ANNUAL REPORT

Pacific Life Funding, LLC

(Incorporated with limited liability in the Cayman Islands under company registration number 79187)

This report (the **"Annual Report"**) has been created in accordance with the requirements of the Netherlands Financial Markets Supervision Act (*Wet op het financieel toezicht*).

Unless the context otherwise requires, references in this Annual Report to **"Pacific Life"** mean Pacific Life Insurance Company, a stock life insurance company domiciled in the State of Nebraska, on a stand-alone basis. Unless the context otherwise requires, references in this Annual Report to the **"Company"** mean Pacific Life, together with its subsidiaries.

Unless otherwise specified, the financial information contained in this Annual Report (1) has been prepared in accordance with accounting principles generally accepted in the United States of America (**"GAAP"**), and (2) is derived from the Company's audited GAAP consolidated financial statements, including the notes thereto, as of December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006 (the **"Audited GAAP Financial Statements"**).

Dated: April 29, 2009

MANAGEMENT REPORT

PACIFIC LIFE FUNDING, LLC

Background

Pacific Life Funding, LLC (**"PLF"**) is an exempted company incorporated in the Cayman Islands with limited liability on January 23, 1998 pursuant to the Companies Law of the Cayman Islands.

The only business activity of PLF is to issue debt instruments and to purchase funding agreements from Pacific Life. The indentures governing the terms of the instruments issued by PLF prohibit PLF from engaging in any other business activity. PLF has not issued any instruments or purchased any funding agreements since 2005. Between its organization in 1998 and 2005, PLF issued $5,728 million in aggregate principal amount of instruments, of which $2,653 million aggregate principal amount remained outstanding as of December 31, 2008. PLF issued these instruments in a variety of currencies and maturities that varied from one to twenty years both to institutional investors in a variety of jurisdictions and to retail investors in the United Kingdom, The Netherlands, Germany and Switzerland.

PLF's principal assets are funding agreements issued by Pacific Life. Each outstanding series of instruments issued by PLF is secured by one or more funding agreements. No instruments of a series have any right to receive payments under a funding agreement related to any other series of instruments. Accordingly, PLF is only able to make timely payments with respect to a series of instruments if Pacific Life has made all required payments under the funding agreements securing such series of instruments. Because PLF's ability to satisfy its obligations under a series of instruments depends upon Pacific Life's performance under the related funding agreements, this Annual Report includes detailed information regarding Pacific Life. See "—Pacific Life Insurance Company" below.

The obligations of PLF evidenced by the instruments are not obligations of, and are not guaranteed or insured by, any other person, including, but not limited to, Pacific Life or any of its subsidiaries or affiliates. None of these entities nor any agent or trustee of PLF is under any obligation to provide funds or capital to PLF, except for Pacific Life's payment obligations under the funding agreements and an agreement by Pacific Life to pay certain operating expenses of and fees to PLF. In addition, the instruments do not benefit from any insurance guaranty fund coverage or similar protection.

Management

The directors of PLF are Ms. Dianne Scott and Mr. Martin Couch. Each of the directors is also an employee of Maples Finance Limited. Maples Finance Limited acts as administrator to PLF (the **"Administrator"**). The office of the Administrator serves as the general business office of PLF. Through the office, and pursuant to the terms of an Administration Agreement between PLF and the Administrator, the Administrator performs in the Cayman Islands various management functions on behalf of PLF, including communications with shareholders and the general public, and the provision of certain clerical, administrative and other services until termination of the Administration Agreement. The Administrator's principal office is P.O. Box 1093, Boundary Hall, Cricket Square, George Town, Grand Cayman KY1-1102, Cayman Islands. There are currently no committees of the board of directors. There are currently no existing or proposed service contracts between PLF or any subsidiary thereof and any of the directors of PLF. The directors of PLF are not currently entitled to remuneration or benefits in kind from PLF and do not currently hold any interests in the share capital of PLF.

Capitalization

The authorized share capital of the Issuer is US$50,000 divided into 50,000 ordinary shares of US$1.00 each, 1,000 of which have been issued. All of the issued shares of PLF are fully paid and are held by Maples Finance Limited (the **"Share Trustee"**) under the terms of a Declaration of Trust dated April 15, 1998 (the **"Declaration of Trust"**) under which the Share Trustee holds the shares in trust. Under the terms of the Declaration of Trust, so long as there are instruments outstanding, the Share Trustee may not dispose or otherwise deal with the shares except to a person previously approved in writing by the indenture trustee for the instruments. It is not anticipated that any distribution will be made on the shares while any instrument is outstanding. When all of the outstanding instruments have matured or otherwise been redeemed, it is expected that the Share Trustee will wind up the trust and make a final distribution to charity. The Share Trustee has no beneficial interest in, and derives no benefit (other than its fee for acting as Share Trustee) from, its holding of the shares.

The following table presents PLF's capitalization as of December 31, 2008 prepared in conformity with GAAP. The information as of December 31, 2008 in this table is derived from the audited GAAP financial statements of PLF as of December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006.

	December 31, 2008
Debt:	
Short-term debt	-
Long-term debt	$ 2,731,881,174
Total Debt	2,731,881,174
Equity:	
Paid-in capital	1,000
Retained earnings	-
Accumulated other comprehensive income	-
Total Equity	1,000
Total capitalization	$ 2,731,882,174

Development of PLF's Business

Other than as described herein, there were no developments having a material effect on PLF or its business during the year ended December 31, 2008. In addition, except as described below under "—Pacific Life Insurance Company," there have been no recent developments having a material effect on PLF or its business since December 31, 2008. As of the date of this report, there exists no condition or event that would constitute an event of default under the terms of the instruments of PLF that are currently outstanding.

There are currently no indications that the business of PLF will change between the date of this report and June 30, 2009.

PACIFIC LIFE INSURANCE COMPANY

Selected Consolidated GAAP Financial Information of the Company

The following table sets forth selected consolidated GAAP financial information for the Company. You should read it in conjunction with the sections of the Annual Report that follow and the Audited GAAP Financial Statements included in this Annual Report. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results may differ from such estimates. Additionally, the results for past accounting periods are not necessarily indicative of the results to be expected for any future accounting period.

The selected consolidated GAAP financial information for the Company as of December 31, 2008 and 2007 (other than "life insurance in force" and "employees" included in "Other Data") and for the years ended December 31, 2008, 2007 and 2006 has been derived from the Audited GAAP Financial Statements included in this Annual Report. The selected consolidated GAAP financial information for the Company as of December 31, 2006 (other than "life insurance in force" and "employees" included in "Other Data") has been derived from the Company's audited GAAP consolidated financial statements not included in this Annual Report.

The group insurance business of Pacific Life and Pacific Life & Annuity Company (**"PL&A"**), a wholly owned subsidiary of Pacific Life, has been treated as a discontinued operation due to the sale of this business in April 2005. In addition, in March 2007, the Company classified its broker-dealer subsidiaries, other than Pacific Select Distributors, Inc. (**"PSD"**), a wholly owned subsidiary of Pacific Life, as held for sale. On June 20, 2007, a transaction closed whereby the Company sold certain of these broker-dealer subsidiaries to an unrelated third party. Proceeds from the sale included cash of $53 million and a common stock interest in the buyer's parent of $57 million. A pre-tax gain of $54 million was recognized from this sale during the year ended December 31, 2007. On December 31, 2007, a transaction closed whereby the Company sold another one of its broker-dealer subsidiaries to subsidiary management. The Company incurred a pre-tax loss of $1 million from this transaction during the year ended December 31, 2007. As of December 31, 2007, one broker-dealer subsidiary remained classified as held for sale. On March 31, 2008, a transaction closed whereby the Company sold this held for sale subsidiary to an unrelated third party. The Company recognized an insignificant pre-tax gain from this transaction during the year ended December 31, 2008. The broker-dealer operations that the Company sold on June 20, 2007, December 31, 2007 and March 31, 2008 are treated as a discontinued operation for purposes of this Annual Report, including for purposes of the financial information in the sections of the Annual Report that follow and in the Audited GAAP Financial Statements.

	Years Ended December 31,		
Consolidated Statements of Operations Data:	**2008**	**2007**	**2006**
		(in millions)	
Revenues:			
Policy fees and insurance premiums	$ 1,997	$ 1,780	$ 1,538
Net investment income	1,997	2,114	2,042
Net realized investment gain (loss)	(1,327)	(46)	62
Net realized investment gain on interest in PIMCO	109		32
Investment advisory fees	255	327	319
Other income	129	98	47
Total revenues	3,160	4,273	4,040
Benefits and Expenses:			
Interest credited to policyholder account balances	1,234	1,266	1,219
Policy benefits paid or provided	1,206	855	780
Commission expenses	715	690	606
Operating expenses	712	740	630
Total benefits and expenses	3,867	3,551	3,235
Income (loss) from continuing operations before provision (benefit) for income taxes	(707)	722	805
Provision (benefit) for income taxes	(363)	98	198
Income (loss) from continuing operations	(344)	624	607
Minority interest	11	(36)	(13)
Discontinued operations, net of taxes [1]	(6)	11	(4)
Net income (loss)	$ (339)	$ 599	$ 590

[1] Income from Pacific Life's and PL&A's group insurance business has been treated as a discontinued operation due to its sale in April 2005. In addition, in March 2007, Pacific Life's broker-dealer operations were classified as a discontinued operation.

Consolidated Statements of Financial Condition Data:	December 31, 2008	2007	2006
		($ in millions)	
Assets:			
Investments	$ 36,745	$ 40,414	$ 37,446
Cash and cash equivalents	3,354	521	1,341
Deferred policy acquisition costs	5,012	4,481	4,248
Other assets	3,046	1,482	1,262
Separate account assets	41,505	57,605	48,900
Total assets	$ 89,662	$104,503	$ 93,197
Liabilities and Stockholder's Equity			
Liabilities:			
Policyholder account balances	$ 32,670	$ 32,017	$ 30,744
Future policy benefits	9,841	6,025	5,341
Short-term and long-term debt	328	397	187
Other liabilities	1,332	1,878	1,748
Separate account liabilities	41,505	57,605	48,900
Total liabilities	85,676	97,922	86,920
Stockholder's Equity:			
Common stock	30	30	30
Paid-in capital	505	505	505
Retained earnings	5,130	5,814	5,244
Accumulated other comprehensive income (loss)	(1,679)	232	498
Total stockholder's equity	3,986	6,581	6,277
Total liabilities and stockholder's equity	$ 89,662	$104,503	$ 93,197
Other Data:			
Life insurance in force	$220,822	$207,548	$195,141
Employees:			
Continuing operations	2,823	2,694	2,588
Discontinued operation (1)		234	547
Total employees	2,823	2,928	3,135

(1) Represents Pacific Life and PL&A's group insurance business, which has been treated as a discontinued operation due to its sale in April 2005. In addition, in March 2007, Pacific Life's broker-dealer operations were classified as a discontinued operation.

Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company

The following should be read in conjunction with the Selected Consolidated GAAP Financial Information of the Company set forth above and the Audited GAAP Financial Statements included in this Annual Report.

Background

Pacific Life was established in 1868 and is organized under the laws of the State of Nebraska as a stock life insurance company, conducting business in the District of Columbia and every state except the State of New York. Pacific Life is an indirect subsidiary of Pacific Mutual Holding Company (**"PMHC"**), a Nebraska mutual insurance holding company, and a wholly owned subsidiary of Pacific LifeCorp, an intermediate Delaware stock holding company. PMHC and Pacific LifeCorp were organized pursuant to consent received from the California Department of Insurance and the implementation of a plan of conversion to form a mutual insurance holding company structure in 1997. Under Nebraska law and their respective charters, PMHC must always own at least 51% of the outstanding voting stock of Pacific LifeCorp, and Pacific LifeCorp must always own 100% of the voting stock of Pacific Life. Certain owners of Pacific Life's life insurance policies and annuity contracts have membership interests in PMHC, consisting principally of the right to vote on the election of the Board of Directors of PMHC and on other matters, and certain rights upon liquidation or dissolution of PMHC.

Pacific Life transferred its legal domicile from the State of California to the State of Nebraska, effective September 1, 2005. PMHC transferred its legal domicile from the State of California to the State of Nebraska, effective June 29, 2007, in order to reunite PMHC and Pacific Life under one regulatory authority. Pacific Life's principal administrative offices are at 700 Newport Center Drive, Newport Beach, California, in a 285,000 square-foot office building it owns.

Pacific Life has been in business for over 140 years. As of December 31, 2008, 2007 and 2006, the Company had $89.7 billion, $104.5 billion and $93.2 billion, respectively, in total assets, and total stockholder's equity of $4.0 billion, $6.6 billion and $6.3 billion, respectively. Life insurance in force was $220.8 billion, $207.5 billion and $195.1 billion as of December 31, 2008, 2007 and 2006, respectively. Net income (loss) was ($339) million for the year ended December 31, 2008 as compared to $599 million for the year ended December 31, 2007 and $590 million for the year ended December 31, 2006. The Company's primary business operations provide life insurance products, individual annuities and mutual funds, and offer to individuals, businesses and pension plans a variety of investment products and services.

The following discusses the Company's primary operating segments: Life Insurance, Investment Management and Annuities & Mutual Funds, as well as its principal subsidiaries and affiliates.

Segments

The Life Insurance segment provides a broad range of life insurance products through multiple distribution channels operating in the upper income and corporate markets. Principal products include universal life, variable universal life, survivor life, interest sensitive whole life and traditional products such as whole life and term life and corporate owned life insurance. Distribution channels include regional life offices, marketing organizations, broker-dealer firms, wirehouses and M Financial Group, an association of independently owned and operated insurance and financial producers. As of December 31, 2008, 2007 and 2006, Life Insurance represented 30%, 27% and 28% of the Company's total assets, respectively.

The Investment Management segment provides investment and insurance products to institutional investors, pension fund sponsors and structured settlement annuitants, primarily through its home office marketing team and other intermediaries. The segment's products include guaranteed interest contracts (**"GICs"**), synthetic GICs, single premium group annuity contracts, retirement annuities sold to pension plans, funding agreement-backed notes issued to institutional investors via medium–term note programs and structured settlement annuities issued in conjunction with personal injury awards. As of December 31, 2008, 2007 and 2006, Investment Management represented 17%, 15% and 16% of the Company's total assets, respectively.

The Annuities & Mutual Funds segment offers variable and fixed annuity products, mutual funds and college savings plans through multiple distribution sources. As of December 31, 2008, 2007 and 2006, this segment represented 51%, 55% and 53% of the Company's total assets, respectively.

On April 27, 2005 (the **"Closing Date"**), Pacific Life and PL&A sold their group insurance and stop loss businesses to an unrelated third party. The transaction is structured as a coinsurance arrangement whereby Pacific Life and PL&A cede to the buyer future premiums received for their existing group insurance and stop loss businesses and the buyer assumes future claim liabilities following the Closing Date. Group insurance and stop loss liabilities arising prior to the Closing Date are not reinsured. The buyer also obtained renewal rights for the existing business as of the Closing Date.

The group insurance business is considered a discontinued operation, and its operating results are included with the discontinued operations of the Company's broker-dealer operations. See "—Principal Subsidiaries and Affiliates" below.

Principal Subsidiaries and Affiliates

PL&A markets and distributes variable universal life insurance, term insurance, variable annuities, structured settlement annuities and GICs. PL&A is licensed to sell certain of its products in the State of New York. As noted above, Pacific Life and PL&A sold their respective group insurance and stop loss businesses to an unrelated third party during 2005.

PSD, a wholly-owned subsidiary of Pacific Life, is a broker-dealer and the underwriter and wholesale distributor of certain of the Company's investment-related products and services, principally variable life and annuity contracts and retail mutual funds. Effective May 1, 2007, a service plan adopted by the Pacific Select Fund, the investment vehicle provided to the Company's variable life insurance policyholders and variable annuity contract owners, went into effect whereby the fund pays PSD, as distributor of the fund, a service fee in connection with services rendered or procured to or for shareholders of the fund or their variable contract owners. These services may include, but are not limited to, payment of compensation to broker-dealers, including PSD itself, and other financial institutions and organizations which assist in providing any of the services.

