



**James T. Morris, FSA**  
Chairman, President & CEO

**March 9, 2009**

The end of 2008 certainly ended much differently than we imagined and planned for at the beginning of the year. Consumer and investor confidence in the financial system and general economy has been sharply eroded and the volatility of the markets in the past months prevented Pacific Life from achieving the high investment returns it has achieved in years past. However, it must be remembered that Pacific Life does not position itself for short-term gains. We have long-term commitments that we match with long-term investments. This disciplined investment philosophy and long-term approach will enable Pacific Life to rise above the current market turbulence and remain strong and stable for its policyholders and clients. In an effort to provide you with more detail about our general account investments, I am pleased to share with you Pacific Life's 2008 Year-End Investment Quality Review.

Industry investment concerns for life insurers remain focused on exposure to financial companies and mortgage-backed securities. As one way of diversifying our risk, Pacific Life maintains a limited exposure of just 5% of investments to the financial services industry. In addition, our exposure to subprime mortgage securities accounts for just 1.1% of general account investments and Alt-A mortgage securities are approximately 2.1% of general account investments. A large majority of our subprime and commercial mortgage-backed securities are backed by loans originated in 2005 or earlier. These "vintage" years avoided much of the excess that resulted from more aggressive underwriting and inflated property values of 2006 and 2007.

A few other highlights from our 2008 Year-End Investment Quality Review include:

- Pacific Life has investments of approximately \$44 billion, including a bond portfolio of \$25.1 billion and \$5.6 billion of commercial mortgage loans.
- Only 4% of Pacific Life's bond portfolio is rated below investment grade.
- Investment write-downs for the year totaled \$584 million, or 1.3% of total investments.
- Pacific Life maintains strong financial strength ratings from Standard & Poor's, Moody's, Fitch, and A.M. Best.

Beyond investments, the severe decline in the equity markets has led to a heightened awareness of variable annuities and the long-term guarantees associated with these products. Pacific Life utilizes a variety of methods to ensure that we can meet our long-term guarantees. These methods include using reinsurance and other investment instruments to help manage our risk. In addition, Pacific Life added to the long-term reserves that back this business. We continue to operate with significant reserves and capital to support these long-term guarantees.

**PACIFIC LIFE INSURANCE COMPANY**

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[www.PacificLife.com](http://www.PacificLife.com)

Even in such a difficult environment, Pacific Life remains strong. We set a new company record in 2008 with new life insurance sales. We also had success with new fixed annuity products that will continue to be expanded in 2009. Pacific Life reported a 2008 year-end risk-based capital<sup>1</sup> (RBC) ratio over 500%, which is very strong. RBC is a tool used by regulators to measure financial stability. At year-end, Pacific Life had \$3.9 billion in cash and cash equivalents and access to other credit facilities to meet the liquidity needs of all its business operations.

I want to thank the hundreds of thousands of individuals and businesses who continue to rely on us for their financial security. Pacific Life remains committed to providing you the quality products, service, and stability to meet your needs today and through your lifetime. For more information about our 2008 financial results, please visit [www.PacificLife.com/financials](http://www.PacificLife.com/financials). For more information about our current financial strength ratings, you may visit [www.PacificLife.com/ratings](http://www.PacificLife.com/ratings).

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Rossi". The signature is fluid and cursive, with a large initial "J" and "R".

<sup>1</sup> The inclusion of the approximate year-end 2008 RBC ratio is intended solely for information purposes and is not intended for the purposes of ranking any insurance company or for use in connection with any marketing, advertising, or promotional activities.



# Investment Quality Review

December 31, 2008

**A Company Positioned for the Long-Term** Pacific Life Insurance Company's organization is relatively unique among insurance companies. Because we are organized under a mutual holding company structure, our policyholders are members of the holding company. We have no publicly traded stock — we are an independent company that remains focused on long-term strategies, the strength of our company, and on making decisions that benefit our policyholders and clients. This long-term commitment, combined with Pacific Life's disciplined investment philosophy, has prepared us well to weather the course even during volatile times.

**Distribution of Investments** Pacific Life's distribution of investments demonstrates a high quality asset mix.

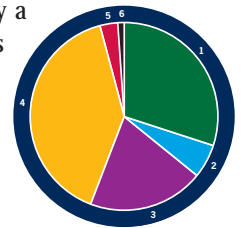
Investment Profile	Dollars In Millions	
Investment Grade Bonds	\$ 23,910	54 %
Policy Loans	6,920	16
Commercial Mortgage Loans	5,622	13
Cash & Cash Equivalents	3,887	9
Non-Investment Grade Bonds	1,137	2
Private Equity	898	2
Preferred Stock	683	1
Real Estate	468	1
Other Invested Assets & Derivatives	789	2
<b>Total Investments</b>	<b>\$ 44,314</b>	<b>100 %</b>

*Bonds and preferred stock are reflected at amortized cost.*

*Pacific Life's levels of non-investment grade bonds, subprime and Alt-A mortgage securities, and commercial mortgage-backed securities are typically among the highest quality securities in those sectors.*

**Investment Philosophy** Pacific Life follows a principled investment process and employs risk management guidelines that require a diversified investment portfolio. This approach limits our exposure to any single industry, issuer, or asset type and ensures that we are prepared to fulfill our commitments to our clients. Pacific Life has consistently approached investing by seeking outstanding investment returns without compromising either asset quality or our high standards for safety and risk management.

