



James T. Morris, FSA
Chairman, President & CEO

September 1, 2009

Pacific Life had a strong second quarter and our ultimate parent company, Pacific Mutual Holding Company, recorded a consolidated GAAP net income of over \$400 million. In addition, we further bolstered our statutory capital position with the issuance of a \$1 billion surplus note in June 2009.

As reported in last quarter's Investment Quality Review, rating agencies continue to downgrade prime, Alt-A, and subprime residential mortgage-backed securities (RMBS). As of June 30, 2009, 25% of our mortgage-backed securities were rated non-investment grade. While these downgrades have impacted all companies that hold MBS within their portfolios, it is important to note that most of our MBS investments are typically in the senior tranches of the securitization's capital structure. Because of this, Pacific Life has only experienced \$81 million of write-downs in 2009 in RMBS, or slightly more than 1% of its RMBS portfolio.

In addition, Pacific Life's commercial mortgage-backed securities (CMBS) portfolio remains strong. As of June 30, 2009, 88% of our CMBS were rated AAA. Only 1% of our CMBS were rated non-investment grade.

These are just a few of the highlights from the attached 2009 2nd Quarter Investment Quality Review. For more information about our financial results for the second quarter of 2009, please visit www.PacificLife.com/Financials. For more information about our current financial strength ratings, you may visit www.PacificLife.com/Ratings.

Sincerely,

PACIFIC LIFE INSURANCE COMPANY

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PACIFIC LIFE

Investment Quality Review

June 30, 2009

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.

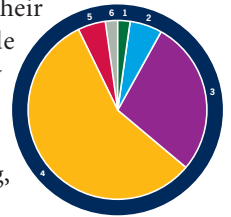
Distribution of Investments Pacific Life's distribution of investments demonstrates a high quality asset mix.

Investment Profile	Dollars In Millions	
Investment Grade Corporate Bonds	\$ 16,170	36 %
Mortgage-Backed Securities	7,305	16
Commercial Mortgage Loans	6,053	14
Cash & Cash Equivalents	3,799	9
Non-Investment Grade Corporate Bonds	1,156	3
Private Equity	912	2
Asset-Backed Securities	728	2
Preferred Stock	654	1
Real Estate	517	1
Other Invested Assets	481	1
Derivatives	175	0
Subtotal	37,950	85
Policy Loans	6,539	15
Total Investments	\$44,489	100%

Bonds and preferred stock are reflected at amortized cost.

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.

Corporate Bond Portfolio Quality Corporate bonds are generally grouped into two major categories: investment grade and non-investment grade. Investment grade corporate bonds are regarded as higher quality and more likely to meet their payment obligations. Non-investment grade corporate bonds provide higher yields but carry a higher risk that payment obligations will not be met. As of 6/30/09, our corporate bond portfolio's investment quality remained strong, with only 7% rated non-investment grade.



Investment Grade Corporate Bonds		Dollars In Millions	
1	Aaa	\$ 417	2%
2	Aa	1,012	6
3	A	4,840	28
4	Baa	9,901	57
		16,170	93
Non-Investment Grade Corporate Bonds			
5	Ba	823	5
6	B and Below	333	2
		\$17,326	100%

Investment grade 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.

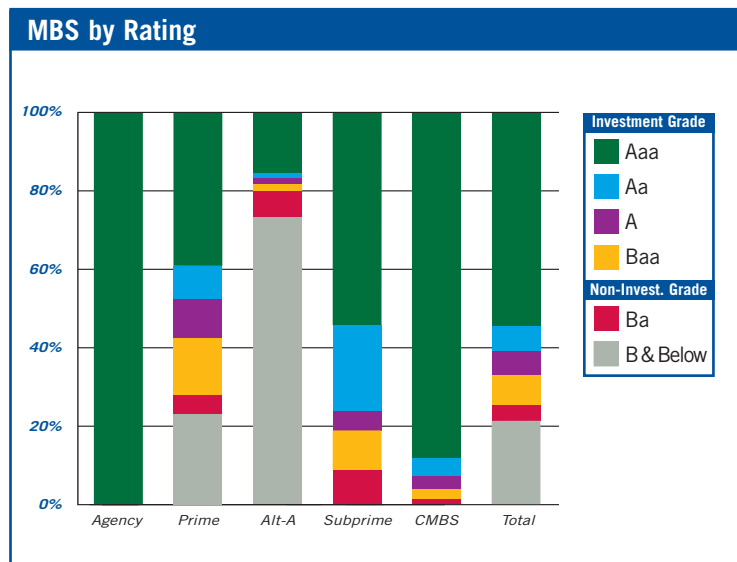
Mortgage-Backed Securities (MBS) Every mortgage-backed security goes through a rigorous underwriting of its underlying collateral and structure regardless of its rating. We utilize state-of-the-art software and databases to analyze our new purchases and existing portfolio. Each security is put through various stress scenarios, and its cash flows are analyzed to estimate the principal and interest that will be paid. Cash-flow analysis is performed at both purchase and monthly thereafter.