In March 2007, the Company classified its broker-dealer subsidiaries, other than PSD, as held for sale. On June 20, 2007, a transaction closed whereby the Company sold certain of these broker-dealer subsidiaries to an unrelated third party. Proceeds from the sale included cash of $53 million and a common stock interest in the buyer's parent of $57 million. A pre-tax gain of $54 million was recognized from this sale during the year ended December 31, 2007. On December 31, 2007, a transaction closed whereby the Company sold another one of its broker-dealer subsidiaries to subsidiary management. The Company incurred a pre-tax loss of $1 million from this transaction during the year ended December 31, 2007. As of December 31, 2007, one broker-dealer subsidiary remained classified as held for sale. On March 31, 2008, a transaction closed whereby the Company sold this held for sale subsidiary to an unrelated third party. The Company recognized an insignificant pre-tax gain from this transaction during the year ended December 31, 2008.

Operating results of the discontinued operations were as follows:

	For The Years Ended December 31,		
	2008	2007	2006
		(in millions)	
Revenues	$ 13	$ 276	$ 395
Benefits and expenses	22	300	401
Loss from discontinued operations	(9)	(24)	(6)
Benefit from income taxes	(3)	(8)	(2)
Loss from discontinued operations, net of taxes	(6)	(16)	(4)
Net gain on sale of discontinued operations		53	
Provision for income taxes		26	
Net gain on sale of discontinued operations, net of taxes		27	
Discontinued operations, net of taxes	$ (6)	$ 11	$ (4)

As of December 31, 2007, the Company owned a beneficial economic interest in Pacific Investment Management Company LLC (**"PIMCO"**). PIMCO offers investment products through separately managed accounts and institutional, retail and offshore mutual funds. The interest in PIMCO was reported at estimated fair value, as determined by a contractual put and call option price, with changes in estimated fair value reported as a component of other comprehensive income, net of taxes. As of December 31, 2007, the interest in PIMCO, which was included in other investments, had an estimated fair value of $288 million.

During the year ended December 31, 2008, the Company exercised a put option and sold all of its remaining interest in PIMCO to Allianz of America Inc., a subsidiary of Allianz SE (**"Allianz"**) for $288 million and recognized a pre-tax gain of $109 million.

During the year ended December 31, 2006, Allianz exercised a call option and bought approximately $88 million of the Company's interest in PIMCO. The pre-tax investment gain recognized for 2006 was $32 million.

Pacific Life Fund Advisors LLC (**"PLFA"**), a wholly-owned subsidiary of Pacific Life formed in 2007, serves as the investment adviser for the Pacific Select Fund, an investment vehicle provided to the Company's variable life insurance policyholders and variable annuity contract owners, and the Pacific Life Funds, the investment vehicle for the Company's mutual fund products. Prior to May 1, 2007, Pacific Life served in this capacity. PLFA charges advisory and other fees based primarily upon the net asset value of the underlying portfolios.

Revenues and Expenses

The Company derives operating revenues from (1) premiums and policy fees on life and other insurance products, (2) net investment income from general account assets, (3) asset management fees and mortality and expense fees related to variable annuities and variable life insurance policies and (4) fees for other services. Under GAAP, total premiums paid on guaranteed premium policies are included in revenues with a corresponding expense for increases in policy reserves. For universal life and investment-type products, amounts received from policyholders are considered deposits and are not recorded as revenues, and increases in reserves are not shown as an expense. Only the amounts deducted from policy values for mortality and expenses, as and when deducted, are recorded as revenues on universal life and investment-type products.

Operating earnings result primarily from (1) the spread between the rates earned on invested assets and the rates credited to policyholders, (2) the fees earned on mortality and expense charges on variable products and (3) investment advisory fees earned on separate account assets. Operating earnings are affected by claims experience and the persistency of policies and their continuing premiums and the investment markets. In addition, the Company seeks to increase earnings by carefully managing operating expenses through its budgeting process, monitoring of expense recoveries and improvements through the use of technology. Included in operating expenses are components such as salary and wages, employee benefits, rent, professional services, depreciation and other sundry expenses.

Results of Operations

Year Ended December 31, 2008 compared to the Year Ended December 31, 2007

2008 will be remembered as a year when an unprecedented mortgage crisis created a credit crisis that challenged global financial systems and led to a sharp decline in investor confidence in stocks and bonds alike. The Standard & Poor's 500 Index (S&P 500) finished the year down 37%, its worst year since 1931. The bond market, typically a source of stability for investors, was anything but stable. The Company's results were negatively affected by the significant drop in the equity markets, which led to losses in the variable annuity product line resulting primarily from the long-term guarantees associated with these products and to the weak economic conditions, which led to higher investment losses. Net income (loss) was ($339) million for the year ended December 31, 2008 as compared to $599 million for the year ended December 31, 2007. The net loss for the year ended December 31, 2008 was primarily attributable to the impact of the economic recession and severely negative economic conditions which led to (1) higher investment losses and (2) the significant decline in the equity markets, leading to increases in the negative mark to market of certain embedded derivatives, net of hedges and policy fees, related to variable annuity guaranteed living benefits in the Annuities & Mutual Funds segment in 2008 compared to 2007. See the discussion of consolidated statement of operations line items below.

Policy fees and insurance premiums for the year ended December 31, 2008 were $1,997 million compared to $1,780 million for the year ended December 31, 2007, an increase of 12%. Policy fees consist of cost-of-insurance charges, expense loads, surrender charges and other fees related to products. These fees increased in the Life Insurance segment primarily as a result of an increase in amortization of unearned revenue and cost-of-insurance charges. In addition to the increase in policy fees, there was also an increase in insurance premiums from the sale of structured settlement and retirement annuities in the Investment Management segment in 2008 as compared to 2007.

Net investment income decreased 6% from $2,114 million for the year ended December 31, 2007 to $1,997 million for the year ended December 31, 2008. The decrease in 2008 as compared to 2007 primarily relates to prepayment fees on fixed maturity securities and mortgage loans, which were $33 million lower in 2008 as compared to 2007. In addition, there was also a decrease in net investment income on private equity investments in 2008 as compared to 2007.

Net realized investment loss for the year ended December 31, 2008 amounted to $1,327 million compared to $46 million for the year ended December 31, 2007. The increase in net realized investment loss is primarily related to other than temporary impairments charges being $479 million higher in 2008 as compared to 2007 and a $666 million increase in the negative mark to market of embedded derivatives, net of hedges and policy fees, related to variable annuity guaranteed living benefits in the Annuities & Mutual Funds segment in 2008 compared to 2007. In connection with the recent significant disruption in the residential mortgage and credit markets, the other than temporary impairments charges recorded during the year ended December 31, 2008 were primarily related to the Company's exposure to Alt-A residential mortgage backed securities, certain structured securities, and direct exposure to financial companies through corporate equity and debt holdings. See the Audited GAAP Financial Statements included in this Annual Report for additional information on the components of net realized investment gains and losses.

Realized investment gain on the interest in PIMCO amounted to a pre-tax gain of $109 million for the year ended December 31, 2008. See "—Principal Subsidiaries and Affiliates" above for a discussion of the Company's interest in PIMCO.

Investment advisory fees decreased $72 million to $255 million for the year ended December 31, 2008 as compared to $327 million for the year ended December 31, 2007. Effective May 1, 2007, there was a reduction in certain advisory fees charged by the Company, which contributed to the decrease. Additionally, the decrease in separate account assets during 2008 as compared to December 31, 2007 also contributed to this decrease. See "—Principal Subsidiaries and Affiliates" above for additional information.

Other income was $129 million for the year ended December 31, 2008 as compared to $98 million for the year ended December 31, 2007. Other income was higher in 2008 as compared to 2007 due to fees earned by PSD in connection with the Pacific Select Fund’s service plan mentioned above. See “—Principal Subsidiaries and Affiliates” above for additional information.

Interest credited to policyholder account balances decreased to $1,234 million for the year ended December 31, 2008 as compared to $1,266 million for the year ended December 31, 2007. This slight decrease in interest credited to policyholder account balances is primarily related to a decrease in interest credited on floating rate institutional investment products due to a fall in short term interest rates in 2008 as compared to 2007, which was slightly offset by an increase in the Life Insurance segment due to a growth in account values.

Policy benefits paid or provided increased $351 million to $1,206 million for the year ended December 31, 2008 as compared to $855 million for the year ended December 31, 2007. The increase is primarily related to the sale of structured settlement annuities in the Investment Management segment, which is mentioned above. The Annuities & Mutual Fund segment also had an increase of $138 million due to increases in guaranteed living and death benefit reserves. The Life Insurance segment experienced an increase in life insurance benefits of $64 million principally due to an increase in average death claim size and increased other benefit reserves.

Commission expenses for the year ended December 31, 2008 increased $25 million to $715 million compared to $690 million for the year ended December 31, 2007. Commission expenses include components of deferred acquisition costs (**“DAC”**), and vary with the level of sales by business segment due to the mix of products. The commission expenses in the Life Insurance segment was the primary reason for the increase related to increased sales and higher amortization of DAC caused by the impact of negative market returns in 2008. This increase was partially offset by the Annuities & Mutual Fund segment's lower trail commissions and DAC benefit from embedded derivative losses.

Operating expenses for the year ended December 31, 2008 decreased by $28 million, or 4%, compared to the year ended December 31, 2007 from $740 million to $712 million. This slight decrease is primarily due to a settlement accrual recorded in 2007, partially offset by an increase in net DAC and other operating expenses in 2008. Operating expenses include components of DAC, and the amortization of DAC is dependent on various factors that affect future gross profits by business segment. For most products, DAC amortization represents a percentage of gross profits.

The provision (benefit) for income taxes for the year ended December 31, 2008 was ($363) million as compared to $98 million for the year ended December 31, 2007. This decrease in tax expense is primarily due to lower taxable income realized by the Company in 2008. The taxes in 2008 and in 2007 are lower than the statutory rate primarily due to the separate account dividends received deductions and utilization of low income housing and foreign tax credits.

Year Ended December 31, 2007 compared to the Year Ended December 31, 2006

Net income was $599 million for the year ended December 31, 2007 as compared to $590 million for the year ended December 31, 2006. The slight increase in net income in 2007 as compared to 2006 is primarily a result of increases in policy fees and insurance premiums and net investment income and a decrease in provision for income taxes. These positive components of net income were offset by decreases in net realized investment gains and increases in total benefits and expenses. See the discussion of consolidated statement of operations line items below.

Policy fees and insurance premiums for the year ended December 31, 2007 were $1,780 million compared to $1,538 million for the year ended December 31, 2006, an increase of 16%. Policy fees consist of cost-of-insurance charges, expense loads, surrender charges and other fees related to products. These fees increased primarily as a result of an increase in policies in force, an increase in the net amount at risk for life insurance policies and an increase of separate account assets in the Annuities & Mutual Funds segment. In addition, insurance premiums were higher in 2007 as compared to 2006 due to the sale of structured settlement annuities in the Investment Management segment.

Net investment income increased from $2,042 million for the year ended December 31, 2006 to $2,114 million for the year ended December 31, 2007, an increase of 4%. The increase in 2007 as compared to 2006 is primarily attributable to higher average invested assets during 2007 as compared to 2006. Prepayment fees on fixed maturity securities and mortgage loans were $18 million lower in 2007 as compared to 2006.

Net realized investment gain (loss) for the year ended December 31, 2007 amounted to ($46) million compared to $62 million for the year ended December 31, 2006. The decrease in net realized investment gain (loss) of $108 million is primarily related to the negative mark to market of certain derivatives, including the negative mark to market of embedded derivatives related to variable annuity riders in the Annuities & Mutual Funds segment. In addition, other than temporary impairments were $89 million higher in 2007 as compared to 2006, primarily attributable to other than temporary impairments of $73 million related to investments in collateralized debt obligations with exposure to sub-prime residential mortgage loans. Net investment gains on the sale of fixed maturity securities and real estate investments, as well as net investment gains on other investments, also increased in 2007 as compared to 2006. See the Audited GAAP Financial Statements included in this Annual Report for additional information on the components of net realized investment gain (loss).

Investment advisory fees increased $8 million to $327 million for the year ended December 31, 2007 as compared to $319 million for the year ended December 31, 2006. This increase is primarily attributable to the growth of advisory fees earned on assets under management in the Company’s separate accounts. Separate account assets increased from $48.9 billion at the end of 2006 to $57.6 billion at the end of 2007. The increase in separate account assets is from sales of variable products in the Life Insurance and Annuities & Mutual Funds segments and the market appreciation of these assets, net of contract surrenders, during 2006 and 2007. Effective May 1, 2007, there was a reduction in certain advisory fees charged by the Company in conjunction with the service plan mentioned above that was adopted by the Pacific Select Fund. These reductions had the effect of offsetting any larger increases in the advisory fees earned by the Company. See “—Principal Subsidiaries and Affiliates” above for additional information.

Other income was $98 million for the year ended December 31, 2007 as compared to $47 million for the year ended December 31, 2006. Other income was higher in 2007 as compared to 2006 due to fees earned by PSD in connection with the service plan mentioned above. See “—Principal Subsidiaries and Affiliates” above for additional information.

Interest credited to policyholder account balances increased to $1,266 million for the year ended December 31, 2007 as compared to $1,219 million for the year ended December 31, 2006. This increase in interest credited to policyholder account balances is primarily related to the increase of policies in force as previously discussed and an increase in interest credited on floating rate institutional investment products due to a rise in short-term interest rates in 2007 as compared to 2006.

Policy benefits paid or provided increased $75 million to $855 million for the year ended December 31, 2007 as compared to $780 million for the year ended December 31, 2006. This increase is mainly attributable to the Investment Management segment, which also saw a corresponding increase in insurance premiums noted above. This increase is offset by favorable mortality experience in the Life Insurance segment.

Commission expenses for the year ended December 31, 2007 increased $84 million to $690 million compared to $606 million for the year ended December 31, 2006. Commission expenses include components of DAC and vary with the level of sales by business segment due to the mix of products. Increased commission expenses in the Annuities & Mutual Funds segment was the primary reason for the increase in 2007 as compared to 2006 due to higher asset based trail commissions and higher DAC amortization.

Operating expenses for the year ended December 31, 2007 increased by $110 million, or 17%, compared to the year ended December 31, 2006 from $630 million to $740 million. Operating expenses include components of DAC, and the amortization of DAC is dependent on various factors that affect future gross profits by business segment. For most products, DAC amortization represents a percentage of gross profits. Product gross profits were higher in 2007 as compared to 2006, primarily in the Life Insurance and Annuities & Mutual Funds segments. Variable product sub-advisory fees were higher during 2007 as compared to 2006 due to the increase in assets of the separate accounts as previously mentioned.

The provision for income taxes for the year ended December 31, 2007 amounted to $98 million compared to $198 million for the year ended December 31, 2006. The taxes in 2007 and in 2006 are lower than the statutory rate due to the separate account dividends received deductions, utilization of low income housing and other non-taxable investment income.

Assets

As of December 31, 2008, the Company had total assets of $89.7 billion as compared to $104.5 billion as of December 31, 2007. This decrease in total assets is primarily from the decrease in separate account assets from $57.6 billion as of December 31, 2007 to $41.5 billion as of December 31, 2008, which was primarily the result of the negative equity market in 2008. Total investments also decreased from $40.4 billion at December 31, 2007 to $36.7 billion at December 31, 2008, primarily as a result of lower estimated fair values due to an increase in net unrealized losses. General spread widening on fixed maturity investments caused by the recent disruption in the financial markets led to the decrease in estimated fair values. Partially offsetting these decreases was an increase in mortgage loan investments of $1.0 billion and an increase to cash and cash equivalents of $2.8 billion. See the Audited GAAP Financial Statements included in this Annual Report for additional information on investments.