**Bond Portfolio Quality** Corporate bonds are generally grouped into two major categories: investment grade and non-investment grade. Investment grade securities are regarded as higher quality and more likely to meet their payment obligations. Non-investment grade securities provide higher yields but carry a higher risk that payment obligations will not be met. Through 12/31/08, our portfolio's investment quality remained strong, with only 4% rated below investment grade.



Investment Grade	Dollars In Millions		
1 Aaa	\$ 7,476	30 %	
2 Aa	1,551	6	
3 A	5,028	20	
4 Baa	9,855	40	
	<b>23,910</b>	<b>96</b>	
Non-Investment Grade			
5 Ba	825	3	
6 B and Below	312	1	
	<b>\$ 25,047</b>	<b>100 %</b>	

*Investment ratings in this report are consistent with scales from independent rating agencies.*



*Pacific Life has always followed a disciplined investment process that limits our exposure to risky investments. We have a diversified investment portfolio that limits exposure to any single industry, issuer, or asset type.*

**Mortgage-Backed Securities** Every mortgage-backed security goes through a rigorous underwriting of its underlying collateral and structure regardless of its rating. We utilize state-of-the-art software and databases to analyze our new purchases and existing portfolio. Each security is put through various stress scenarios, and its cash flows are analyzed to determine the principal and interest that will be paid. Cash-flow analysis is performed at both purchase and monthly thereafter. In almost all instances, our RMBS investments are in the senior most tranche of the securitization's capital structure.

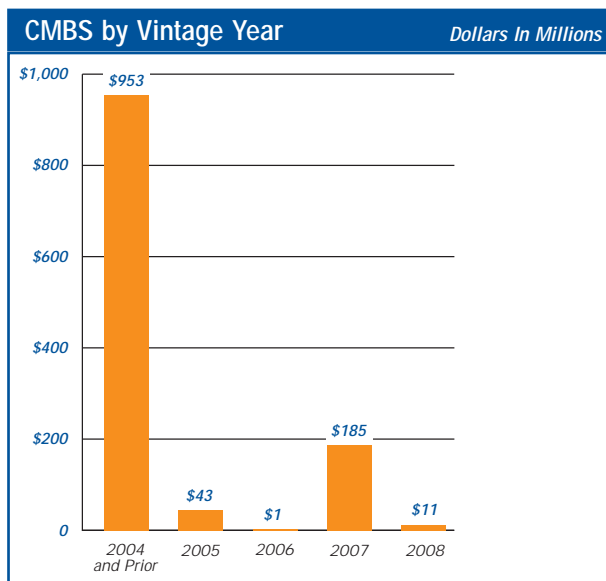
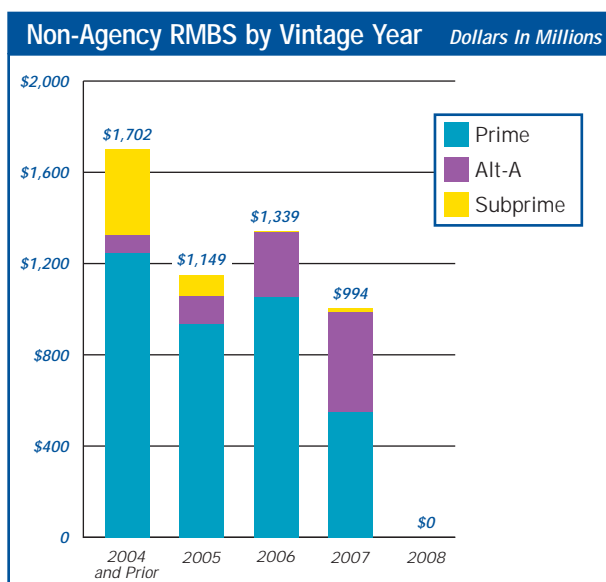
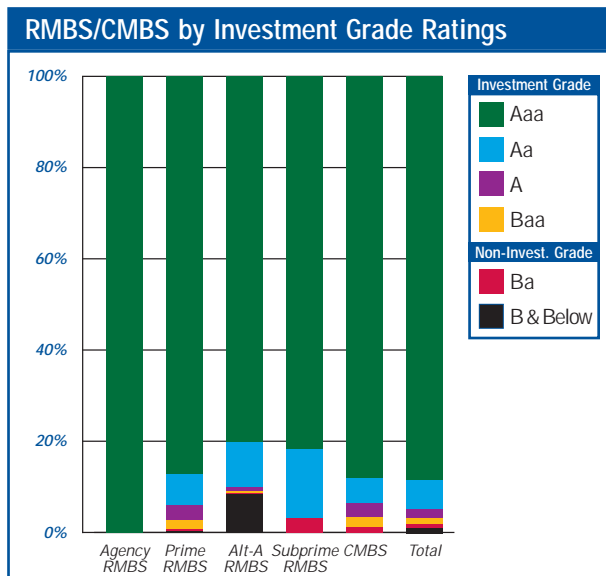
Dollars In Millions	Agency RMBS	Prime RMBS	Alt-A RMBS	Subprime RMBS	CMBS	Total	
<b>Investment Grade</b>							
Aaa	\$1,330	\$3,291	\$745	\$393	\$1,053	\$6,812	89%
Aa	0	262	90	72	64	488	6
A	0	122	9	1	36	168	2
Baa	0	73	4	0	28	105	1
<b>Non-Investment Grade</b>							
Ba	0	21	3	15	12	51	1
B and Below	0	6	77	0	0	83	1
	<b>\$1,330</b>	<b>\$3,775</b>	<b>\$928</b>	<b>\$481</b>	<b>\$1,193</b>	<b>\$7,707</b>	<b>100%</b>

