

**Global Credit Research**  
**Credit Opinion**  
1 NOV 2004

**Credit Opinion: West Coast Life Insurance Company**

— **West Coast Life Insurance Company**

---

*San Francisco, California, United States*

**Ratings**

<b>Category</b>	<b>Moody's Rating</b>
Outlook	Stable
Insurance Financial Strength	Aa3
<b>Parent: Protective Life Corporation</b>	
Outlook	Stable
Senior Unsecured	A3
Subordinate Shelf	(P)Baa1
Preferred Shelf	(P)Baa2
Preferred Shelf	(P)Baa2

**Contacts**

<b>Analyst</b>	<b>Phone</b>
Robert P. Donohue/New York	1.212.553.1653
Ann G. Perry/New York	
Robert Riegel/New York	
Weigang Bo/New York	

**Key Indicators**

**West Coast Life Insurance Company**

	[1] 2002	[2] 2000 1999	5-Year Avg.
	2003	2001	
Insurance revenues (\$mil)	311 311	232 168 261	[3]5.45
Net investment income	130 117	102 91 76	[3]15.50
Total revenues	548 512	379 314 367	[3]11.65
Gain fr ops pre - tax & div	-33 -31	13 -11 -19	[3]61.43
Gain before real capital gains	-24 -27	6 -9 -25	[3]41.00
Net Income	-25 -28	5 -9 -25	[3]41.24
General account assets	2,3172,023	1,6671,4201,275	[3]16.83
Separate account assets	0 0	0 0 0	--

Total assets	<b>2,3172,023</b>	<b>1,6671,4201,275</b>	[3]	<b>16.83</b>
Capital	<b>158 123</b>	<b>115 101 89</b>	[3]	<b>11.77</b>
Capitalization (%)	<b>6.8 6.1</b>	<b>6.9 7.1 6.9</b>		<b>6.76</b>
Deposit-type contracts % gen acct reserves	<b>0.4 0.5</b>	<b>0.5 -- --</b>		<b>0.47</b>

[1] As of December 31. [2] Due to statutory codification changes in 2001, trend analysis with prior years may be difficult. [3] Compound annual growth rate.

## Opinion

### Credit Strengths

Protective's credit strengths are:

- Broad product offering and multiple distribution channels
- Life insurance business has become the cornerstone of Protective's franchise
- Leading participant in the term life insurance market
- Established core competency in acquiring other companies and blocks of business
- Disciplined approach in the fixed annuity market
- High quality bond portfolio and ample liquidity
- Ample statutory capitalization

### Credit Challenges

Protective's credit challenges are:

- Challenges remain in the Asset Protection Division
- Significant exposure to reinsurance
- Lack of scale in the variable annuity business
- Majority of annuity distribution comes through one independent broker-dealer
- Above average exposure to commercial mortgage loans
- Moderately high financial leverage at holding company
- Significant exposure to institutional investment products business

### Rating Rationale

Moody's rates Protective Life Insurance Company (Protective) Aa3 for insurance financial strength (IFS). A support agreement between Protective and its West Coast Life Insurance Company subsidiary provides the credit enhancement that is the basis for the extension of Protective's Aa3 IFS rating to West Coast Life. Moody's A3 senior debt rating on Protective Life Corporation is based primarily on the financial strength of its Protective Life Insurance Company (Protective) subsidiary.

The Aa3 IFS rating on Protective is based on its historically good profitability, its growing life insurance business, and its overall strong diversity of earnings and distribution. Notably, the company has five well-established divisions that, in most years, contribute positively to the company's overall bottom line. In recent years, the company's individual life insurance business has developed significant economies of scale, and the company has become a leader in the term life insurance market distributing its products through a number of different channels. The company has also developed a unique core competence in acquiring and "running-off" other companies and blocks of business. Lastly, Protective's bond portfolio significantly outperformed the life insurance industry with respect to realized credit losses and impairments in the 2001-2003 time period.

Protective does, however, face a number of issues. These include higher than expected claims in the company's Asset Protection Division, a lack of scale in the variable annuity business, and continued moderately high financial leverage at the holding company.

### **Rating Outlook**

The outlook is stable on all ratings.

### **What Could Change the Rating - UP**

Protective's ratings could go up if:

- The holding company's GAAP after-tax operating income started to consistently exceed \$400 million a year, and
- Annual cash flow interest coverage at the holding company started to consistently exceed 8 times.

### **What Could Change the Rating - DOWN**

Protective's ratings could go down if:

- Company Action Level NAIC Risk-Based Capital (RBC) falls below 270%.
- Annual cash flow interest coverage at the holding company falls below 2.5 times.
- The capitalization ratio (Moody's capital-to-general account assets) falls below 7.0%.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,500 to \$2,300,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at [www.moody.com](http://www.moody.com) under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."