As of December 31, 2007, the Company had total assets of $104.5 billion as compared to $93.2 billion as of December 31, 2006. This increase in total assets is primarily from the increase in separate account assets from $48.9 billion at December 31, 2006 to $57.6 billion at December 31, 2007. In addition, total general account investments increased from $37.4 billion at December 31, 2006 to $40.4 billion at December 31, 2007.

Liabilities

As of December 31, 2008, the Company had total liabilities of $85.7 billion as compared to $97.9 billion as of December 31, 2007. This decrease in total liabilities is primarily from the decrease in separate account liabilities from $57.6 billion at December 31, 2007 to $41.5 billion at December 31, 2008, which is consistent with the decrease in separate account assets described above. This decrease was offset by an increase to future policy benefits of $3.8 billion.

As of December 31, 2007, the Company had total liabilities of $97.9 billion as compared to $86.9 billion as of December 31, 2006. This increase in total liabilities is primarily from the increase in separate account liabilities from $48.9 billion at December 31, 2006 to $57.6 billion at December 31, 2007. Additionally, the remainder of the increase in liabilities is from policyholder account balances, future policy benefits, an increase in commercial paper borrowings and an increase in non-recourse long-term debt related to subsidiary real estate.

Liquidity and Capital Resources

The Company's principal capital resources come from insurance premiums, deposits to policyholder account balances, investment income, sales, maturities, calls and principal repayments of investments and cash flows from other operations. The principal uses of these funds are investment purchases, payment of policy acquisition costs, payment of policyholder benefits, withdrawal of policyholder account balances, income taxes and current operating expenses. Remaining funds not used as noted above are generally used to increase the asset base, to provide funds to meet the need for future policy benefit payments and for writing new business. As described below, total cash and cash equivalents increased $2,833 million during 2008 as compared to a decrease of $820 million during 2007. Total cash and cash equivalents increased $582 million during 2006.

Net cash provided by operating activities was $2,081 million during 2008, $2,052 million during 2007 and $1,989 million in 2006. Net cash provided by operating activities can vary depending on the level and type of sales, particularly those of annuity and other investment-type products. For example, sales of universal life insurance products and investment-type products result in cash flows that are predominantly shown as cash flow from financing activities rather than as cash flow from operations, while sales of variable products result in cash flows that are predominantly reflected in the separate accounts and are not a part of the cash flow statement.

Net cash provided by (used in) investing activities was $1,448 million during 2008 and was ($2,874) million in 2007 as compared to ($59) million during 2006. Due to the current financial environment, the Company had reduced purchases of fixed maturity and equity securities during 2008 resulting in increased investing cash flow. It is the Company's objective to remain fully invested in assets with maturities and yields that it believes are matched to its product liabilities. As assets mature, are redeemed or are sold, the Company evaluates the available investment alternatives, reinvests according to existing and expected product liabilities as well as seeks to ensure that sufficient marketable assets and other sources of liquidity are in place to provide for large unexpected demands for cash. Discrepancies between the timing of financial statement preparation and the timing of reinvestment activity sometimes result in the presentation of levels of short-term investments that are not typical of day-to-day operations. These short-term investments are considered cash equivalents.

Net cash provided by (used in) financing activities was ($696) million during 2008 and was $2 million in 2007 as compared to ($1,348) million during 2006. The decrease primarily relates to a cash dividend paid by Pacific Life to Pacific LifeCorp of $345 million in 2008. Also, changes in universal life and investment-type product account balances and changes in short-term and long-term debt are additional drivers of the change in cash flows from financing.

The payment of dividends by Pacific Life to Pacific LifeCorp is subject to restrictions set forth in the insurance laws of the State of Nebraska. Under these laws, Pacific Life must deliver notice to the Nebraska Department of Insurance of any dividend to Pacific LifeCorp within five business days after declaration of the dividend, and may not pay the dividend to Pacific LifeCorp within the ten business day period following delivery of such notice unless the Nebraska Department of Insurance approves payment of the dividend within such ten business day period. In addition, Pacific Life may not pay an "extraordinary dividend" to Pacific LifeCorp until the Nebraska Department of Insurance has either (i) approved the payment of the dividend or (ii) not disapproved the payment of the dividend within thirty days after receiving notice of the declaration of the dividend. For purposes of applicable Nebraska law, an "extraordinary" dividend or distribution is a dividend or distribution of cash or other property with a fair market value that, together with that of other dividends or distributions made by Pacific Life to Pacific LifeCorp within the preceding twelve months, exceeds the greater of either (i) 10% of Pacific Life's statutory policyholders surplus as of the preceding December 31 or (ii) Pacific Life's statutory net gain from operations for the twelve month period ending the preceding December 31. Based on the 2008 statutory results, Pacific Life could pay $256 million in ordinary dividends during 2009, subject to the ten business day notice period described above. Dividends in excess of such amount would be considered extraordinary dividends for purposes of Nebraska law and would be subject to the thirty day notice and non-disapproval requirement described above. During 2008, Pacific Life paid a cash dividend to Pacific LifeCorp of $345 million. No dividends were paid by Pacific Life during 2007. During 2006, Pacific Life paid dividends of $185 million to Pacific LifeCorp consisting of $169 million in cash and a real estate investment with an estimated fair value of $16 million.

Liquidity Sources and Requirements

The Company's liquidity needs vary by product line. Factors that affect each product line's need for liquidity include interest rate levels, customer type, termination or surrender charges, federal income taxes, benefit levels and level of underwriting risk. Pacific Life's asset/liability management process takes into account the varying liquidity needs of its different product lines.

The Company believes that its product mix contributes to its strong liquidity position. A primary liquidity concern for the Company is the risk of early contract owner and policyholder withdrawals. The Company closely evaluates and manages this risk. A significant portion of the Company's life insurance, institutional and annuity products contain surrender charges for varying durations or fair value adjustments, reducing the risk that customers will seek withdrawals during the periods when surrender charges or fair value adjustments are in place. Surrender charges or fair value adjustments help the Company to better plan the maturities of its invested assets by reducing the risk that future outflows will exceed anticipated levels.

The following table describes Pacific Life's withdrawal characteristics of certain annuity actuarial reserves and deposit-type contracts, including GICs and funding agreements. Amounts are derived from Pacific Life's statutory financial information at the dates noted.

	December 31, 2008		December 31, 2007	
	Amount	**% of Total**	**Amount**	**% of Total**
	($ in millions)			
Subject to discretionary withdrawal:				
With fair value adjustment	$ 2,263	4%	$ 1,437	2%
At book value less current surrender charge of 5% or more	1,923	3%	2,056	3%
At fair value	35,114	63%	48,565	73%
Total with adjustment or at fair value	39,300	70%	52,058	78%
At book value without adjustment	1,790	3%	1,309	2%
Not subject to discretionary withdrawal	14,816	27%	13,631	20%
Total (gross)	55,906	100%	66,998	100%
Reinsurance ceded	409		11	
Total (net)	$ 55,497		$ 66,987	

As noted in the table above, as of December 31, 2008 and 2007, only 3% and 2%, respectively, of these liabilities were subject to withdrawal at book value without adjustment. The other 97% and 98% of these liabilities as of December 31, 2008 and 2007, respectively, were either subject to withdrawal with an adjustment or at fair value or were not subject to discretionary withdrawal. The products are designed in this manner to discourage early withdrawals and protect Pacific Life from liquidity risks. Pacific Life believes the structuring of liabilities in this manner provides it with a stable block of liabilities that reduces its exposure to unexpected cash withdrawals and demands and the adverse financial effects that could occur as a result.

The Company's principal sources of liquidity to meet unexpected cash outflows are its portfolio of liquid assets and its net operating cash flow. Liquid assets include U.S. Treasury securities, short-term money market investments, common and preferred stocks and marketable fixed maturity securities. Furthermore, the Company monitors and manages cash flows in order to maximize investment returns relative to client obligations and to minimize the number, length of time and severity of asset and liability cash flow mismatches.

Additional sources of liquidity include facilities for short-term borrowing to meet working capital requirements. Pacific Life maintains a $700 million commercial paper program. There were no borrowings outstanding under the commercial paper program as of December 31, 2008 and 2006. As of December 31, 2007, there was $100 million outstanding under the commercial paper program. In addition, a bank revolving credit facility totaling $400 million is also in place that serves as a back-up line of credit for the commercial paper program. The credit facility matures in June 2012 and does not contain a material adverse change clause. This facility had no debt outstanding as of December 31, 2008, 2007 and 2006. As of December 31, 2008, 2007 and 2006, and for the years ended December 31, 2008, 2007 and 2006, Pacific Life was in compliance with its debt covenants related to this credit facility.

PL&A maintains a $40 million reverse purchase line of credit with a commercial bank. These borrowings are at variable rates of interest based on collateral and market conditions. There was no debt outstanding in connection with this line of credit as of December 31, 2008, 2007 and 2006.

Pacific Life is a member of the Federal Home Loan Bank (**"FHLB"**) of Topeka. Pacific Life has approval from the FHLB of Topeka to borrow amounts up to 40% of Pacific Life's statutory general account assets provided it has available collateral and is in compliance with debt covenant restrictions and insurance laws and regulations. There was no debt outstanding with the FHLB of Topeka as of December 31, 2008, 2007 and 2006. Certain assets are on deposit with the FHLB of Topeka with an estimated fair value of $3.6 billion as of December 31, 2008, of which $2.2 billion have been pledged and $1.4 billion are available for future advances from the FHLB of Topeka. This amounts to a borrowing capacity of approximately $1.0 billion as of December 31, 2008.

PL&A is a member of the FHLB of San Francisco. PL&A is eligible to borrow from the FHLB of San Francisco amounts based on a percentage of statutory capital and surplus and could borrow amounts up to $99 million. Of this amount, half, or $49.5 million, can be borrowed for terms other than overnight, out to a maximum term of nine months. These borrowings are at variable rates of interest, collateralized by certain mortgage loan and government securities. As of December 31, 2008, 2007 and 2006, PL&A had no debt outstanding with the FHLB of San Francisco.

Dividends and Distributions from Subsidiaries

In recent years, the subsidiaries of Pacific Life have provided other sources of liquidity through the payment of distributions and dividends. Of the principal subsidiaries, only Pacific Asset Holding LLC (**"PAH"**), a wholly-owned subsidiary of Pacific Life, has recently made cash distributions to Pacific Life. Dividends received from other subsidiaries of Pacific Life have been nominal during the past few years.

Operating cash flow for PAH has been generated by the cash distributions from the interest in PIMCO owned by PAH. These cash distributions from the interest in PIMCO are the primary source of distributions that PAH pays to Pacific Life. In connection with the exercise of the final put option of the Company's interest in PIMCO, as noted above, PAH made distributions to Pacific Life of $300 million during the year ended December 31, 2008. PAH paid distributions to Pacific Life of $12 million during the year ended December 31, 2007. PAH paid no distributions to Pacific Life during the year ended December 31, 2006.

The payment of dividends by PL&A to Pacific Life is subject to restrictions set forth in the Arizona insurance laws. These laws require that PL&A notify the Arizona Department of Insurance of the declaration of any dividend to be paid by PL&A to Pacific Life. PL&A may not pay an "extraordinary" dividend to Pacific Life until the Arizona Department of Insurance has either (i) approved the payment of the dividend or (ii) not disapproved the payment of the dividend within thirty days after receiving notice of the declaration of the dividend. For purposes of applicable Arizona law, an "extraordinary" dividend or distribution is a dividend or distribution of cash or other property whose fair market value, together with that of other dividends or distributions made by PL&A to Pacific Life within the preceding twelve months, exceeds the lesser of either (i) 10% of PL&A's statutory policyholders surplus with respect to policyholders as of the preceding December 31 or (ii) PL&A's statutory net gain from operations for the twelve month period ending the preceding December 31. PL&A would be unable to pay ordinary dividends in 2009 based on 2008 statutory results. Any dividends paid by PL&A in 2009 would be considered extraordinary dividends for purposes of Arizona law and would be subject to the thirty day notice and non-disapproval requirement described above. PL&A did not pay any dividends to Pacific Life during the years ended December 31, 2008, 2007 or 2006.

General

The Company believes that these sources of liquidity are adequate to meet its anticipated cash obligations.

There can be no assurance that future experience regarding benefits and surrenders will be similar to historic experience since withdrawal and surrender levels are influenced by such factors as the interest rate environment and the Company's claims-paying and financial strength ratings.

Effects of Interest Rate Changes

Interest rate changes may affect the sale and profitability of the life insurance, institutional and annuity products the Company offers. The Company monitors interest rates and sells life insurance, institutional and annuity products that permit flexible responses to interest rate changes as part of its management of interest spreads. However, the profitability of its products is not based solely upon interest rate spreads but also on persistency, mortality and expenses.

The Company manages its investment portfolio in part to reduce its exposure to interest rate fluctuations. In general, the market value of the Company's fixed maturity portfolio increases or decreases in an inverse relationship with fluctuations in interest rates.

The Company has emphasized interest-sensitive life insurance and institutional products and has developed an asset/liability management approach that utilizes option-adjusted analysis to manage the interest-rate sensitivities for each of its major product business units and for the portfolio as a whole. The Company utilizes cash flow matching for known cash inflows and outflows and considers numerous potential stress scenarios to determine the impact of changing interest rates on earnings and equity.

In force reserves and the assets allocated to each identified business unit are modeled on a regular basis to analyze projected cash flows under a variety of economic scenarios. The results of this modeling are used to modify asset allocation, investment portfolio duration and renewal crediting strategies. The Company may utilize interest rate swaps, floors, caps and options to hedge interest rate risk and reduce the impact of fluctuations in market prices. The Company has in place stringent guidelines that limit the potential exposure to derivatives and control the selection of derivative counterparties. For further discussion and disclosure of the nature and extent of the Company's use of derivatives, see the Audited GAAP Financial Statements included in this Annual Report.

Principal Risks and Uncertainties

The Company operates in a business environment that is subject to various risks and uncertainties which are difficult to predict and could have a material adverse effect on the Company's financial condition or results of operations. These risks and uncertainties include:

- continued deterioration of the equity and credit markets, which may increase defaults on and impairment of the Company's portfolio of fixed maturity investments, reduce sales and profitability of the Company's variable and investment management products and the fees the Company receives on assets under management, and increase the costs relating to guaranteed minimums in annuity products;

- changes in economic conditions, including changes in interest rates, which may reduce profitability of the Company's life insurance and investment businesses, significantly affect the value of the Company's portfolio of fixed maturity investments and reduce the liquidity of fixed maturity investments;

- uncertainty in the capital and credit markets which may limit the Company's access to capital required to operate its business and the Company's ability to refinance its credit facilities;

- uncertainty about the effectiveness of the U.S. government's plans to purchase large amounts of illiquid, mortgage-backed and other securities from financial institutions and to take other actions to address the financial crisis;

- impairment of certain financial institutions, including issuers of investment securities the Company holds, certain monoline insurers, derivative instrument counterparties and reinsurers which may result in losses for the Company;

- decreased availability of derivative instrument counterparties which may adversely affect the Company's ability to hedge various business risks;

- decreased availability or increased cost of reinsurance which may adversely affect the Company's ability to write future business or result in the assumption of more risk by the Company;

- downgrades in the ratings assigned to Pacific Life or PL&A by nationally recognized statistical rating organizations which may reduce new sales of insurance products, annuities and other investment products, increase the number or amount of policy surrenders and withdrawals, increase the Company's borrowing costs, adversely affect the Company's ability to obtain reinsurance at reasonable prices or at all and adversely affect the ratings of the instruments issued by PLF;

- further deterioration in the performance of the sub-prime and Alt-A residential mortgage sector which may cause declines in the value of the Company's investment portfolio;

- differences between actual experience with respect to mortality, policy surrenders or withdrawals, interest rates or investment returns and the assumptions that the Company uses in pricing its products, establishing reserves or for other purposes;

- competitive pressures on product pricing and services, including competition by other insurance companies and financial services companies;

- changes in domestic and foreign laws, regulations and taxes that may affect the cost of, or demand for, the Company's products and services;

- changes in accounting standards, policies or practices;

- failure of the Company's risk management policies to adequately mitigate future exposures;

- adverse results or consequences from litigation, regulatory investigations or other regulatory actions;

- volatility and decreased commercial and economic activity due to terrorism and military actions;

- losses stemming from a catastrophic event, pandemic or computer system failure;

- changes in assumptions relating to DAC which may require the Company to accelerate the amount of DAC amortization in a given period; and

- inability to attract or retain key personnel.