89% of our commercial mortgage-backed securities (CMBS) and residential mortgage-backed securities (RMBS) are rated Aaa. Rating actions on RMBS after December 31, 2008 will be reflected in our results posted for the first quarter of 2009.

**Industry Exposure and Write-Downs** For 2008, Pacific Life's write-downs were \$584 million, which is 1.3% of our total investments of \$44.3 billion. Impairments were concentrated primarily in residential mortgage-backed and asset-backed/structured credit securities, and in many cases, reflect valuations that are below what we believe our ultimate realized loss will be. Our exposure to hybrid capital securities, which are issued primarily by global banking institutions, is modest at \$557 million.

Dollars In Millions	Industry Exposure	2008 Pre-Tax Write-Downs
Residential Mortgage-Backed	\$ 6,514 24 %	(\$227)
Utilities	4,713 18	0
Manufacturing	2,999 11	(8)
Real Estate (including REITs)	1,879 7	(31)
Services	1,390 5	(2)
Banking	1,296 5	(67)
Commercial Mortgage-Backed	1,193 5	0
Retail & Wholesale Trade	919 4	0
Private Equity	898 3	(51)
Asset-Backed	750 3	(157)
U.S. & State Governments	748 3	0
Oil & Gas	714 3	0
Communications	626 2	(16)
Transportation	567 2	0
Diversified Financial	537 2	(15)
Foreign Governments	297 1	0
Finance	284 1	(4)
Other	348 1	(6)
<b>Total</b>	<b>\$26,672 100 %</b>	<b>(\$584)</b>

Includes fixed maturity, equity, and private equity securities.



*"Pacific Life will remain focused on decisions that benefit our policyholders and clients over the long term. We continue to be well-positioned with capital that is significantly in excess of the amount required by our regulators. We have also positioned the company with ample cash and credit facilities to meet the liquidity needs of our business operations."*

*Jim Morris, Chairman, President and CEO*

**Financial Ratings** Pacific Life is well capitalized and continues to be financially strong in this environment. Our financial stability continues to be monitored by independent rating agencies and we have consistently achieved excellent ratings from these firms. For more information about Pacific Life's ratings, please visit [www.PacificLife.com/ratings](http://www.PacificLife.com/ratings).

### Other Year-End Portfolio Statistics

- 1.1% of our investments are subprime mortgage securities and 2.1% are Alt-A mortgage securities
- Less than 1% of our Alt-A securities are backed by Option ARMs
- 97% of our subprime securities are backed by residential mortgages originated in 2005 or earlier
- 84% of our CMBS are backed by commercial loans originated in 2005 or earlier
- The weighted average debt service coverage of our \$5.6 billion commercial mortgage loan portfolio is 2.1 times
- Our portfolio includes \$163 million notional of credit default swaps and \$126 million book value of collateralized debt obligations
- Our exposure to the auto industry is minor at \$110 million, with \$5 million of Chrysler holdings and no exposure to GM or Ford

### Our Strengths

- Strong financial strength ratings
- Well capitalized
- Mutual holding company structure enables long-term view which benefits policyholders, clients, and the company
- Our investment risk management strategy limits our exposure to any single industry, issuer, or asset type
- Exposure to financial companies is low relative to others in our industry
- Strong performance in our CMBS portfolio, with no realized losses
- None of our commercial mortgage loans are delinquent or in default/foreclosure
- A talented team of employees that are among the most respected in the industry
- 140 years of experience



**PACIFIC LIFE**

*For questions about Pacific Life's investment portfolio, contact Pacific Life's Public Affairs Department at (949) 219-3248 or send an e-mail to [PublicAffairs@PacificLife.com](mailto:PublicAffairs@PacificLife.com).*

*Pacific Life refers to Pacific Life Insurance Company and its affiliates, including Pacific Life & Annuity Company. All Pacific Life financial data is as of December 31, 2008.*

*Since December 31, 2008, there has been additional deterioration of the financial markets that may have an unfavorable impact on amounts reported in 2009.*