Global Credit Research
Credit Opinion
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Credit Opinion: West Coast Life Insurance Company

West Coast Life Insurance Company

San Francisco, California, United States

Ratings

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

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Key Indicators

West Coast Life Insurance Company

	[1] 2003	2002	[2] 2001	2000	1999	5-Year Avg.
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	**2,317**	**2,023**	**1,667**	**1,420**	**1,275**	[3]**16.83**
Separate account assets	**0**	**0**	**0**	**0**	**0**	**--**

Total assets	**2,317**	**2,023**	**1,667**	**1,420**	**1,275**	[3]**16.83**
Capital	**158**	**123**	**115**	**101**	**89**	[3]**11.77**
Capitalization (%)	**6.8**	**6.1**	**6.9**	**7.1**	**6.9**	**6.76**
Deposit-type contracts % gen acct reserves	**0.4**	**0.5**	**0.5**	**--**	**--**	**0.47**

[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%.