Recently Adopted Accounting Pronouncements

For a discussion of recently adopted accounting pronouncements, see the Audited GAAP Financial Statements included in this Annual Report.

Future Adoption of New Accounting Pronouncements

For a discussion of future adoption of new accounting pronouncements, see the Audited GAAP Financial Statements included in this Annual Report.

Legal Proceedings

The Company is a respondent in a number of legal proceedings, some of which involve allegations for extra-contractual damages. Although the Company is confident of its position in these matters, success is not a certainty and it is possible that in any case a judge or jury could rule against the Company. In the opinion of management, the outcome of such proceedings is not likely to have a material adverse effect on the Company's consolidated financial position. The Company believes adequate provision has been made in its consolidated financial statements for all probable and estimable losses for litigation claims against the Company.

Ratings

Rating agencies assign Pacific Life financial strength ratings based on their evaluations of Pacific Life's ability to meet its financial obligations. These ratings indicate a rating agency's view of an insurance company's ability to meet its obligations to its insureds. There can be no assurance that Pacific Life's ratings will continue for any given period of time or that they will not be adjusted or withdrawn. Pacific Life's financial strength ratings and outlook as of the date of this Annual Report are set forth in the chart below.

Rating Agency	Rating	Rating Structure	Ratings Outlook
Moody's Investors Service, Inc.	Aa3 (Excellent)	Fourth highest of 21 ratings	Negative
Standard and Poor's Rating Services	AA- (Very strong)	Fourth highest of 21 ratings	Negative
Fitch Ratings	AA- (Very strong)	Fourth highest of 21 ratings	Negative
A.M. Best Company, Inc.	A+ (Superior)	Second highest of 16 ratings	Negative

Pacific Life's ratings are of interest to policyholders and holders of Pacific Life's debt securities and other obligations, but are not ratings of the instruments issued by PLF and do not reflect an evaluation of the safety and security of such instruments.

Employees

As of December 31, 2008, Pacific LifeCorp and its subsidiaries had approximately 2,800 employees. None of Pacific LifeCorp and its subsidiaries' employees are covered by a collective bargaining agreement. Pacific LifeCorp believes that its employee relations are satisfactory.

Properties

Pacific Life's principal administrative offices are located at 700 Newport Center Drive, Newport Beach, California, in a 285,000 square-foot office building it owns. The Company intends to retain its Corporate headquarters in this location. The Company also owns and occupies a new office building it constructed in Aliso Viejo, California that was completed in February 2008. The Company also leases office space at various locations throughout the United States. Other principal leases include other subsidiary home offices, regional life and other sales offices, group insurance claims processing offices and storage facilities. The Company believes that its facilities are adequate for its present needs in all material respects.

STATEMENT OF RESPONSIBILITY

Pacific Life Funding, LLC

The directors of PLF confirm, to the best of their knowledge, that:

- the financial statements of PLF included in this report were prepared in accordance with U.S. GAAP and give a true and fair view of the assets, liabilities, financial position and profit or loss of PLF as of December 31, 2008 and for the year ended December 31, 2008; and

- this report includes a fair review of the development and performance of the business and position of PLF during the year ended December 31, 2008, including the principal risks and uncertainties PLF faces.

Dated: April 29, 2009

/s/ Martin Couch
Martin Couch
Director

/s/ Dianne Scott
Dianne Scott
Director

FINANCIAL STATEMENTS OF
PACIFIC LIFE FUNDING, LLC AND
PACIFIC LIFE INSURANCE COMPANY

Audited GAAP Financial Statements of Pacific Life Funding, LLC as of December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006

Audited GAAP Consolidated Financial Statements of Pacific Life Insurance Company as of December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006

AUDITED GAAP FINANCIAL STATEMENTS OF
PACIFIC LIFE FUNDING, LLC
AS OF DECEMBER 31, 2008 AND 2007 AND
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

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INDEPENDENT AUDITORS' REPORT

Pacific Life Funding, LLC:

We have audited the accompanying balance sheets of Pacific Life Funding, LLC (the Company) as of December 31, 2008 and 2007, and the related statements of operations and retained earnings and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

April 13, 2009

Pacific Life Funding, LLC

BALANCE SHEETS
(Expressed in United States Dollars)

	December 31, 2008	December 31, 2007
ASSETS		
Cash and cash equivalents	$25,589	$25,495
Funding agreements	2,731,881,174	3,731,065,583
TOTAL ASSETS	$2,731,906,763	$3,731,091,078
LIABILITIES AND MEMBER'S EQUITY		
Liabilities:		
Notes payable	$2,731,881,174	$3,731,065,583
TOTAL LIABILITIES	2,731,881,174	3,731,065,583
Member's Equity:		
Share capital	1,000	1,000
Retained earnings	24,589	24,495
TOTAL MEMBER'S EQUITY	25,589	25,495
TOTAL LIABILITIES & MEMBER'S EQUITY	$2,731,906,763	$3,731,091,078

See Notes to Financial Statements

Pacific Life Funding, LLC

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS
(Expressed in United States Dollars)

	Years Ended December 31,		
	2008	2007	2006
INCOME			
Interest on funding agreements	$166,269,296	$213,153,713	$229,984,032
Foreign exchange gain on funding agreements		21,578,861	357,945,076
Foreign exchange gain on notes issued	564,384,156		
Other	94	18,216	19,624
TOTAL INCOME	730,653,546	234,750,790	587,948,732
EXPENSES			
Interest on notes issued	166,269,296	213,153,713	229,984,032
Foreign exchange loss on funding agreements	564,384,156		
Foreign exchange loss on notes issued		21,578,861	357,945,076
Other		17,859	15,958
TOTAL EXPENSES	730,653,452	234,750,433	587,945,066
NET INCOME	$94	$357	$3,666
RETAINED EARNINGS, BEGINNING OF YEAR	$24,495	$24,138	$20,472
Net income	94	357	3,666
RETAINED EARNINGS, END OF YEAR	$24,589	$24,495	$24,138

See Notes to Financial Statements.

Pacific Life Funding, LLC

STATEMENTS OF CASH FLOWS
(Expressed in United States Dollars)

	Years Ended December 31,		
	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$94	$357	$3,666
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Change in accrued expenses			(7,500)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	94	357	(3,834)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from maturities of funding agreements	408,203,641	783,352,047	501,756,473
NET CASH PROVIDED BY INVESTING ACTIVITIES	408,203,641	783,352,047	501,756,473
CASH FLOWS FROM FINANCING ACTIVITIES:			
Redemption of notes payable	(408,203,641)	(783,352,047)	(501,756,473)
NET CASH USED IN FINANCING ACTIVITIES	(408,203,641)	(783,352,047)	(501,756,473)
NET CHANGE IN CASH AND CASH EQUIVALENTS	94	357	(3,834)
Cash and cash equivalents, beginning of year	25,495	25,138	28,972
CASH AND CASH EQUIVALENTS, END OF YEAR	$25,589	$25,495	$25,138
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest paid	$192,865,905	$237,106,027	$225,058,146

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS
(Expressed in United States Dollars)

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Pacific Life Funding, LLC (the Company) was incorporated on January 23, 1998, as an exempted company under the Companies Law of the Cayman Islands and commenced operations on May 28, 1998. The Company has received an undertaking from the Cayman Islands government exempting it from all local income or capital gains taxes until February 17, 2018. No such taxes are levied in the Cayman Islands at the present time. The Company was established as a special purpose vehicle under the terms of a Charitable Trust.

The Company has established a program (the Program) for the issuance of up to $8,000,000,000 of debt instruments. Each series or tranche of instruments issued under the Program is secured by a funding agreement (the Funding Agreements) entered into between the Company and Pacific Life Insurance Company (Pacific Life), a stock life insurance company domiciled in the State of Nebraska. The Company has funded its investment in the Funding Agreements through the issuance of notes payable (Note 4). The creation and issuance of each series of notes is governed by an indenture dated April 15, 1998, as supplemented between the Company, Banque Generale du Luxembourg S.A. as Transfer Agent and Paying Agent, and The Bank of New York as trustee.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The Company's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

NEW ACCOUNTING PRONOUNCEMENTS

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115.* This statement permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The Company did not elect the fair value option on any of the eligible assets or liabilities. Therefore, adoption of SFAS No. 159 had no impact on the Company's financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements.* This statement creates a common definition of fair value to be used throughout U.S. GAAP. SFAS No 157 will apply whenever another standard requires or permits assets or liabilities to be measured at fair value, with certain exceptions. The standard establishes a hierarchy for determining fair value, which emphasizes the use of observable market data whenever available. The statement also requires expanded disclosures, which include the extent to which assets and liabilities are measured at fair value, the methods and assumptions used to measure fair value and the effect of fair value measures on earnings. The adoption of SFAS No. 157 had no impact on the Company's financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all investments with an original maturity of three months or less.

FUNDING AGREEMENTS AND NOTES PAYABLE

The Funding Agreements and related notes payable (together, the Instruments) have been classified as held to maturity and are reported at amortized cost, adjusted for changes in foreign exchange rates, accrued interest and changes in the value of the equity-linked components. The equity-linked components of the Instruments are valued using an appropriate derivative valuation model, which in the opinion of management provides the best estimate of the ultimate equity obligation. While management believes that the model provides the best method of estimating the equity obligations, the ultimate liability may be in excess of, or less than, the amounts generated and any adjustments will be reflected in the periods in which they become known. Most of the instruments are denominated in foreign currencies and are subject to both foreign exchange and interest rate fluctuations.

FOREIGN CURRENCY TRANSLATION

Assets and liabilities denominated in currencies other than the United States dollar have been translated at exchange rates prevailing at the balance sheet date. Income and expenses involving other currencies have been translated at exchange rates in effect at the time of those transactions. Gains or losses on foreign exchange are recorded in the statements of operations and retained earnings.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of financial instruments, disclosed in Note 5, has been determined using available market information and appropriate valuation methodologies. However, considerable judgment is often required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented may not be indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies could have a significant effect on the estimated fair value amounts.

USE OF ESTIMATES

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those amounts.

3. TRANSACTIONS WITH AFFILIATES

In addition to purchases of Funding Agreements from Pacific Life, certain operating expenses of the Company are paid directly by Pacific Life. During the years ended December 31, 2008, 2007 and 2006, Pacific Life paid $510,000, $268,000, and $564,000, respectively, on behalf of the Company for general operating and administrative expenses.

4. FUNDING AGREEMENTS/NOTES PAYABLE

Each series of notes payable issued under the Program is secured by one or more Funding Agreements. Under the terms of the Funding Agreements, Pacific Life agrees to accept, and the Company agrees to pay, net proceeds from the issuance of notes payable under the Program. The notes of one series do not have any right to receive payments under a funding agreement related to any other series of notes. Therefore, the Company is only able to make timely payments with respect to a series of notes payable if Pacific Life has made all required payments under the Funding Agreements securing such series of notes payable.

The Company's obligations under the notes payable are not obligations of, and are not guaranteed or insured by, any other person, including, but not limited to, Pacific Life or any of its subsidiaries or affiliates. None of these entities nor any agent or trustee of the Company is under any obligation to provide funds or capital to the Company, except for Pacific Life's payment obligations under the Funding Agreements and an agreement by Pacific Life to pay certain operating expenses of and fees to the Company. In addition, the instruments do not benefit from any insurance guaranty fund coverage or similar protection.

The Instruments may be interest bearing or non-interest bearing, and any interest may accrue at either a fixed or floating rate. The notes mature on dates ranging from February 2009 to September 2021.

Certain of the Instruments are equity-linked in that the redemption amount is calculated by reference to both the outstanding principal amount of the Instrument and the amount by which a pre-determined index or basket of shares as specified in the related agreement for the series of notes has risen in value. Such amount is also created as a receivable, included in the Funding Agreements, for the Company under the terms of the relevant funding agreement. The carrying amount is calculated using a suitable option valuation technique.

The following schedules detail the notes payable outstanding as of December 31, 2008 and 2007. The detail schedules for the Funding Agreements are not included, but would contain similar information, except that the schedules would reflect the investments and receivables related to the Instruments.

4. FUNDING AGREEMENTS/NOTES PAYABLE (CONTINUED)

December 31, 2008:

Issue	Currency	Principal Denominated in Currency of Issuance	Maturity	Interest Rate/Basis of Equity Index Obligation	Accrued Interest	Foreign Currency Gains (Losses)	Carrying Value
Series 1 Tranche 1	FRF	2,000,000,000	5/28/2009	5.50 %	$14,033,989	$99,587,201	$443,936,281
Series 5 Tranche 1	NLG	106,000,000	7/15/2009	5.15 %	1,616,606	16,075,159	69,652,549
Series 11 Tranche 1	EUR	36,500,000	3/12/2019	4.70 %	1,947,928	10,747,321	53,575,249
Series 20 Tranche 1	EUR	10,000,000	12/30/2009	(A)	1,285	3,644,472	14,145,757
Series 23 Tranche 1	EUR	100,000,000	12/12/2011	(B)	433,174	38,194,716	141,877,890
Series 25 Tranche 1	EUR	90,000,000	8/17/2011	6.08 %	2,905,096	36,445,245	130,205,341
Series 26 Tranche 1	JPY	3,000,000,000	1/26/2010	2.00 %	615,436	4,866,799	33,882,235
Series 31 Tranche 1	CHF	100,000,000	6/30/2010	4.75 %	2,271,769	34,998,718	97,301,703
Series 33 Tranche 1	USD	28,560,000	9/15/2021	6 mth USD LIBOR + .40%	298,542	-	28,858,542
Series 36 Tranche 1	EUR	29,000,000	9/29/2020	3 mth EURIBOR + .37%	11,593	15,600,439	41,030,032
Series 39 Tranche 1	GBP	25,000,000	12/7/2015	5.81 %	139,813	571,393	36,211,205
Series 40 Tranche 1	EUR	27,000,000	2/5/2021	3 mth EURIBOR + .43%	312,194	12,878,364	38,503,058
Series 41 Tranche 1	GBP	200,000,000	2/8/2011	6.25 %	16,182,027	(6,428,860)	304,753,168
Series 45 Tranche 1	JPY	3,100,000,000	7/17/2013	3 mth JPY LIBOR + .15%	89,807	9,375,693	34,465,500
Series 47 Tranche 1	GBP	150,000,000	8/16/2013	6.00 %	4,909,662	2,427,855	221,337,517
Series 47 Tranche 2	GBP	50,000,000	8/16/2013	6.00 %	1,636,554	(757,215)	73,779,339
Series 58 Tranche 1	EUR	300,000,000	5/14/2009	5.50 %	14,834,257	154,934,149	439,168,406
Series 61 Tranche 1	USD	72,257,000	12/20/2009	4.47 %	19,733	-	14,589,616
Series 62 Tranche 1	USD	43,473,000	12/20/2009	4.47 %	11,946	-	8,832,443
Series 63 Tranche 1	USD	111,146,000	12/20/2010	5.28 %	125,470	-	79,395,118
Series 65 Tranche 1	USD	30,645,000	12/20/2009	4.54 %	8,503	-	6,193,904
Series 66 Tranche 1	HKD	160,000,000	7/31/2014	5.00 %	175,340	44,895	20,820,235
Series 67 Tranche 1	GBP	200,000,000	1/20/2015	5.13 %	14,021,522	(86,428,860)	302,592,662
Series 68 Tranche 1	HKD	200,000,000	1/26/2015	4.28 %	208,796	142,061	26,014,915
BALANCE TO CARRYFORWARD					$76,811,042	$346,919,545	$2,661,122,665

