividends to Pacific LifeCorp and one-time refinancing expenses, partially offset by solid earnings and a one-time tax reform benefit.

Below are GAAP results by business segment.

The Life Insurance segment provides a broad range of life insurance products (interest sensitive and traditional) through multiple distribution channels in the upper income and corporate markets. The Life Insurance segment represented 28% of Pacific Life's total admitted assets for 2017, and reported net income of \$137 million, compared to \$73 million for the prior year. The increase in income was attributable to solid operating performance, including minimal credit losses, and one-time benefits of tax reform.

The Retirement Solutions segment products include variable and fixed annuities, mutual funds, structured settlement and group annuities offered through multiple distribution channels. The Retirement Solutions segment represented 57% of Pacific Life's total admitted assets for 2017, and reported net income of \$509 million compared to \$456 million for the prior year. The increase was primarily driven by solid operating performance, including favorable fee income and general account spreads driven by strong markets and one-time benefits of tax reform..

The Reinsurance segment primarily includes the domestic retrocession business, which was acquired in August 2011, due to the acquisition of the retrocession business from Manulife Financial Corporation. The Reinsurance segment also includes international reinsurance, which Pacific Life has assumed from its affiliated Pacific Life Re Limited, and wholly owned subsidiary of Pacific LifeCorp. The Reinsurance segment represented 3% of Pacific Life's total assets for 2017, and reported net income of \$97 million compared to \$200 million for the prior year. The lower earnings were primarily driven by one-time gains in 2016 associated with the restructuring of a longevity treaty and realized gains related to extending asset durations related to proactive ALM management.

The Aviation Capital Group offers aircraft leasing to the airline industry throughout the world and provides brokerage and asset management services to other third-parties. It reported \$94 million of net income in 2017, compared to \$138 million for the prior year. The lower results were largely driven by one-time losses related to the sale of a portfolio of aircraft assets as the company streamlined its portfolio.

The Corporate and Other segment consists of asset and activities which support the Company's operating segments and includes the management of investments, corporate hedging activities, and other expenses not directly attributable to the operating segments. The Corporate segment also includes institutional investment products such as funding agreements, guaranteed interest contracts (GICs) and other operations that do not qualify as operating segments. The Corporate segment reported a net loss of \$80 million in 2017 compared to a net loss of \$41 million for the prior year primarily driven by one-time costs associated with the tender and reissuance of certain senior and surplus notes, partially offset by favorable investment performance.

The group continues to grow and diversify its individual life (and reinsurance) and annuity businesses.. Also, Pacific Life has successfully shifted its individual annuity product sales mix from primarily variable annuities with riders to a balance between variable annuities with riders, investment only variable annuities and fixed annuities. A.M. Best favorably views these changes as they serve to reduce the group's earnings sensitivity to equity market fluctuations.

## Underwriting Results:

### Profitability Test (%)

|  | Year End - December 31 |      |      |      |      | 5-YR<br>Avg/Total |
|--|------------------------|------|------|------|------|-------------------|
|  | 2017                   | 2016 | 2015 | 2014 | 2013 |                   |
| Benefits Paid to NPW & Deposits          | 87.7                   | 86.6 | 87.5 | 84.7 | 74.7 | 84.3              |
| Commissions & Expenses to NPW & Deposits | 15.0                   | 14.4 | 13.8 | 14.3 | 13.9 | 14.3              |
| Net Operating Gains to Total Assets      | 0.6                    | 0.7  | 0.5  | 0.6  | 0.5  | 0.6               |
| Net Operating Gains to Total Revenues    | 5.8                    | 6.7  | 5.0  | 5.9  | 4.6  | 5.6               |
| Operating Return on Equity               | 8.9                    | 10.0 | 8.4  | 10.1 | 8.3  | 9.2               |
| Net Yield                                | 4.58                   | 4.18 | 4.63 | 4.50 | 4.05 | 4.40              |
| Pre-tax Invest Total Return              | 4.82                   | 4.12 | 4.58 | 4.98 | 3.77 | 4.47              |

