



James T. Morris, FSA
Chairman, President & CEO

September 15, 2008

Re: Recent Market Conditions on Wall Street

Given the turmoil in the financial markets this weekend and in particular the reports about AIG, I wanted to provide reassurance as to Pacific Life's financial security. Pacific Life has always followed a disciplined investment process that limits our exposure to risky investments. While it is impossible to avoid losses in this type of market environment, we are very comfortable with our holdings and with our ability to stay the course in these volatile times. In addition, we have the liquidity to more than adequately meet our needs.

The troubles that have been disclosed at AIG have raised questions as to whether the same issues could cause financial problems for Pacific Life. To the best of our knowledge, AIG's problems are centered in a non-life insurance segment of AIG, a segment that offers financial protection against asset deterioration (credit default swaps). That is not a business we are in.

Every quarter, Pacific Life issues a "Pacific Life Update on Asset Quality" that details our investment holdings. The most recent report, based on reported numbers from June 30, 2008, is attached. As this report shows, Pacific Life has a diversified investment portfolio that limits exposure to any single industry, issuer, or asset type.

I hope this addresses any questions you might have about the impact of the current environment on the financial security of Pacific Life.

Sincerely,

Encl: Pacific Life Update on Asset Quality – June 30, 2008



Tod Nasser
Senior Vice President
Portfolio Management

Pacific Life Update on Asset Quality - June 30, 2008

Pacific Life has consistently approached investing by seeking the best returns possible without compromising asset quality. Our investment portfolio has historically produced consistently strong results while maintaining low exposures to non-investment grade securities and other high risk assets such as securities backed by subprime mortgages.

On a U.S. GAAP basis, Pacific Life Insurance Company has investments of \$40 billion, including a bond portfolio of \$25 billion and \$6 billion of mortgage loans.

Within the bond portfolio:

- 4% are U.S. and state government bonds.
- 57% are investment grade corporate bonds.
- 4% are below investment grade.
- 25% are residential mortgage-backed securities (RMBS).
- 2% are backed by subprime mortgages.
- 5% are commercial mortgage-backed securities (CMBS).
- 4% are asset-backed securities.

Pacific Life's levels of non-investment grade bonds, subprime securities and CMBS are below insurance industry averages, and are typically among the highest quality securities in those sectors.

Of our non-investment grade bond holdings, 78% receive a "medium quality" (BA) rating; just \$246 million are rated lower.

100% of our directly placed mortgage loans are performing; no loans are delinquent or in foreclosure. Of our CMBS holdings, 85% are rated AAA, and 9% are AA. The current aggregate market value of our CMBS is above our book value.

Every residential mortgage-backed security bought or held by Pacific Life 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. 98% of our RMBS are rated AAA.

Our subprime holdings go through the most extensive underwriting process. Each security is put through various stress scenarios, and its cash-flows are analyzed to determine that all scheduled principal and interest will be paid. Cash-flow analysis is performed both at purchase and monthly thereafter.

Our subprime holdings total \$493 million. 81% are rated AAA, and 18% are rated AA. 97% are backed by mortgages originated between 2002 and 2005. None have been downgraded, and all are performing at or above expectations.

In our guaranteed separate account product line, we own \$25 million of collateralized debt obligations that have subprime exposure. These securities have been written down so that their book value corresponds to our best estimate of their market value.

We are comfortable with our financial outlook due to our principled investment process and minimal exposures to risky investments. Pacific Life continues to strive to produce outstanding investment returns without compromising its strict standards for safety and risk management. We are confident in our ability to maintain our strong financial strength ratings. For our current ratings, please visit www.PacificLife.com.

PACIFIC LIFE INSURANCE COMPANY

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