4. **FUNDING AGREEMENTS/NOTES PAYABLE (CONTINUED)**

December 31, 2008 (Continued):

Issue	Currency	Principal Denominated in Currency of Issuance	Maturity	Interest Rate/Basis of Equity Index Obligation	Accrued Interest	Foreign Currency Gains (Losses)	Carrying Value
CARRYFORWARD BALANCE					$76,811,042	$346,919,545	$2,661,122,665
Series PLF002 Tranche 1	EUR	2,792,000	2/15/2009	3.05 %	105,639	291,617	4,054,777
Series PLF003 Tranche 1	EUR	25,358,000	2/15/2014	4.00 %	1,258,304	2,648,572	37,125,856
Series PLF005 Tranche 1	EUR	200,000	2/15/2010	3.15 %	7,815	23,689	290,704
Series PLF007 Tranche 1	GBP	1,010,000	2/15/2013	5.00 %	3,238	(449,091)	1,460,522
Series PLF012 Tranche 1	EUR	10,000,000	3/15/2015	3.80 %	429,992	1,284,472	14,574,464
Series PLF014 Tranche 1	GBP	256,000	3/15/2013	4.80 %	788	(114,904)	370,159
Series PLF015 Tranche 1	GBP	500,000	5/15/2013	5.00 %	1,603	(236,821)	723,033
Series PLF018 Tranche 1	EUR	1,000,000	6/15/2009	2.05 %	15,888	150,447	1,430,336
Series PLF019 Tranche 1	EUR	5,016,000	6/15/2017	4.00 %	155,504	754,641	7,250,369
Series PLF020 Tranche 1	EUR	180,000	6/15/2009	1.90 %	2,651	27,801	257,251
Series PLF025 Tranche 1	GBP	250,000	7/15/2010	4.55 %	7,644	(92,411)	368,358
Series PLF029 Tranche 1	GBP	650,000	11/15/2013	4.65 %	1,939	(221,093)	939,795
Series PLF031 Tranche 1	EUR	1,350,000	12/15/2015	3.80 %	3,381	329,869	1,912,885
TOTAL					$78,805,428	$351,316,333	$2,731,881,174

4. FUNDING AGREEMENTS/NOTES PAYABLE (CONTINUED)

December 31, 2007:

Issue	Currency	Principal Denominated in Currency of Issuance	Maturity	Interest Rate/Basis of Equity Index Obligation	Accrued Interest	Foreign Currency Gains (Losses)	Carrying Value
Series 1 Tranche 1	FRF	2,000,000,000	5/28/2009	5.50 %	$14,589,568	$116,660,037	$461,564,696
Series 4 Tranché 1	DEM	350,000,000	6/30/2008	5.25 %	6,891,348	64,077,158	267,968,506
Series 5 Tranche 1	NLG	106,000,000	7/15/2009	5.15 %	1,680,627	18,769,540	72,410,951
Series 8 Tranche 1	FRF	170,000,000	12/15/2008	3 mth FRF PIBOR +0.6 %	87,983	7,751,332	38,196,458
Series 11 Tranche 1	EUR	36,500,000	3/12/2019	4.70 %	2,025,064	12,791,735	55,696,799
Series 20 Tranche 1	EUR	10,000,000	12/30/2009	(A)	1,684	4,204,585	14,706,269
Series 23 Tranche 1	EUR	100,000,000	12/12/2011	(B)	450,328	43,795,849	147,496,177
Series 25 Tranche 1	EUR	90,000,000	8/17/2011	6.08 %	3,020,136	41,486,264	135,361,400
Series 26 Tranche 1	JPY	3,000,000,000	1/26/2010	2.00 %	493,598	(1,878,319)	27,015,279
Series 27 Tranche 1	EUR	50,000,000	11/8/2008	(C)	10,212	22,222,924	73,533,136
Series 31 Tranche 1	CHF	100,000,000	6/30/2010	4.75 %	2,117,434	28,542,743	90,691,393
Series 33 Tranche 1	USD	28,560,000	9/15/2021	6 mth USD LIBOR + .40 %	496,939	-	29,056,939
Series 36 Tranche 1	EUR	29,000,000	9/29/2020	3 mth EURIBOR + .37 %	6,086	17,224,767	42,648,853
Series 39 Tranche 1	GBP	25,000,000	12/7/2015	5.81 %	193,113	14,322,631	50,015,744
Series 40 Tranche 1	EUR	27,000,000	2/5/2021	3 mth EURIBOR + .43 %	316,071	14,390,670	40,019,241
Series 41 Tranche 1	GBP	200,000,000	2/8/2011	6.25 %	22,350,986	103,581,051	420,932,037
Series 45 Tranche 1	JPY	3,100,000,000	7/17/2013	3 mth JPY LIBOR + .15 %	65,956	2,405,738	27,471,694
Series 47 Tranche 1	GBP	150,000,000	8/16/2013	6.00 %	6,781,338	84,935,289	305,716,627
Series 47 Tranche 2	GBP	50,000,000	8/16/2013	6.00 %	2,260,446	26,745,263	101,905,709
Series 54 Tranche 1	AUD	150,000,000	4/15/2008	6.50 %	1,804,542	54,001,761	133,311,303
Series 55 Tranche 1	AUD	100,000,000	4/15/2008	3 mth BBSW + .50 %	1,407,006	36,001,174	89,078,180
Series 58 Tranche 1	EUR	300,000,000	5/14/2009	5.50 %	15,421,685	171,737,547	456,559,232
Series 61 Tranche 1	USD	72,257,000	12/20/2009	4.47 %	19,733	-	14,707,281
Series 62 Tranche 1	USD	43,473,000	12/20/2009	4.47 %	11,946	-	8,903,681
Series 63 Tranche 1	USD	111,146,000	12/20/2010	5.28 %	125,470	-	80,082,892
Series 65 Tranche 1	USD	30,645,000	12/20/2009	4.54 %	8,503	-	6,248,276
Series 66 Tranche 1	HKD	160,000,000	7/31/2014	5.00 %	174,137	(96,774)	20,677,363
BALANCE TO CARRYFORWARD					$82,811,939	$883,672,965	$3,211,976,116

4. FUNDING AGREEMENTS/NOTES PAYABLE (CONTINUED)

December 31, 2007 (Continued):

Issue	Currency	Principal Denominated in Currency of Issuance	Maturity	Interest Rate/Basis of Equity Index Obligation	Accrued Interest	Foreign Currency Gains (Losses)	Carrying Value
CARRYFORWARD BALANCE					$82,811,939	$883,672,965	$3,211,976,116
Series 67 Tranche 1	GBP	200,000,000	1/20/2015	5.13 %	19,363,941	23,581,051	417,944,992
Series 68 Tranche 1	HKD	200,000,000	1/26/2015	4.28 %	207,363	(35,025)	25,836,395
Series PLF002 Tranche 1	EUR	2,792,000	2/15/2009	3.05 %	109,780	448,000	4,215,300
Series PLF003 Tranche 1	EUR	25,358,000	2/15/2014	4.00 %	1,307,630	4,068,907	38,595,517
Series PLF005 Tranche 1	EUR	200,000	2/15/2010	3.15 %	8,122	34,892	302,214
Series PLF007 Tranche 1	GBP	1,010,000	2/15/2013	5.00 %	4,473	106,459	2,017,307
Series PLF008 Tranche 1	EUR	285,000	2/15/2008	2.65 %	9,736	47,583	428,817
Series PLF012 Tranche 1	EUR	10,000,000	3/15/2015	3.80 %	447,019	1,844,585	15,151,604
Series PLF014 Tranche 1	GBP	256,000	3/15/2013	4.80 %	1,088	25,909	511,272
Series PLF015 Tranche 1	GBP	500,000	5/15/2013	5.00 %	2,214	38,204	998,668
Series PLF018 Tranche 1	EUR	1,000,000	6/15/2009	2.05 %	16,517	206,458	1,486,976
Series PLF019 Tranche 1	EUR	5,016,000	6/15/2017	4.00 %	161,662	1,035,594	7,537,480
Series PLF020 Tranche 1	EUR	180,000	6/15/2009	1.90 %	2,756	37,883	267,440
Series PLF025 Tranche 1	GBP	250,000	7/15/2010	4.55 %	10,558	45,101	508,785
Series PLF029 Tranche 1	GBP	650,000	11/15/2013	4.65 %	2,677	136,439	1,298,067
Series PLF031 Tranche 1	EUR	1,350,000	12/15/2015	3.80 %	3,513	405,484	1,988,633
TOTAL					$104,470,988	$915,700,489	$3,731,065,583

4. FUNDING AGREEMENTS/NOTES PAYABLE (CONTINUED)

(A) Interest shall be calculated at 87% of the mid spot ten-year EUR fixed versus six-month EUR EURIBOR swap rate.

(B) Interest shall be calculated as the greater of 86.75% of the mid spot ten-year EUR fixed versus six-month EUR EURIBOR swap rate and 5.25%.

(C) The equity index obligation is based on 101% of the change in the Nikkei 225 Stock Average over the term of the loan. If the obligation is less than 5%, it shall be deemed to be 5%.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

As described previously in Note 2, the Instruments have been classified as held-to-maturity and are carried at amortized cost, adjusted for changes in foreign exchange rates, accrued interest, and changes in the value of the equity-linked components. The underlying equity-linked components of the Instruments have been marked to market, with the change in the value recorded on the statements of operations and retained earnings. No further adjustments have been made to the carrying value resulting from changes in interest rates or credit quality.

The carrying amount and estimated fair value of the Company's financial instruments are as follows:

	December 31, 2008 Carrying Amount	December 31, 2008 Estimated Fair Value
Assets:		
Funding agreements (Note 4)	$2,731,881,174	$2,728,328,614
Cash and cash equivalents	25,589	25,589
Liabilities:		
Notes payable (Note 4)	2,731,881,174	2,728,328,614

	December 31, 2007 Carrying Amount	December 31, 2007 Estimated Fair Value
Assets:		
Funding agreements (Note 4)	$3,731,065,583	$3,665,631,374
Cash and cash equivalents	25,495	25,495
Liabilities:		
Notes payable (Note 4)	3,731,065,583	3,665,631,374

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following methods and assumptions were used to estimate the fair value of these financial instruments as of December 31, 2008 and 2007:

FUNDING AGREEMENTS AND NOTES PAYABLE

The estimated fair value of Funding Agreements and notes payable is estimated using the rates currently offered for deposits of similar remaining maturities.

CASH AND CASH EQUIVALENTS

The carrying values approximate fair values due to the short-term maturities of these instruments.

6. SHARE CAPITAL

Authorized:
50,000 ordinary shares of US$1 par value each

Issued and fully paid:
1,000 ordinary shares of US$1 par value each

As of December 31, 2008 and 2007, 1,000 ordinary shares had been issued at par to QSPV Limited, the trustee of the Charitable Trust.

AUDITED GAAP CONSOLIDATED FINANCIAL STATEMENTS OF
PACIFIC LIFE INSURANCE COMPANY
AS OF DECEMBER 31, 2008 AND 2007 AND
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

Deloitte.

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INDEPENDENT AUDITORS' REPORT

Pacific Life Insurance Company and Subsidiaries:

We have audited the accompanying consolidated statements of financial condition of Pacific Life Insurance Company and Subsidiaries (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholder's equity and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Pacific Life Insurance Company and Subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, in 2007 the Company changed its method of accounting and reporting for deferred acquisition costs in connection with modifications or exchanges of insurance contracts and for defined benefit pension and other postretirement plans.

As discussed in Note 6 to the consolidated financial statements, the accompanying consolidated financial statements have been reclassified to give effect to broker-dealer discontinued operations.

Deloitte & Touche LLP

March 5, 2009

Pacific Life Insurance Company and Subsidiaries

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31, 2008	December 31, 2007
	(In Millions)	
ASSETS		
Investments:		
Fixed maturity securities available for sale, at estimated fair value	$21,942	$26,854
Equity securities available for sale, at estimated fair value	216	409
Mortgage loans	5,622	4,585
Policy loans	6,920	6,410
Other investments	2,045	2,156
TOTAL INVESTMENTS	36,745	40,414
Cash and cash equivalents	3,354	521
Deferred policy acquisition costs	5,012	4,481
Other assets	3,046	1,482
Separate account assets	41,505	57,605
TOTAL ASSETS	$89,662	$104,503
LIABILITIES AND STOCKHOLDER'S EQUITY		
Liabilities:		
Policyholder account balances	$32,670	$32,017
Future policy benefits	9,841	6,025
Short-term and long-term debt	328	397
Other liabilities	1,332	1,878
Separate account liabilities	41,505	57,605
TOTAL LIABILITIES	85,676	97,922
Commitments and contingencies (Note 20)		
Stockholder's Equity:		
Common stock - $50 par value; 600,000 shares authorized, issued and outstanding	30	30
Paid-in capital	505	505
Retained earnings	5,130	5,814
Accumulated other comprehensive income (loss)	(1,679)	232
TOTAL STOCKHOLDER'S EQUITY	3,986	6,581
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$89,662	$104,503

See Notes to Consolidated Financial Statements

Pacific Life Insurance Company and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2008	2007	2006
		(In Millions)	
REVENUES			
Policy fees and insurance premiums	$1,997	$1,780	$1,538
Net investment income	1,997	2,114	2,042
Net realized investment gain (loss)	(1,327)	(46)	62
Realized investment gain on interest in PIMCO	109		32
Investment advisory fees	255	327	319
Other income	129	98	47
TOTAL REVENUES	3,160	4,273	4,040
BENEFITS AND EXPENSES			
Interest credited to policyholder account balances	1,234	1,266	1,219
Policy benefits paid or provided	1,206	855	780
Commission expenses	715	690	606
Operating expenses	712	740	630
TOTAL BENEFITS AND EXPENSES	3,867	3,551	3,235
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE PROVISION (BENEFIT) FOR INCOME TAXES	(707)	722	805
Provision (benefit) for income taxes	(363)	98	198
INCOME (LOSS) FROM CONTINUING OPERATIONS	(344)	624	607
Minority interest	11	(36)	(13)
Discontinued operations, net of taxes	(6)	11	(4)
NET INCOME (LOSS)	($339)	$599	$590

See Notes to Consolidated Financial Statements

Pacific Life Insurance Company and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY

	Common Stock	Paid-in Capital	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Income (Loss): Unrealized Gain (Loss) on Derivatives and Securities Available for Sale, Net	Accumulated Other Comprehensive Income (Loss): Other, Net	Total
				(In Millions)			
BALANCES, JANUARY 1, 2006	$30	$502	($8)	$4,839	$682	$78	$6,123
Comprehensive income (loss):							
Net income				590			590
Other comprehensive loss, net					(246)	(16)	(262)
Total comprehensive income							328
Dividend paid to parent				(185)			(185)
Other equity adjustments		3	8				11
BALANCES, DECEMBER 31, 2006	30	505	0	5,244	436	62	6,277
Comprehensive income (loss):							
Net income				599			599
Other comprehensive loss, net					(250)	(16)	(266)
Total comprehensive income							333
Cumulative effect of adoption of new accounting principle, net of tax				(29)			(29)
BALANCES, DECEMBER 31, 2007	30	505	0	5,814	186	46	6,581
Comprehensive loss:							
Net loss				(339)			(339)
Other comprehensive loss, net					(1,814)	(97)	(1,911)
Total comprehensive loss							(2,250)
Dividend paid to parent				(345)			(345)
BALANCES, DECEMBER 31, 2008	$30	$505	$0	$5,130	($1,628)	($51)	$3,986