Source: Bestlink - Best's Statement File - L/H, US

## Underwriting Results: (Continued...)

### Net Operating Gain (\$000)

|                         | Year End - December 31 |                |                |                |                |
|-------------------------|------------------------|----------------|----------------|----------------|----------------|
|                         | 2017                   | 2016           | 2015           | 2014           | 2013           |
| Ordinary life           | -241,151               | 2,246          | 96,676         | 12,359         | 198            |
| Group life              | -35                    | 201            | 192            | -99            | 55             |
| Supplementary contracts | 408                    | 1,610          | 816            | 1,704          | 643            |
| Individual annuities    | 512,068                | 677,824        | 453,004        | 678,535        | 485,303        |
| Group annuities         | 67,940                 | 117,905        | 75,793         | 35,203         | 11,731         |
| Individual A&H          | -1,827                 | -1,705         | 1,300          | -2,058         | 2,371          |
| Group A&H               | 50                     | 100            | 63             | 89             | 572            |
| Other                   | 455,300                | 18,866         | 2,226          | -38,491        | 26,265         |
| <b>Total</b>            | <b>792,752</b>         | <b>817,048</b> | <b>630,069</b> | <b>687,241</b> | <b>527,138</b> |

Source: Bestlink - Best's Statement File - L/H, US

### Accident & Health Statistics

|                              | Year End - December 31 |        |       |        |       |
|------------------------------|------------------------|--------|-------|--------|-------|
|                              | 2017                   | 2016   | 2015  | 2014   | 2013  |
| Net Premiums Written (\$000) | 2,444                  | 2,324  | 2,593 | 3,471  | 3,195 |
| Net Premiums Earned (\$000)  | 2,444                  | 2,324  | 2,593 | 3,471  | 3,195 |
| Loss Ratio (%)               | 184.7                  | 150.3  | 21.1  | 158.4  | 1.1   |
| Expense Ratio (%)            | 17.9                   | 16.5   | 18.2  | 25.7   | 35.3  |
| Underwriting Results (\$000) | -2,508                 | -1,552 | 1,575 | -2,922 | 2,035 |

Source: Bestlink - Best's Statement File - L/H, US

## Business Profile: Favorable

PLIC operates in conjunction with its subsidiary, PL&A, and is collectively referred to as Pacific Life. Pacific Life and affiliates have primary business operations consisting of life insurance, reinsurance, individual annuities, mutual funds, investment related products, institutional products, and aircraft leasing. PLIC is owned by Pacific LifeCorp, an intermediate holding company whose ultimate parent is Pacific Mutual Holding Company. Primary business reporting segments for Pacific LifeCorp include the Life Insurance Division (LID), Retirement Solutions Division (RSD), Aviation Capital Group (ACG) and Reinsurance, which includes the international reinsurance operations of Pacific Life Re Limited, an affiliate of PLIC and a wholly owned subsidiary of Pacific LifeCorp and the life retrocession business. A final segment is the Corporate and Other segment.

LID's principal products include IUL, UL, VUL, interest-sensitive whole life, survivor life, term life and corporate-owned life insurance (COLI). Pacific Life's early entry into the indexed universal life insurance market (2005) has enabled the company to capture significant market share in a growing product line and broaden its market segments beyond the upper-income to include the upper middle-income market. The company's continuing success in the individual life insurance market stems from diversified product offerings, a focus on key market segments, diversified, highly professional distribution sources, and an excellent producer and policy owner service platform. This combination has allowed the company to build a stable and profitable book of business over the years. Its multi-channel life distribution system includes regional life offices, the M Financial producer group, independent marketing organizations, and institutional accounts. The institutional accounts distribution focuses on national and regional wirehouses, as well as banks and other joint marketing organizations. Pacific Life's strategy has been to focus on expanding its present distribution systems, continuing to address the changing needs of the high net worth and corporate markets, and broadening market share in the upper middle-income market. Pacific Life's life insurance sales represent a mix weighted largely between IUL followed by VUL and UL. In June 2016, the Company acquired a term insurance technology platform from Genworth Financial Inc., which is expected to allow Pacific Life to expand beyond its historically affluent and corporate customer base.