RMBS by Tranche Type						
Dollars In Millions	Agency	Prime	Alt-A	Subprime	Total	
Gov't Guaranteed	\$1,257	\$ 0	\$ 0	\$ 0	\$1,257	20%
Super Senior	0	2,271	667	19	2,957	47
Senior	0	1,072	300	356	1,728	28
Senior Support	0	143	49	0	192	3
Mezzanine	0	9	3	83	95	2
Total	\$1,257	\$3,495	\$1,019	\$ 458	\$ 6,229	100%

Pacific Life's investments in non-investment grade corporate bonds, subprime, and Alt-A mortgage securities, and commercial mortgage-backed securities (CMBS) are typically in the senior tranches of the securitization's capital structure.

As of 6/30/09, 88% of our CMBS were rated AAA. Only 1% of our CMBS were rated non-investment grade.

MBS Ratings During the first half of 2009, the major rating agencies issued revised projections on the expected return from mortgage-backed securities. As of 6/30/09, 25% of our mortgage-backed securities were rated non-investment grade. While these downgrades impacted all companies that hold MBS within their portfolios, it is important to note that most of our MBS investments are in the senior tranches of the securitization's capital structure.

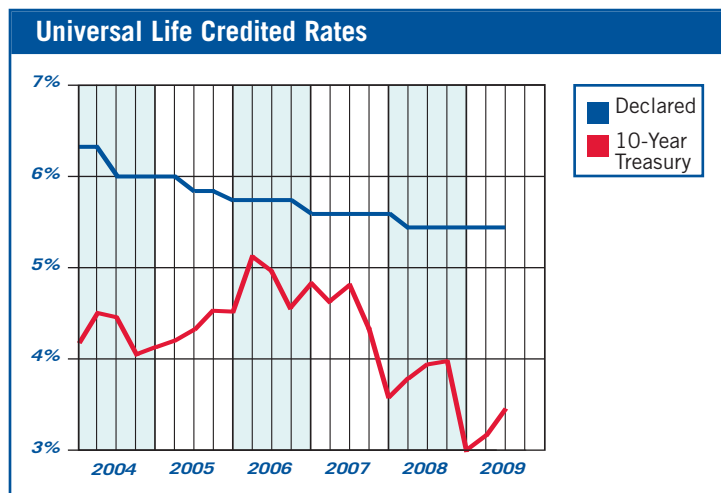


Industry Exposure and Write-Downs In the first half of 2009, Pacific Life's write-downs were \$202 million, which is 0.5% of our total investments of \$44.5 billion. Impairments were concentrated primarily in residential mortgage-backed and asset-backed/structured credit securities.

Industry Exposure Dollars In Millions	2009 Pre-Tax Write-Downs		
RMBS	\$ 6,229	23%	(\$ 81)
Utilities	4,434	16	0
Manufacturing	3,474	13	(8)
Real Estate (including REITs)	1,604	6	(13)
Banking	1,433	5	(3)
Services	1,356	5	(1)
Oil & Gas	1,308	5	0
CMBS	1,076	4	0
Private Equity	912	3	(21)
Retail & Wholesale Trade	803	3	0
Communications	794	3	(3)
U.S. & State Governments	785	3	0
Asset-Backed	728	3	(65)
Transportation	600	2	0
Diversified Financial	463	2	0
Foreign Governments	353	1	0
Mining	299	1	0
Finance	194	1	(7)
Other	125	1	0
Total	\$26,970	100%	(\$202)

Includes fixed maturity, equity, and private equity securities.

Crediting Rate for Universal Life Policies The expected return on the general account is the major factor that determines the crediting rates for Pacific Life's universal life insurance policies. As Pacific Life has controlled its realized losses during the financial downturn, we have been able to maintain credited rates that are competitive and consistent when compared to the volatility of the 10-year Treasury Notes.



“While the economic climate may still provide challenges for many individuals and businesses through the remainder of 2009, I know that Pacific Life is well positioned to meet the evolving needs of our clients as they reevaluate their retirement and insurance needs.”

Jim Morris, Chairman, President and CEO

Financial Ratings Our financial stability continues to be monitored by independent rating agencies and we have consistently achieved strong ratings from these firms. For more information about Pacific Life’s ratings, please visit www.PacificLife.com/Ratings.

Other Portfolio Statistics as of June 30, 2009

- 1.0% of our investments are subprime mortgages securities and 2.3% are Alt-A mortgage securities
- 1.1% of our Alt-A securities are backed by Option ARMs of \$11.0 million
- 97% of our subprime securities are backed by residential mortgages originated in 2005 or earlier
- 81% of our CMBS are backed by commercial loans originated in 2005 or earlier
- Our exposure to hybrid capital securities, which are issued primarily by global banking institutions, is modest at \$541 million.
- Our exposure to the auto industry is minor at \$135 million, with no exposure to Chrysler, GM, or Ford

Our Strengths

- Strong financial strength ratings
- 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
- 142 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.

Pacific Life refers to Pacific Life Insurance Company and its affiliates, including Pacific Life & Annuity Company, Aviation Capital Group, Pacific Asset Funding, and Pacific Life Re Limited. All Pacific Life financial data is as of June 30, 2009. After June 30, there may have been further changes in the financial markets that could have an impact on the amounts reported.