See Notes to Consolidated Financial Statements

Pacific Life Insurance Company and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2008	2007	2006
	Years Ended December 31, (In Millions)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss) excluding discontinued operations	($333)	$588	$594
Adjustments to reconcile net income (loss) excluding discontinued operations to net cash provided by operating activities:			
Net accretion on fixed maturity securities	(144)	(150)	(126)
Depreciation and other amortization	51	66	63
Deferred income taxes	(592)	1	49
Net realized investment (gain) loss	1,327	46	(62)
Realized investment gain on interest in PIMCO	(109)		(32)
Net change in deferred policy acquisition costs	(175)	(302)	(496)
Interest credited to policyholder account balances	1,234	1,266	1,219
Change in future policy benefits and other insurance liabilities	1,182	666	502
Other operating activities, net	(342)	(58)	294
NET CASH PROVIDED BY OPERATING ACTIVITIES BEFORE DISCONTINUED OPERATIONS	2,099	2,123	2,005
Net cash used in operating activities of discontinued operations	(18)	(71)	(16)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,081	2,052	1,989
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed maturity and equity securities available for sale:			
Purchases	(2,730)	(5,885)	(5,037)
Sales	2,084	2,041	2,039
Maturities and repayments	2,136	2,718	2,937
Repayments of mortgage loans	470	439	1,330
Fundings of mortgage loans and real estate	(1,665)	(1,658)	(1,140)
Change in policy loans	(510)	(342)	(164)
Sale of interest in PIMCO	288		88
Purchases and terminations of derivative instruments	72	(58)	(9)
Change in collateral received or pledged	1,056	17	143
Other investing activities, net	240	(222)	(237)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES BEFORE DISCONTINUED OPERATIONS	1,441	(2,950)	(50)
Net cash provided by (used in) investing activities of discontinued operations	7	76	(9)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	1,448	(2,874)	(59)

(Continued)

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Continued)	2008	2007	2006
	Years Ended December 31, *(In Millions)*		
CASH FLOWS FROM FINANCING ACTIVITIES			
Policyholder account balances:			
Deposits	$7,320	$6,876	$4,760
Withdrawals	(7,602)	(7,131)	(5,940)
Net change in short-term debt	(100)	100	
Issuance of long-term debt	24	136	9
Payments of long-term debt	(35)	(33)	(19)
Dividend paid to parent	(345)		(169)
Other financing activities, net	42	54	11
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(696)	2	(1,348)
Net change in cash and cash equivalents	2,833	(820)	582
Cash and cash equivalents, beginning of year	521	1,341	759
CASH AND CASH EQUIVALENTS, END OF YEAR	$3,354	$521	$1,341
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Income taxes paid, net	$13	$155	$44
Interest paid	$23	$19	$16

See Notes to Consolidated Financial Statements

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND DESCRIPTION OF BUSINESS

Pacific Life Insurance Company (Pacific Life) was established in 1868 and is domiciled in the State of Nebraska as a stock life insurance company. Pacific Life is an indirect subsidiary of Pacific Mutual Holding Company (PMHC), a Nebraska mutual holding company, and a wholly owned subsidiary of Pacific LifeCorp, an intermediate Delaware stock holding company. PMHC and Pacific LifeCorp were organized pursuant to consent received from the California Department of Insurance and the implementation of a plan of conversion to form a mutual holding company structure in 1997 (the Conversion).

Pacific Life and its subsidiaries and affiliates have primary business operations consisting of life insurance, individual annuities, mutual funds, and pension and institutional products. Pacific Life's primary business operations provide life insurance products, individual annuities and mutual funds, and offer to individuals, businesses, and pension plans a variety of investment products and services.

Pacific Life transferred its legal domicile from the State of California to the State of Nebraska effective September 1, 2005. PMHC transferred its state of legal domicile from the State of California to the State of Nebraska, effective June 29, 2007, to reunite PMHC and Pacific Life under one regulatory authority.

BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements of Pacific Life and its subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and include the accounts of Pacific Life and its majority owned and controlled subsidiaries and variable interest entities (VIEs) in which the Company was determined to be the primary beneficiary. All significant intercompany transactions and balances have been eliminated. Included in other liabilities is minority interest of $212 million and $181 million as of December 31, 2008 and 2007, respectively.

Pacific Life prepares its regulatory financial statements in accordance with statutory accounting practices prescribed or permitted by the Nebraska Department of Insurance (NE DOI), which is a comprehensive basis of accounting other than U.S. GAAP (Note 2). These consolidated financial statements materially differ from those filed with regulatory authorities.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In developing these estimates, management makes subjective and complex judgments that are inherently uncertain and subject to material change as facts and circumstances develop. Management has identified the following estimates as significant, as they involve a higher degree of judgment and are subject to a significant degree of variability:

- The fair value of investments in the absence of quoted market values
- Investment impairments
- Application of the consolidation rules to certain investments
- The fair value of and accounting for derivatives
- The capitalization and amortization of deferred policy acquisition costs (DAC)
- The liability for future policyholder benefits
- Accounting for income taxes and the valuation of deferred income tax assets and liabilities and unrecognized tax benefits
- Accounting for reinsurance transactions
- Litigation and other contingencies

Certain reclassifications have been made to the 2007 and 2006 consolidated financial statements to conform to the 2008 financial statement presentation.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Effective December 31, 2008, the Company adopted Financial Accounting Standards Board (FASB) Staff Position (FSP) Financial Accounting Standards (FAS) 140-4 and FASB Interpretation No. (FIN) 46(R)-8 – *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities*. This FSP improves the transparency of transfers of financial assets and an enterprise's involvement with VIEs. The adoption of this FSP had no impact on the Company's consolidated financial statements. See Note 4 for information on the Company's VIEs and expanded disclosure.

Effective December 31, 2008, the Company adopted FSP FAS No. 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161.* The FSP is intended to improve disclosures about credit derivatives by requiring more information about the potential adverse effects of changes in credit risk on the financial position, financial performance, and cash flows of the sellers of credit derivatives. It amends FASB Statement of Financial Accounting Standard (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities,* to require disclosures by sellers of credit derivatives, including credit derivatives embedded in hybrid instruments. The FSP also amends FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others,* to require an additional disclosure about the current status of the payment/performance risk of a guarantee. This FSP also clarifies that the disclosures required by SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133,* will be incorporated upon adoption of SFAS No. 161 on January 1, 2009. The adoption of FSP FAS No. 133-1 and FIN 45-4 had no impact on the Company's consolidated financial statements. See Note 9 for information on the Company's credit derivatives and expanded disclosure.

Effective December 31, 2008, the Company adopted FSP Emerging Issues Task Force (EITF) Issue No. 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20,* to revise guidance for beneficial interests in securitized financial assets that are within the scope of EITF Issue No. 99-20, *Recognition of Interest Income and Impairment of Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets*, to achieve more consistent determination of whether an other than temporary impairment has occurred. The FSP also retains and emphasizes the objective of an other than temporary impairment assessment and the related disclosure requirements in SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* and other related guidance. The adoption of the FSP had no impact on the Company's consolidated financial statements. See Note 8 for information of the Company's other than temporary impairments and expanded disclosures.

Effective January 1, 2008, the Company adopted FSP FIN 39-1, *Amendment of FASB Interpretation No. 39*. FSP FIN 39-1 amends FIN No. 39, *Offsetting of Amounts Related to Certain Contracts*, to permit a reporting entity to offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement that have been offset in accordance with FIN 39. FSP FIN 39-1 also amends FIN 39 for certain terminology modifications. This statement permits offsetting of fair value amounts recognized for derivative instruments under master netting arrangements. The adoption of FSP FIN 39-1 did not have a material impact on the Company's consolidated financial statements.

Effective January 1, 2008, the Company adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115*. This statement permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The Company did not elect the fair value option on any of the eligible assets or liabilities. Therefore, adoption of SFAS No. 159 had no impact on the Company's consolidated financial statements.

Effective January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements*. This statement creates a common definition of fair value to be used throughout U.S. GAAP. SFAS No. 157 applies whenever another standard requires or permits assets or liabilities to be measured at fair value, with certain exceptions. The standard establishes a hierarchy for determining fair value, which requires the use of observable market data whenever available. The statement also requires expanded disclosures, which include the extent to which assets and liabilities are measured at fair value, the methods and assumptions used to measure fair value and the effect of fair value measures on earnings. The adoption of SFAS No. 157 did not have a material impact on the Company's consolidated financial statements. See Note 13 for information on the Company's fair value measurements and expanded disclosures.

In October 2008, the FASB issued FSP FAS 157-3 – *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active.* This FSP clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The FSP was effective at issuance. The adoption of this FSP had no impact on the Company's consolidated financial statements. See Note 13 for information on the Company's fair value measurements and expanded disclosure.

In February 2008, the FASB issued FSP FAS No. 157-2 – *Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS No. 157 to January 1, 2009 for certain nonfinancial assets and nonfinancial liabilities. Examples of applicable nonfinancial assets and nonfinancial liabilities to which FSP FAS No. 157-2 applies include, but are not limited to:

- Nonfinancial assets and nonfinancial liabilities initially measured at fair value in a business combination that are not subsequently remeasured at fair value;
- Reporting units measured at fair value in the goodwill impairment test as described in SFAS No. 142, *Goodwill and Other Intangible Assets*, and nonfinancial assets and nonfinancial liabilities measured at fair value in the SFAS No. 142 goodwill impairment test, if applicable; and
- Nonfinancial long-lived assets measured at fair value for impairment assessment under SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets.*

As a result of this FSP, the Company has delayed until January 1, 2009 the implementation of SFAS No. 157 to the nonfinancial assets and nonfinancial liabilities within the scope of FSP FAS No. 157-2.

Effective December 31, 2007, the Company adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.* This statement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial condition and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. The Company's adoption of SFAS No. 158 resulted in a reduction to other comprehensive income (OCI) of $20 million, net of taxes as of December 31, 2007.

Effective January 1, 2007, the Company adopted FIN 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109.* FIN 48 presents a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. There is a two-step evaluation process. The first step is recognition and a company must determine whether it is more likely than not that a tax position will be sustained. The second step is measurement. A tax position that meets the more likely than not recognition threshold should be measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company's policy is to recognize interest expense and penalties related to unrecognized tax benefits as a component of the provision (benefit) for income taxes. The adoption of FIN 48 had no impact on the Company's consolidated financial statements, and therefore, there was no cumulative effect related to the adoption of FIN 48.

Effective May 2, 2007, the Company adopted FSP FIN 48-1, *Definition of Settlement in FASB Interpretation No. 48.* This FSP amends FIN 48 to provide guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. This statement is effective upon the initial adoption of FIN 48 with retrospective application if the provisions of this FSP were not previously applied. The adoption of this FSP had no impact on the Company's consolidated financial statements, and therefore, there was no retrospective adjustment.

Effective January 1, 2007, the Company adopted SFAS No. 155, *Accounting for Certain Hybrid Instruments.* SFAS No. 155 amends SFAS No. 133 and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement No. 125.* SFAS No. 155 (i) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; (ii) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133; (iii) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; (iv) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and (v) amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity (SPE) from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The adoption of SFAS No. 155 did not have a material impact on the Company's consolidated financial statements.

Effective January 1, 2007, the Company adopted American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of*

Insurance Contracts. This SOP provides guidance on accounting for DAC on internal replacements on insurance and investment contracts other than those described in SFAS No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*. SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights, or coverages that occur by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. In addition, in February 2007, the AICPA issued related Technical Practice Aids (TPAs) to provide further clarification of SOP 05-1. The TPAs became effective concurrently with the adoption of SOP 05-1. The adoption of SOP 05-1 and the related TPAs resulted in a reduction to DAC and the Company recorded a cumulative effect adjustment of $29 million, net of taxes, which was recorded as a reduction to retained earnings during the year ended December 31, 2007.

FUTURE ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

In December 2008, the FASB issued FSP SFAS No. 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*, an amendment to SFAS No. 132(R), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. FSP SFAS No. 132(R)-1 is effective for the Company as of December 31, 2009, which will result in expanded disclosures related to the Company's employee benefit plans.

In April 2008, the FASB issued FSP FAS No. 142-3, *Determination of the Useful Life of Intangible Assets*. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R), *Business Combinations*, and other U.S. GAAP. This FSP will be applied prospectively to intangible assets acquired after the effective date. FSP FAS No. 142-3 is effective for the Company beginning January 1, 2009. Adoption of FSP FAS No. 142-3 is not expected to have any impact on the Company's consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, which establishes the disclosure requirements for derivative instruments and for hedging activities. This statement amends and expands the disclosure requirements of SFAS No. 133 with the intent to disclose how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. SFAS No. 161 is effective for the Company beginning January 1, 2009. The Company expects to adopt SFAS No. 161 on January 1, 2009, which will result in expanded disclosures related to derivative instruments and hedging activities.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an Amendment of ARB No. 51*. SFAS No. 160 improves the relevance, comparability and transparency of the financial information that a company provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement is effective for the Company beginning January 1, 2009 and will be applied prospectively when adopted, except for the presentation and disclosure requirements, which will be applied retrospectively for all periods presented. Adoption of SFAS No. 160 is not expected to have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*, which replaces SFAS No. 141, *Business Combinations*. SFAS No. 141(R) establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, recognizes and measures the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This statement is effective for the Company beginning January 1, 2009. SFAS No. 141(R) will be applied prospectively to business combinations occurring after the date of adoption.

INVESTMENTS

Fixed maturity and equity securities available for sale are reported at estimated fair value, with unrealized gains and losses, net of deferred income taxes and adjustments related to DAC and future policy benefits, recorded as a component of OCI. For mortgage-backed securities and asset-backed securities included in fixed maturity securities available for sale, the Company recognizes income using a constant effective yield based on anticipated prepayments and the estimated economic life of the securities. When estimates of prepayments change, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. For fixed rate securities, the net investment in the securities is adjusted to the amount that would have existed had the new effective yield been applied since the acquisition of the securities. These adjustments are reflected in net investment income.

Trading securities are reported at estimated fair value with changes in estimated fair value included in net realized investment gain (loss).

Investment income consists primarily of interest and dividends, net investment income from partnership interests, prepayment fees on fixed maturity securities and mortgage loans, and income from certain derivatives. Interest is recognized on an accrual basis and dividends are recorded on the ex-dividend date. Amortization of premium and accretion of discount on fixed maturity securities is recorded using the effective interest method.

The Company's available for sale securities are regularly assessed for other than temporary impairments. If a decline in the estimated fair value of an available for sale security is deemed to be other than temporary, a charge to net realized investment gain (loss) is recorded equal to the difference between the estimated fair value and net carrying amount of the security.

The evaluation of other than temporary impairments is a quantitative and qualitative process subject to significant estimates and management judgment. The Company has rigorous controls and procedures in place to monitor securities and identify those that are subject to greater analysis for other than temporary impairments. The Company has an investment impairment committee comprised of investment and accounting professionals that reviews and evaluates securities for potential other than temporary impairments at least on a quarterly basis.

In evaluating whether a decline in value is other than temporary, the Company considers many factors including, but not limited to, the following: the extent and duration of the decline in value; the reasons for the decline (credit event, currency, or interest-rate related, including spread widening); the ability and intent to hold the investment for a period of time to allow for a recovery of value; and the financial condition of and near-term prospects of the issuer.