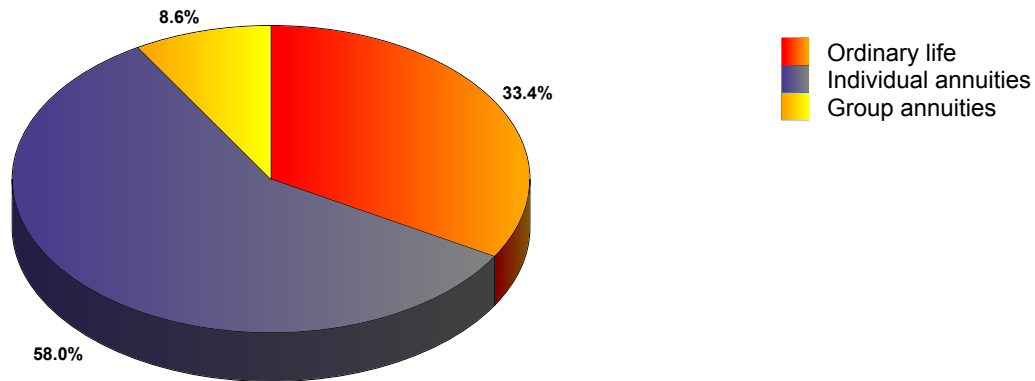
RSD develops and markets a diversified range of competitive fixed and variable annuities, mutual funds and institutional products (structured settlements and pension risk transfer products), to individuals, businesses and retirement plans through a diverse wholesaler network consisting of regional and national wirehouses, financial institutions, independent planners, settlement firms and benefit consultants. A broad range of both name-brand funds and proprietary fund selections are offered through its variable annuity and mutual fund products. RSD is positioned to meet a variety of retirement needs including wealth planning, wealth accumulation, retirement and retirement income management through its ability to continue providing value-added products and services, characterized by a strong customer and producer service orientation. Strong relationships between a nationwide network of securities broker-dealer firms, external and internal wholesalers, along with enhanced products and superior service have all contributed to continued strong distribution capacity. The variable annuity products include institutional money management, asset allocation strategies and asset-based compensation, with an emphasis on service. Variable annuity products are sold with and without riders and, in recent years, Pacific Life has made progress in significantly reducing the amount of variable annuities sold with riders. Pacific Life has successfully diversified its individual annuity product offerings through the continued development and enhancement of the company's suite of fixed products, resulting in strong fixed annuity sales over the past several years. Fixed annuity products now include book value, market value adjustment, indexed and immediate annuity options. In 2012, the RSD segment established PARC, a variable annuity captive domiciled in Arizona as a subsidiary of Pacific LifeCorp, which assumes 5% of the variable annuity business. In addition, RSD broadened its group annuity solutions for defined benefit plans which now offer a comprehensive range of products designed to insulate the plan from investment, liquidity, and/or mortality risk. In addition, Pacific Life markets a single premium universal life product with a long-term care rider benefit which is jointly distributed between LID and RSD.

The Reinsurance segment offers a comprehensive range of wholesale life risk management products in the United Kingdom, Ireland, Asia, Australia, and North America. The Reinsurance segment specializes in term life, critical illness, income protection and annuity businesses. Reinsurance includes the operations of the life retrocession business acquired in 2011. In August 2011, PLIC and Pacific Life Reinsurance (Barbados) Limited (PLRB), a newly formed insurer and wholly owned subsidiary of Pacific LifeCorp, acquired Manulife's domestic and international life retrocession businesses, respectively. Also included in the Reinsurance segment is the international reinsurance operations of Pacific Life Re Limited (PLRL), an affiliate of PLIC and a wholly owned subsidiary of Pacific LifeCorp. PLRL reinsurance risks are primarily mortality risks in the UK and Asia along with some assumption of retrocession business from larger reinsurers and some UK related longevity swaps from insurers and pension funds without material investment risk. In late 2014, the company completed a large inforce reinsurance transaction with Reinsurance Group of America, representing approximately \$200 billion in face amount. Pacific Life Re Australia (Pty) Limited (PLRA) was launched in the second half of 2015 to capitalize on the withdrawal of reinsurance capacity in Australia.