Given the recent turmoil and volatility in the financial markets and the severe economic recession, estimated fair values for most fixed maturity securities have declined significantly. Analysis of the probability that all cash flows will be collected under the contractual terms of the fixed maturity security and determination as to whether the Company has the intent and ability to hold the investment for a sufficient period of time to allow for recovery in value were key factors in determining whether a fixed maturity security is other than temporarily impaired.

For mortgage-backed and asset-backed securities, including residential and commercial mortgage-backed securities, scrutiny was placed on the performance of the underlying collateral and projected future cash flows. In projecting future cash flows and performance, the Company incorporates inputs from third-party sources and applies reasonable judgment in developing assumptions used to estimate the probability and timing of collecting all contractual cash flows.

In evaluating perpetual preferred securities, which do not have final contractual cash flows, the Company applied other than temporary impairment considerations used for debt securities, placing emphasis on the probability that all cash flows will be collected under the contractual terms of the security and the Company's intent and ability to hold the security to allow for a recovery of value. Perpetual preferred securities are reported as equity securities as they are structured in equity form, but have significant "debt-like" characteristics, including periodic dividends, call features, and credit ratings and pricing similar to debt securities. The *SEC Issues Letter Clarifying Other-Than-Temporary Impairment Guidance for Perpetual Preferred Securities* issued on October 15, 2008 states that if an investor in a perpetual preferred security with an estimated fair value below cost that is not attributable to the credit deterioration of the issuer would not be required to recognize an other than temporary impairment by asserting that it has the intent and ability to continue holding the security for a sufficient period to allow for an anticipated recovery in market value.

Realized gains and losses on investment transactions are determined on a specific identification basis and are included in net realized investment gain (loss).

Mortgage loans on real estate are carried at their unpaid principal balance, net of deferred origination fees and write-downs. Mortgage loans are considered to be impaired when management estimates that based upon current information and events, it is probable that the Company will not be able to collect amounts due according to the contractual terms of the mortgage loan agreement. For mortgage loans deemed to be impaired, a write-down is taken for the difference between the carrying amount and the Company's estimate of the present value of the expected future cash flows discounted at the current market rate and recorded in net realized investment gain (loss). The Company had no impairments during the years ended December 31, 2008, 2007 and 2006. Policy loans are stated at unpaid principal balances.

Other investments primarily consist of partnership and joint ventures, real estate investments, derivative instruments, non marketable equity securities, and low income housing related investments qualifying for tax credits (LIHTC). Partnership and joint venture interests where the Company does not have a controlling interest or majority ownership are recorded under the cost or equity method of accounting depending on the equity ownership position. Real estate investments are carried at depreciated cost, net of write-downs, or, for real estate acquired in satisfaction of debt, estimated fair value less estimated selling costs at the date of acquisition, if lower than the related unpaid balance.

Investments in LIHTC are recorded under either the effective interest method, if they meet certain requirements, including a projected positive yield based solely on guaranteed credits, or are recorded under the equity method if these certain requirements are not met. For investments in LIHTC recorded under the effective interest method, the amortization of the original investment and the tax credits are recorded in the provision (benefit) for income taxes. For investments in LIHTC recorded under the equity method, the amortization of the initial investment is included in net investment income, and the related tax credits are recorded in the provision (benefit) for income taxes (Note 17). The amortization recorded in net investment income was $5 million, $20 million and $24 million for the years ended December 31, 2008, 2007 and 2006, respectively.

All derivatives, whether designated in hedging relationships or not, are required to be recorded at estimated fair value. If the derivative is designated as a cash flow hedge, the effective portion of changes in the estimated fair value of the derivative is recorded in OCI and recognized in earnings when the hedged item affects earnings. If the derivative is designated as a fair value hedge, the changes in the estimated fair value of the derivative and the hedged item are recognized in net realized investment gain (loss). The change in value of the hedged item associated with the risk being hedged is reflected as an adjustment to the carrying amount of the hedged item. For derivative instruments not designated as hedges, the change in estimated fair value of the derivative is recorded in net realized investment gain (loss). Estimated fair value exposure is calculated based on the aggregate estimated fair value of all derivative instruments with each counterparty, net of collateral received, in accordance with legally enforceable counterparty master netting agreements (Note 9).

The periodic cash flows for all hedging derivatives are recorded consistent with the hedged item on an accrual basis. For derivatives that are hedging securities, these amounts are included in net investment income. For derivatives that are hedging liabilities, these amounts are included in interest credited to policyholder account balances. For derivatives not designated as hedging instruments, the periodic cash flows are reflected in net realized investment gain (loss) on an accrual basis. Upon termination of a cash flow hedging relationship, the accumulated amount in OCI is amortized into net investment income or interest credited to policyholder account balances over the remaining life of the hedged item. Upon termination of a fair value hedging relationship, the accumulated adjustment to the carrying value of the hedged item is amortized into net investment income, interest expense or interest credited to policyholder account balances over its remaining life.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all investments with an original maturity of three months or less. Secured lending transactions with maturities of three months or less are also included in cash equivalents. The Company entered into a series of Federal National Mortgage Association (FNMA) pass-through dollar roll transactions during the fourth quarter of 2008. The Company purchased FNMA pass through securities and was contractually obligated to resell the same or substantially the same securities within 30 days of purchase. The Company classified these dollar roll transactions as short-term secured loans and reported them as cash and cash equivalents. As of December 31, 2008, the loans amounted to $403 million. The fair values of the securities held in connection with the secured lending were $410 million as of December 31, 2008.

DEFERRED POLICY ACQUISITION COSTS

The costs of acquiring new insurance business, principally commissions, medical examinations, underwriting, policy issue and other expenses, all of which vary with and are primarily associated with the production of new business, are deferred and recorded as an asset commonly referred to as DAC. DAC related to internally replaced contracts (as defined by SOP 05-1), is immediately written off to expense and any new deferrable expenses associated with the replacement are deferred if the contract modification substantially changes the contract. However, if the contract modification does not substantially change the contract, the existing DAC asset remains in place and any acquisition costs associated with the modification are immediately expensed. As of December 31, 2008 and 2007, the carrying value of DAC was $5.0 billion and $4.5 billion, respectively (Note 7).

For universal life (UL), variable annuities and other investment-type contracts, acquisition costs are amortized through earnings in proportion to the present value of estimated gross profits (EGPs) from projected investment, mortality and expense margins, and surrender charges over the estimated lives of the contracts. Actual gross margins or profits may vary from management's estimates, which can increase or decrease the rate of DAC amortization. DAC related to traditional policies is amortized through earnings over the premium-paying period of the related policies in proportion to premium revenues recognized, using assumptions and estimates consistent with those used in computing policy reserves. DAC related to certain unrealized components in OCI, primarily unrealized gains and losses on securities available for sale, is recorded directly to equity through OCI.

Significant assumptions in the development of EGPs include investment returns, surrender and lapse rates, rider utilization, interest spreads, and mortality margins. The Company's long-term assumption for the underlying separate account investment return ranges up to 8.0%.

A change in the assumptions utilized to develop EGPs results in a change to amounts expensed in the reporting period in which the change was made by adjusting the DAC balance to the level DAC would have been had the EGPs been calculated using the new assumptions over the entire amortization period. In general, favorable experience variances result in increased expected future profitability and may lower the rate of DAC amortization, whereas unfavorable experience variances result in decreased expected future profitability and may increase the rate of DAC amortization. All critical assumptions utilized to develop EGPs are evaluated at least annually and necessary revisions are made to certain assumptions to the extent that actual or anticipated experience necessitates such a prospective change (Note 7).

The Company defers sales inducements and amortizes them over the life of the policy using the same methodology and assumptions used to amortize DAC. The Company offers a sales inducement to the policyholder where the policyholder receives a bonus credit, typically ranging from 4.0% to 8.0% of each deposit. The capitalized sales inducement balance included in the DAC asset was $552 million as of December 31, 2008 and 2007.

GOODWILL FROM ACQUISITIONS

Goodwill represents the excess of costs over the fair value of net assets acquired. Goodwill is not amortized but is reviewed for impairment at least annually or more frequently if events occur or circumstances change that would indicate that a triggering event, as defined in SFAS 142 has occurred. Goodwill from acquisitions, included in other assets, totaled $15 million as of December 31, 2008 and 2007. There were no goodwill impairment write-downs from continuing operations during the years ended December 31, 2008, 2007 and 2006.

POLICYHOLDER ACCOUNT BALANCES

Policyholder account balances on UL and investment-type contracts, such as funding agreements, fixed account liabilities and guaranteed interest contracts (GICs), are valued using the retrospective deposit method and are equal to accumulated account values, which consist of deposits received, plus interest credited, less withdrawals and assessments (Note 10). Interest credited to these contracts primarily ranged from 2.0% to 9.0%.

FUTURE POLICY BENEFITS

Annuity reserves, which primarily consist of group retirement and structured settlement annuities, are equal to the present value of estimated future payments using pricing assumptions, as applicable, for interest rates, mortality, morbidity, retirement age and expenses (Note 10). Interest rates used in establishing such liabilities ranged from 1.9% to 11.3%.

Policy charges assessed against policyholders that represent compensation to the Company for services to be provided in future periods, or unearned revenue reserves (URR), are recognized in revenue over the expected life of the contract using the same methods and assumptions used to amortize DAC. Unearned revenue related to certain unrealized components in OCI, primarily unrealized gains and losses on securities available for sale, is recorded directly to equity through OCI.

Life insurance reserves are valued using the net level premium method on the basis of actuarial assumptions appropriate at policy issue. Mortality and persistency assumptions are generally based on the Company's experience, which, together with interest and expense assumptions, include a margin for possible unfavorable deviations. Interest rate assumptions ranged from 4.5% to 9.3%. Future dividends for participating business are provided for in the liability for future policy benefits.

As of December 31, 2008 and 2007, participating experience rated policies paying dividends represent less than 1% of direct life insurance in force.

Estimates of future policy benefit reserves and liabilities are continually reviewed and, as experience develops, are adjusted as necessary. Such changes in estimates are included in earnings for the period in which such changes occur.

REINSURANCE

The Company has ceded reinsurance agreements with other insurance companies to limit potential losses, reduce exposure arising from larger risks, provide additional capacity for future growth, and assumed reinsurance agreements intended to offset reinsurance costs and increase risk spread. As part of a strategic alliance, the Company also reinsures risks associated with policies written by an independent producer group through modified coinsurance and yearly renewable term arrangements with this producer group's reinsurance company.

All assets associated with business reinsured on a modified coinsurance basis remain with, and under the control of, the Company. As part of its risk management process, the Company routinely evaluates its reinsurance programs and may change retention limits, reinsurers or other features at any time.

Reinsurance accounting is followed for ceded and assumed transactions when the risk transfer provisions of SFAS No. 113, *Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts*, have been met. To meet risk transfer requirements, a reinsurance contract must include insurance risk, consisting of both underwriting and timing risk, and a reasonable possibility of a significant loss to the reinsurer.

Reinsurance premiums ceded and reinsurance recoveries on benefits and claims incurred are deducted from their respective revenue and benefit and expense accounts. Included in other assets are prepaid reinsurance premiums, which represent the portion of premiums ceded to reinsurers applicable to the unexpired terms of the reinsurance contracts. Reinsurance recoverables, included in other assets, include balances due from reinsurance companies for paid and unpaid losses. Amounts receivable and payable are offset when a written legal right of offset exists. See Note 15.

REVENUES, BENEFITS AND EXPENSES

Insurance premiums, annuity contracts with life contingencies and traditional life and term insurance contracts, are recognized as revenue when due. Benefits and expenses are matched against such revenues to recognize profits over the lives of the contracts. This matching is accomplished by providing for liabilities for future policy benefits, expenses of contract administration and the amortization of DAC and URR.

Receipts for UL and investment-type contracts are reported as deposits to either policyholder account balances or separate account liabilities, and are not included in revenue. Policy fees consist of mortality charges, surrender charges and expense charges that have been earned and assessed against related account values during the period. The timing of policy fee revenue recognition is determined based on the nature of the fees. Benefits and expenses include policy benefits and claims incurred in the period that are in excess of related policyholder account balances, interest credited to policyholder account balances, expenses of contract administration and the amortization of DAC.

Investment advisory fees are primarily fees earned from Pacific Life Fund Advisors LLC (PLFA), a wholly owned subsidiary of Pacific Life formed in 2007, which serves as the investment advisor for the Pacific Select Fund, an investment vehicle provided to the Company's variable universal life (VUL) and variable annuity contract holders. These fees are based upon the net asset value of the underlying portfolios, and are recorded as earned. Related subadvisory expense is included in operating expenses and recorded when incurred.

DEPRECIATION AND AMORTIZATION

Depreciation of investment real estate is computed using the straight-line method over estimated useful lives, which range from 5 to 30 years. Depreciation of investment real estate is included in net investment income. Certain other assets are depreciated or amortized using the straight-line method over estimated useful lives, which range from 3 to 40 years. Depreciation and amortization of certain other assets are included in operating expenses.

INCOME TAXES

Pacific Life and its includable subsidiaries are included in the consolidated Federal income tax return of PMHC. Pacific Life and its wholly owned, Arizona domiciled life insurance subsidiary, Pacific Life & Annuity Company (PL&A), and Pacific Alliance Reinsurance Company of Vermont (PAR Vermont), a Vermont-based life reinsurance company wholly owned by Pacific Life, are taxed as life insurance companies for Federal income tax purposes. Pacific Life's non-insurance subsidiaries are either included in PMHC's combined California franchise tax return or, if necessary, file separate state tax returns. Companies included in the consolidated Federal income tax return of PMHC and/or the combined California franchise tax return of PMHC are allocated tax expense or benefit based principally on the effect of including their operations in PMHC's returns under a tax sharing agreement. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years the differences are expected to be recovered or settled.

CONTINGENCIES

The Company follows the requirements of SFAS No. 5, *Accounting for Contingencies*. This statement requires the Company to evaluate each contingent matter separately. A loss is recorded if probable and reasonably estimable. The Company establishes reserves for these contingencies at the best estimate, or, if no one number within the range of possible losses is more probable then any other, the Company records an estimated reserve at the low end of the range of losses. See Note 20.

SEPARATE ACCOUNTS

Separate accounts primarily include variable annuity and life contracts, as well as other guaranteed and non-guaranteed accounts. Separate account assets and liabilities are recorded at estimated fair value and represent legally segregated contract holder funds. Deposits to separate accounts, investment income and realized and unrealized gains and losses on the separate account assets accrue directly to contract holders and, accordingly, are not reflected in the consolidated statements of operations or cash flows. Amounts charged to the separate account for mortality, surrender and expense charges are included in revenues as policy fees.

In accordance with SOP 03-1, *Accounting and Reporting by Insurance Enterprises for Certain Non Traditional Long-Duration Contracts and for Separate Accounts*, for separate account funding agreements where the Company provides a guarantee of principal and interest to the contract holder and the Company bears all the risks and rewards of the investments underlying the separate account, the related investments and liabilities are recognized as investments and liabilities in the consolidated statements of financial condition. Revenue and expenses are recognized within the respective revenue, and benefit and expense lines in the consolidated statements of operations.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of financial instruments, disclosed in Notes 8, 9 and 13, has been determined using available market information and appropriate valuation methodologies. However, considerable judgment is often required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented may not be indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies could have a significant effect on the estimated fair value amounts.

2. STATUTORY FINANCIAL INFORMATION AND DIVIDEND RESTRICTIONS

STATUTORY ACCOUNTING PRACTICES

Pacific Life prepares its regulatory statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the NE DOI, which is a comprehensive basis of accounting other than U.S. GAAP. Statutory accounting practices primarily differ from U.S. GAAP by charging policy acquisition costs to expense as incurred, recognizing certain policy fees as revenue when billed, establishing future policy benefit liabilities using different actuarial assumptions, reporting surplus notes as surplus instead of debt, as well as valuing investments and certain assets and accounting for deferred income taxes on a different basis.