Aviation Capital Group Corp. (ACG) is a majority owned subsidiary of Pacific Life that offers aircraft leasing to the airline industry throughout the world and provides brokerage and asset management services to other third-parties. As of December 31, 2017, ACG had 275 owned and managed commercial jets, leased to approximately 95 airlines in over 45 countries. Despite significant operating leverage associated with its large fleet of aircraft, ACG debt is nonrecourse to Pacific Life and is recourse only to either ACG or certain aircraft. The Company's investment in ACG represents Pacific Life's alternative to the industry's traditional investment in airline issued debt and has proven to be a superior strategy. In 2017, Pacific Life entered into an agreement with Tokyo Century Corporation (TC) in which TC purchased 20% of ACG. As part of the transaction, TC has agreed to provide additional capital in the future to ACG to help accelerate ACG's business expansion and create incremental business opportunities.

The Corporate and Other segment consists of assets and activities, which support the Company's operating segments. Included in these support activities is the management of investments, certain entity level hedging activities and other expenses and other assets not directly attributable to the operating segments. The Corporate and Other segments also include several operations that do not qualify as operating segments and the elimination of intersegment transactions.

**2017 Top Product Lines of Business (Net Premiums Written)**



Source: Bestlink - Best's Statement File - L/H, US

**2017 By-Line Business**

| Product Line         | Direct Premiums Written |              | Reinsurance Premiums Assumed |              | Reinsurance Premiums Ceded |              | Net Premiums Written |              |
|----------------------|-------------------------|--------------|------------------------------|--------------|----------------------------|--------------|----------------------|--------------|
|                      | (\$000)                 | (%)          | (\$000)                      | (%)          | (\$000)                    | (%)          | (\$000)              | (%)          |
| Ordinary life        | 3,425,350               | 34.0         | 989,332                      | 94.5         | 1,148,558                  | 86.8         | 3,266,124            | 33.4         |
| Group life           | ...                     | ...          | ...                          | ...          | 36                         | ...          | -36                  | ...          |
| Individual annuities | 5,824,642               | 57.9         | 28,680                       | 2.7          | 174,610                    | 13.2         | 5,678,712            | 58.0         |
| Group annuities      | 814,423                 | 8.1          | 26,831                       | 2.6          | ...                        | ...          | 841,254              | 8.6          |
| Individual A&H       | ...                     | ...          | 2,444                        | 0.2          | ...                        | ...          | 2,444                | ...          |
| <b>Total</b>         | <b>10,064,416</b>       | <b>100.0</b> | <b>1,047,287</b>             | <b>100.0</b> | <b>1,323,205</b>           | <b>100.0</b> | <b>9,788,498</b>     | <b>100.0</b> |

Source: Bestlink - Best's Statement File - L/H, US

### Geographical Breakdown By Direct Premium Writings

|              | 2017              | 2016             | 2015              | 2014              | 2013              |
|--------------|-------------------|------------------|-------------------|-------------------|-------------------|
| California   | 1,390,346         | 1,240,684        | 1,318,510         | 1,295,713         | 1,343,740         |
| Colorado     | 1,315,318         | 1,275,778        | 987,835           | 888,998           | 939,360           |
| Texas        | 670,520           | 635,989          | 628,426           | 736,936           | 767,550           |
| Florida      | 639,642           | 611,509          | 611,490           | 592,352           | 584,293           |
| New York     | 517,147           | 474,609          | 383,291           | 494,100           | 444,662           |
| Illinois     | 464,852           | 483,602          | 464,805           | 460,271           | 487,482           |
| Minnesota    | 373,271           | 379,817          | 319,336           | 333,808           | 296,773           |
| Ohio         | 363,532           | 320,050          | 479,877           | 393,417           | 389,280           |
| New Jersey   | 354,049           | 245,785          | 232,807           | 270,635           | 312,078           |
| Michigan     | 324,103           | 273,054          | 281,519           | 308,695           | 345,767           |
| All Other    | 4,311,338         | 3,801,344        | 4,348,543         | 4,523,069         | 4,674,700         |
| <b>Total</b> | <b>10,724,118</b> | <b>9,742,221</b> | <b>10,056,439</b> | <b>10,297,995</b> | <b>10,585,686</b> |

Source: Bestlink - Best's Statement File - L/H, US

## Enterprise Risk Management: Very Strong

Pacific Life has a formalized and well-defined enterprise-level risk framework, with committees attended by senior management. Key risks managed within the ERM program include interest rate, equity, credit, insurance, liquidity, model, operational and emerging risks. The principal objective of the ERM program is to enable Pacific Life to grow and prosper, regardless of the economic environment, by ensuring that risks are identified, understood, and well managed. The ERM framework defines objectives, establishes risk appetites and tolerances, specifies practices for risk management and provides transparency of risk throughout the organization. The ERM group along with senior management monitors key risks and reports to the board of directors on a quarterly basis, or more frequently if needed. Business segments, in coordination with ERM, define and execute risk management for their operations. Equity and interest rate risks are the greatest exposures with credit risk being smaller. Pacific Life manages its significant equity market risk through a combination of product design, customer asset allocation and hedging programs that focus on preserving statutory capital. Interest rate risk is managed by separate product portfolios with clear duration targets and interest rate guidelines. Mortality, longevity and lapse risks are managed through product design, underwriting, monitoring and reinsurance. The company also has an information security program to protect against current and emerging risks that is linked to their business strategy, drivers, objectives, and processes.

The Company continuously monitors the results of their dynamic ERM program and makes continuous improvements relative to stated risk management preferences and risk limits based on the market and economic environment, and hedging effectiveness results as necessary. The company also employs an economic capital model to aid in understanding its risk profile, integrated into certain product pricing activity, and capital allocation. The economic capital model has been reviewed by independent consultants.

## Financial Statements:

### Balance Sheet:

#### Consolidated Balance Sheet

| Admitted Assets                          | Year End - December 31 |              |
|--|------------------------|--------------|
|  | 2017 (\$000)           | 2016 (\$000) |
| Bonds                                    | 45,223,147             | 41,703,478   |
| Preferred Stocks                         | 13,096                 | 21,379       |
| Common Stocks                            | 162,014                | 2,094,158    |
| Mortgage Loans                           | 11,558,910             | 10,341,835   |
| Real Estate                              | 157,623                | 166,711      |
| Contract Loans                           | 7,680,164              | 7,435,894    |
| Cash & short-term Investments            | 1,155,831              | 810,462      |
| Other Invested Assets                    | 3,867,481              | 1,654,265    |
| Premiums & Consideration Due             | 335,354                | 289,531      |
| Investment income due & accrued          | 566,093                | 532,539      |
| Other Assets                             | 3,061,421              | 2,195,979    |
| Total assets excluding separate accounts | 73,781,135             | 67,246,231   |
| Separate account assets                  | 61,455,858             | 57,425,562   |
| Total Assets                             | 135,236,993            | 124,671,793  |

| Liabilities & Surplus                         | Year End - December 31 |              |
|---|------------------------|--------------|
|   | 2017 (\$000)           | 2016 (\$000) |
| + Net Policy Reserves                         | 57,203,411             | 52,829,022   |
| Liabilities for deposit type contracts        | 3,821,503              | 3,358,082    |
| Policy Claims                                 | 747,078                | 774,327      |
| Interest maintenance reserve                  | 210,951                | 182,076      |
| Commissions, taxes and expenses               | 290,453                | 237,510      |
| Asset Valuation Reserve                       | 611,759                | 692,568      |
| Contingency Reserve                           | 2,680                  | 2,705        |
| Other Liabilities                             | 1,580,418              | 621,521      |
| Total liabilities excluding separate accounts | 64,468,253             | 58,697,811   |
| Separate account liabilities                  | 61,455,858             | 57,425,562   |
| Total Liabilities                             | 125,924,111            | 116,123,372  |

**YE 2017:** + Analysis of reserves; Life \$30,035,194; annuities \$26,761,275; supplementary contracts with life contingencies \$2,856; accidental death benefits \$24; disability active lives \$282,621; disability disabled lives \$11,144; miscellaneous reserves \$90,122; accident & health \$20,174.

**YE 2016:** + Analysis of reserves; Life \$28,184,971; annuities \$24,320,823; supplementary contracts with life contingencies \$2,979; accidental death benefits \$29; disability active lives \$219,570; disability disabled lives \$11,339; miscellaneous reserves \$70,130; accident & health \$19,182.

**Balance Sheet: (Continued...)**

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**Consolidated Balance Sheet (Continued...)**

| <b>Capital &amp; Surplus</b>  | <b>Year End - December 31</b> |                     |
|-------------------------------|-------------------------------|---------------------|
|                               | <b>2017 (\$000)</b>           | <b>2016 (\$000)</b> |
| Common Stock                  | 30,000                        | 30,000              |
| Surplus Notes                 | 1,729,725                     | 1,715,362           |
| Paid-in & Contributed Surplus | 1,185,789                     | 1,185,439           |
| Unassigned Surplus            | 6,214,504                     | 5,379,376           |
| Other Surplus                 | 152,865                       | 238,244             |
| Total Policyholders' Surplus  | 9,312,882                     | 8,548,420           |
| Total Liabilities & Surplus   | 135,236,993                   | 124,671,793         |

Source: Bestlink - Best's Statement File - L/H, US

## Summary of Operations:

### Consolidated Summary of Operations (000)

| Statement of Income                                   | 2017 (\$000)      | Expenses  | 2017 (\$000)      |
|---|-------------------|---|-------------------|
| Premiums:   |                   | Death benefits                                    | 1,393,982         |
| Ordinary life premiums                                | 3,266,124         | Claims incurred (PC)                              | ...               |
| Individual annuities premiums                         | 5,678,712         | Matured endowments                                | 2,761             |
| Credit life premiums                                  | ...               | Annuity & old age benefits                        | 861,597           |
| Group life premiums                                   | -36               | Disability & Accident & Health benefits           | 1,531             |
| Group annuities premiums                              | 841,254           | Coupons, annual endowments & similar benefits     | ...               |
| Accident & Health group premiums                      | ...               | Surrender benefits                                | 6,954,299         |
| Accident & Health credit premiums                     | ...               | Group conversion                                  | ...               |
| Accident & Health other premiums                      | 2,444             | Accident & Health benefits                        | 3,523             |
| Industrial life premiums                              | ...               | Interest on contract or deposit-type funds        | 129,194           |
| Miscellaneous premiums                                | ...               | Payments on supplemental contracts                | 705               |
| Premiums & annuity considerations                     | ...               | Accumulated coupon payments                       | ...               |
| Fraternal premiums                                    | ...               | Total benefits recodes                            | 8,069             |
| Aviation reinsurance premiums                         | ...               | Increase in life reserves                         | 4,363,944         |
| Deposit type funds                                    | ...               | Increase in accident & health reserves            | 992               |
| Employee benefits plan premiums                       | ...               | Increase in liabilities for premium deposit funds | ...               |
| Deposit administration funds                          | ...               | Change in reserves                                | 1,767             |
| Other premiums  | ...               | Reserve adjustment on reinsurance assumed         | ...               |
| Reinsurance premiums                                  | ...               | Other reserves                                    | ...               |
| Total net premiums                                    | 9,788,498         | Claim adjustment (PC only)                        | ...               |
| Supplementary contracts                               | 227               | Administrative expenses (PC only)                 | ...               |
| Coupon accum interest                                 | ...               | Commissions on premiums & annuity considerations  | 919,076           |
| Net investment income                                 | 3,067,787         | Commissions & expenses on reinsurance assumed     | 22,485            |
| Amortization of Interest Maintenance Reserve          | 28,406            | Other commissions & expenses                      | ...               |
| Net operating gain from separate accounts             | ...               | Reinsurance expenses                              | ...               |
| Commissions & expense allowance on rein ceded         | 157,556           | Interest expenses                                 | ...               |
| Reserve adjustment on reinsurance ceded               | -1,004,755        | Insurance taxes, licenses & fees                  | 99,635            |
| Reinsurance income                                    | ...               | General insurance expenses                        | 720,217           |
| Other income  | 1,396,954         | Net transfer to separate accounts                 | -2,807,310        |
| Difference between net earned & net written (PC only) | ...               | Other expenses                                    | -15,206           |
| Management and/or service fees                        | 130,016           |   |                   |
| <b>Total operating income</b>                         | <b>13,564,689</b> | <b>Total expenses</b>                             | <b>12,661,261</b> |
|   |                   | Net operating gain before federal income taxes    | ...               |
|   |                   | Net operating gain before taxes & dividends       | 903,428           |
|   |                   | Net operating gain before refunds to members      | ...               |
|   |                   | Dividends - life                                  | 10,731            |
|   |                   | Dividends - accident & health                     | ...               |
|   |                   | Refund to members (fraternal only)                | ...               |



**Summary of Operations: (Continued...)**

**Consolidated Summary of Operations (000) (Continued...)**

| Statement of Income | 2017 (\$000) | Expenses  | 2017 (\$000) |
|---------------------|--------------|---|--------------|
|                     |              | Net operating gain after dividends & before taxes | 892,697      |
|                     |              | Federal income taxes                              | 99,945       |
|                     |              | Net operating gain                                | ...          |
|                     |              | Net operating gain after federal income taxes     | ...          |
|                     |              | Net operating gain after dividends & taxes        | 792,752      |
|                     |              | Net operating gain after refunds to members       | ...          |

Source: Bestlink - Best's Statement File - L/H, US

**Cash Flow Analysis (\$000)**

**Cash Flow Analysis (\$000)**

| Funds Provided                             | 2017 (\$000)      | Funds Applied                              | 2017 (\$000)      |
|--|-------------------|--|-------------------|
| Gross cash from operations                 | 13,312,264        | Benefit and loss payments                  | 9,200,382         |
| Transfers from separate accounts           | 2,866,479         | Commissions, taxes & expenses paid         | 1,668,821         |
| Federal income tax refunds                 | ...               | Transfers to separate accounts             | ...               |
| Decrease in contract loans & premium notes | ...               | Dividends to policyholders                 | ...               |
| Bond proceeds                              | 4,060,320         | Federal income taxes paid                  | ...               |
| Stock proceeds                             | ...               | Increase in contract loans & premium notes | ...               |
| Mortgage loans proceeds                    | ...               | Surplus notes paid back                    | ...               |
| Real estate proceeds                       | ...               | Capital notes paid back                    | ...               |
| Collateral loans proceeds                  | ...               | Capital paid back                          | ...               |
| Surplus notes paid in                      | ...               | Repaid borrowed money                      | ...               |
| Capital notes paid in                      | ...               | Repaid capital notes                       | ...               |
| Capital paid in                            | ...               | Bonds acquired                             | 7,425,193         |
| Borrowed money                             | ...               | Stocks acquired                            | ...               |
| Capital notes                              | ...               | Mortgage loans acquired                    | ...               |
| Other investment proceeds                  | 2,292,527         | Real estate acquired                       | ...               |
|  |                   | Collateral loans acquired                  | ...               |
|  |                   | Other investments acquired                 | 3,539,184         |
|  |                   | Dividends to stockholders                  | ...               |
| Total Other cash provided                  | 352,720           | Total Other cash apportioned               | 705,362           |
| Decrease in cash & short-term investments  | ...               | Increase in cash & short-term investments  | 345,369           |
| <b>Total</b>                               | <b>22,884,310</b> | <b>Total</b>                               | <b>22,884,310</b> |

Source: Bestlink - Best's Statement File - L/H, US

# Pacific Life Group

**Report Revision Date:**  
May 25, 2018

## Company Attributes:

**Industry:** Insurance  
**Business Type:** Life, Annuity, and Accident  
**Entity Type:** Data Consolidation  
**Organization Type:** Mutual  
**Business Status:** In Business  
**Marketing Type:** Independent Agency

## Company History:

**Date Incorporated:** 01/02/1868

**Date Commenced:** N/A

**Domicile:** United States: Nebraska

## Company Operations:

| 2017 Rank | Top 5 Lines of Business by NPW |       |
|-----------|--------------------------------|-------|
| 1         | Individual annuities           | 58.0% |
| 2         | Ordinary life                  | 33.4% |
| 3         | Group annuities                | 8.6%  |

| 2017 Rank | Top 5 Geographic Distribution by DPW |       |
|-----------|--------------------------------------|-------|
| 1         | United States: CA                    | 13.0% |
| 2         | United States: CO                    | 12.3% |
| 3         | United States: TX                    | 6.3%  |
| 4         | United States: FL                    | 6.0%  |
| 5         | United States: NY                    | 4.8%  |

Source: Bestlink - Best's Statement File - L/H, US

## Additional Resources:

- [Related News](#)
- [Rating Activity and Announcements](#)
- [Company Overview](#)
- [Archived Best's Credit Report](#)
- [Corporate Changes & Retirements](#)
- [BestAlert Service](#)
- [Best's Credit Ratings Mobile Application](#)

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Issue/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

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