As of December 31, 2008, Pacific Life has two permitted practices approved by the NE DOI that differ from statutory accounting practices adopted by the National Association of Insurance Commissioners (NAIC). The first permitted practice relates to the valuation of certain statutory separate account assets that are carried at book value instead of estimated fair value. Pacific Life's statutory capital and surplus as of December 31, 2008 and 2007 did not reflect unrealized losses of $88 million and $54 million, respectively, with regards to this permitted practice. The second permitted practice has a financial statement filing date of December 31, 2008 and will continue until December 30, 2009. This permitted practice allows Pacific Life to apply the revised version of Actuarial Guideline 39 for variable annuity reserves that is contained in the final recommendations submitted by the Capital & Surplus Relief Working Group to the Executive Committee of the NAIC. This permitted practice resulted in an increase to statutory surplus and net income of $442 million as of December 31, 2008.

In addition, Pacific Life uses a NE DOI prescribed accounting practice for certain synthetic GIC reserves that differs from statutory accounting practices adopted by the NAIC. As of December 31, 2008 and 2007, this NE DOI prescribed accounting practice resulted in statutory reserves of $12 million and $9 million, respectively, as opposed to statutory reserves of $640 million and zero, respectively, using statutory accounting practices adopted by the NAIC.

STATUTORY NET INCOME (LOSS) AND SURPLUS

Statutory net income (loss) of Pacific Life was ($1,529) million, $362 million and $362 million for the years ended December 31, 2008, 2007 and 2006, respectively. Statutory capital and surplus of Pacific Life was $3,136 million and $3,708 million as of December 31, 2008 and 2007, respectively.

RISK-BASED CAPITAL

Risk-based capital is a method developed by the NAIC to measure the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The formulas for determining the amount of risk-based capital specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Additionally, certain risks are required to be measured using actuarial cash flow modeling techniques, subject to formulaic minimums. The adequacy of a company's actual capital is measured by a comparison to the risk-based capital results. Companies below minimum risk-based capital requirements are classified within certain levels, each of which requires specified corrective action. As of December 31, 2008 and 2007, Pacific Life, PL&A and PAR Vermont exceeded the minimum risk-based capital requirements.

DIVIDEND RESTRICTIONS

The payment of dividends by Pacific Life to Pacific LifeCorp is subject to restrictions set forth in the State of Nebraska insurance laws. These laws require (i) notification to the NE DOI for the declaration and payment of any dividend and (ii) approval by the NE DOI for accumulated dividends within the preceding twelve months that exceed the greater of 10% of statutory policyholder surplus as of the preceding December 31 or statutory net gain from operations for the preceding twelve months ended December 31. Generally, these restrictions pose no short-term liquidity concerns for Pacific LifeCorp. Based on these restrictions and 2008 statutory results, Pacific Life could pay $256 million in dividends in 2009 to Pacific LifeCorp without prior approval from the NE DOI, subject to the notification requirement.

During the year ended December 31, 2008, Pacific Life paid a cash dividend to Pacific LifeCorp of $345 million. No dividends were paid during 2007. During the year ended December 31, 2006, Pacific Life paid two dividends totaling $185 million to Pacific LifeCorp; a $25 million dividend, consisting of $9 million in cash and a real estate investment with an estimated fair value of $16 million, and a $160 million cash dividend.

The maximum amount of ordinary dividends that can be paid by PL&A to Pacific Life without restriction cannot exceed the lesser of 10% of statutory surplus as regards to policyholders, or the statutory net gain from operations. Based on this limitation and because PL&A recorded a $116 million statutory net loss from operations for the year ended December 31, 2008, PL&A will be unable to pay dividends to Pacific Life in 2009 without prior regulatory approval. No dividends were paid during 2008, 2007 and 2006.

OTHER

In November 2008, the NAIC issued Statement of Statutory Accounting Principles (SSAP) No. 98, *Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, An Amendment to SSAP No. 43 – Loan-backed and Structured Securities.* SSAP 98 requires the use of discounted cash flows for impairment analysis and subsequent valuation of loan-backed and structured securities. This statement is effective for quarterly and annual reporting periods beginning on or after January 1, 2009. Changes resulting from the adoption of this statement shall be accounted for prospectively. The Company anticipates that adoption of this statement will result in statutory losses based on current market conditions. Based on December 31, 2008 information, this would have resulted in additional statutory losses amounting to approximately $320 million.

The Company has reinsurance contracts in place with a reinsurer whose financial stability has been deteriorating. In January 2009, the reinsurer's domiciliary state regulator issued an order of supervision, which requires the regulator's consent to any transaction outside the normal course of business. The Company will continue to monitor the events surrounding this reinsurer and evaluate its options to deal with any further deterioration of this reinsurer's financial condition. As of December 31, 2008, statutory reserves ceded to this reinsurer amounted approximately to $160 million.

3. CLOSED BLOCK

In connection with the Conversion, an arrangement known as a closed block (the Closed Block) was established, for dividend purposes only, for the exclusive benefit of certain individual life insurance policies that had an experience based dividend scale for 1997. The Closed Block was designed to give reasonable assurance to holders of the Closed Block policies that policy dividends will not change solely as a result of the Conversion.

Assets that support the Closed Block, which are primarily included in fixed maturity securities and policy loans, amounted to $278 million and $284 million as of December 31, 2008 and 2007, respectively. Liabilities allocated to the Closed Block, which are primarily included in future policy benefits, amounted to $311 million and $308 million as of December 31, 2008 and 2007, respectively. The net contribution to income from the Closed Block was insignificant for the years ended December 31, 2008, 2007 and 2006.

4. VARIABLE INTEREST ENTITIES

The following table presents, as of December 31, 2008 and 2007, the total assets and maximum exposure to loss relating to VIEs, which the Company (i) has consolidated because it is the primary beneficiary or (ii) holds a significant variable interest, but has not consolidated because it is not the primary beneficiary:

	Primary Beneficiary		Not Primary Beneficiary	
	Total Assets	Maximum Exposure to Loss	Total Assets	Maximum Exposure to Loss
	(In Millions)			
December 31, 2008:				
Private equity funds	$236	$30		
Asset-backed securities			$3,816	$93
Total	$236	$30	$3,816	$93
December 31, 2007:				
Private equity funds	$194	$25		
Warehouse facility	18	5		
Collateralized debt obligation	6	3		
Asset-backed securities			$3,816	$187
Total	$218	$33	$3,816	$187

PRIVATE EQUITY FUNDS

Private equity funds (the Funds) are three limited partnerships that invest in private equity investments for outside investors, where the Company is the general partner. The Company provides investment management services to the Funds for a fee and receives carried interest based upon the performance of the Funds and is a VIE due to the lack of control by the other equity investors. The Company has not guaranteed the performance, liquidity or obligations of the Funds, and the Company's maximum exposure to loss is equal to the carrying amounts of its retained interest. VIE debt consolidated from the Funds was $2 million and zero as of December 31, 2008 and 2007, respectively. Consolidated assets are reported in other investments and cash and cash equivalents and consolidated liabilities are reported in short-term debt.

ASSET-BACKED SECURITIES

As part of the Company's investment strategy, the Company purchases primarily investment grade beneficial interests issued from bankruptcy-remote SPEs, which are collateralized by financial assets including corporate debt. The Company has not guaranteed the performance, liquidity or obligations of the SPEs, and the Company's maximum exposure to loss is limited to its carrying value of the beneficial interests in the SPEs. The Company has no liabilities related to these VIEs. These asset-backed securities are not consolidated by the Company as the Company has determined that it is not the primary beneficiary of these entities as the Company does not absorb a majority of the expected losses or receive a majority of the expected residual return. The carrying amount of these investments is $93 million at December 31, 2008 and is classified in fixed maturity securities. During the years ended December 31, 2008 and 2007, the Company recorded other than temporary impairments of $117 million and $73 million, respectively, related to these securities.

WAREHOUSE FACILITY

The Company determined that it was the primary beneficiary of a warehouse facility that it sponsored in 2007 for the purpose of issuing a collateralized loan obligation. The Company has not guaranteed the performance, liquidity or obligations of the warehouse facility. The maximum exposure to loss was limited to the carrying amounts of the retained interests, which represent the equity in the facility. This facility was consolidated into the consolidated financial statements of the Company. Non-recourse debt consolidated from the facility was $13 million as of December 31, 2007. During the third quarter of 2008, the warehouse facility was liquidated. The Company settled the non-recourse debt and purchased the remaining assets of the facility.

COLLATERALIZED DEBT OBLIGATION

The Company determined that it was the primary beneficiary of a collateralized debt obligation (CDO) of high yield debt securities that it sponsored in 1998 and it was consolidated into the consolidated financial statements of the Company. Non-recourse debt consolidated from the CDO was $2 million as of December 31, 2007. During the third quarter of 2008, the CDO was liquidated and the non-recourse debt was fully repaid.

5. INTEREST IN PIMCO

As of December 31, 2007, the Company owned a beneficial economic interest in Pacific Investment Management Company LLC (PIMCO) through Allianz Global Investors of America LLC (interest in PIMCO). PIMCO offers investment products through managed accounts and institutional, retail and offshore mutual funds. The interest in PIMCO was reported at estimated fair value, as determined by a contractual put and call option price, with changes in estimated fair value reported as a component of OCI, net of taxes. As of December 31, 2007, the interest in PIMCO, which was included in other investments, had an estimated fair value of $288 million.

During the year ended December 31, 2008, the Company exercised a put option and sold all of its remaining interest in PIMCO to Allianz of America, Inc. (Allianz), a subsidiary of Allianz SE, for $288 million. The Company recognized a pre-tax gain of $109 million for the year ended December 31, 2008.

During the year ended December 31, 2006, Allianz exercised a call option of $88 million to purchase a portion of the Company's interest in PIMCO. The pre-tax gain recognized for the year ended December 31, 2006 was $32 million.

6. DISCONTINUED OPERATIONS

The Company's broker-dealer operations and group insurance business have been reflected as discontinued operations in the Company's consolidated financial statements. Discontinued operations do not include the operations of Pacific Select Distributors, Inc. (PSD), a wholly owned broker-dealer subsidiary of Pacific Life, which primarily serves as the underwriter/distributor of registered investment-related products and services, principally variable life and variable annuity contracts issued by the Company, and mutual funds.

In March 2007, the Company classified its broker-dealer subsidiaries, other than PSD, as held for sale. On June 20, 2007, a transaction closed whereby the Company sold certain of these broker-dealer subsidiaries to an unrelated third-party. Proceeds from the sale included cash of $53 million and a common stock interest in the buyer's parent of $57 million. A pre-tax gain of $54 million was recognized from this sale during the year ended December 31, 2007. On December 31, 2007, a transaction closed whereby the Company sold another one of its broker-dealer subsidiaries to subsidiary management. The Company incurred a pre-tax loss of $1 million from this transaction during the year ended December 31, 2007. As of December 31, 2007, one broker-dealer subsidiary remained classified as held for sale. On March 31, 2008, a transaction closed whereby the Company sold this held for sale subsidiary to an unrelated third-party. The Company recognized an insignificant pre-tax gain from this transaction during the year ended December 31, 2008.

On April 27, 2005 (Closing Date), the Company sold its group insurance business to an unrelated third-party. The transaction is structured as a coinsurance arrangement whereby the Company cedes to the buyer future premiums received for its existing group insurance business and the buyer assumes future claim liabilities following the Closing Date. Group insurance business liabilities arising prior to the Closing Date will not be reinsured. The buyer also obtained renewal rights for the existing business as of the Closing Date.

Operating results of discontinued operations were as follows:

	Years Ended December 31,		
	2008	2007	2006
	(In Millions)		
Revenues	$13	$276	$395
Benefits and expenses	22	300	401
Loss from discontinued operations	(9)	(24)	(6)
Benefit from income taxes	(3)	(8)	(2)
Loss from discontinued operations, net of taxes	(6)	(16)	(4)
Net gain on sale of discontinued operations		53	
Provision for income taxes		26	
Net gain on sale of discontinued operations, net of taxes		27	
Discontinued operations, net of taxes	($6)	$11	($4)

Revenues from the group insurance business were zero, zero and $5 million and from the broker-dealer operations were $13 million, $276 million and $390 million for the years ended December 31, 2008, 2007 and 2006, respectively. Benefits and expenses from the group insurance business were zero, zero and $6 million and from the broker-dealer operations were $22 million, $300 million and $395 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Assets and liabilities from discontinued operations are included in other assets and other liabilities, respectively. Assets and liabilities as of December 31, 2008 relate to discontinued operations that have been sold. Assets and liabilities as of December 31, 2007 are all held for sale except for $4 million of other assets and $24 million of other liabilities related to discontinued operations that have been sold. Major classes of assets and liabilities related to discontinued operations were as follows:

	December 31,	
	2008	2007
	(In Millions)	
Investments		$23
Cash and cash equivalents		1
Other assets	$6	20
Total assets	$6	$44
Short-term debt		$18
Other liabilities	$13	38
Total liabilities	$13	$56

7. DEFERRED POLICY ACQUISITION COSTS

Components of DAC are as follows:

	Years Ended December 31,		
	2008	2007	2006
		(In Millions)	
Balance, January 1	$4,481	$4,248	$3,787
Cumulative pre-tax effect of adoption of new accounting principle (Note 1)		(45)	
Additions:			
Capitalized during the year	752	852	999
Amortization:			
Allocated to commission expenses	(444)	(432)	(399)
Allocated to operating expenses	(133)	(118)	(104)
Total amortization	(577)	(550)	(503)
Allocated to OCI	356	(24)	(35)
Balance, December 31	$5,012	$4,481	$4,248

During the years ended December 31, 2008, 2007 and 2006, the Company revised certain assumptions to develop EGPs for its products subject to DAC amortization (Note 1). This resulted in an increase in DAC amortization expense of $20 million for the year ended December 31, 2008 and decreases in DAC amortization expense of $12 million and $16 million for the years ended December 31, 2007 and 2006, respectively. The revised EGPs also resulted in increased URR amortization of $2 million and $4 million for the years ended December 31, 2008 and 2006, respectively, and decreased URR amortization of $15 million for the year ended December 31, 2007.

8. INVESTMENTS

The net carrying amount, gross unrealized gains and losses, and estimated fair value of fixed maturity and equity securities available for sale are shown below. The net carrying amount represents amortized cost adjusted for other than temporary impairments and changes in the estimated fair value of fixed maturity securities attributable to the hedged risk in a fair value hedge. The estimated fair value of publicly traded securities is based on quoted market prices. For securities not actively traded, fair values were estimated based on amounts provided by independent pricing services specializing in matrix pricing and modeling techniques. The Company also estimates certain fair values based on interest rates, credit quality and average maturity utilizing matrix pricing and other modeling techniques. See Note 13 for additional information on the Company's fair value measurements.

	Net Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In Millions)			
December 31, 2008:				
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$98	$19		$117
Obligations of states and political subdivisions	512	5	$148	369
Foreign governments	211	41	7	245
Corporate securities	15,534	292	1,523	14,303
Mortgage-backed and asset-backed securities:				
Residential mortgage-backed securities	6,133	105	1,306	4,932
Commercial mortgage-backed securities	1,191	15	106	1,100
Other asset-backed securities	741	32	111	662
Redeemable preferred securities	294	15	95	214
Total fixed maturity securities	$24,714	$524	$3,296	$21,942
Perpetual preferred securities	$385	$3	$174	$214
Other equity securities	2			2
Total equity securities	$387	$3	$174	$216

	Net Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In Millions)			
December 31, 2007:				
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$38	$5		$43
Obligations of states and political subdivisions	1,008	160	$2	1,166
Foreign governments	253	37		290
Corporate securities	16,047	501	203	16,345
Mortgage-backed and asset-backed securities:				
Residential mortgage-backed securities	6,257	64	126	6,195
Commercial mortgage-backed securities	1,427	64	3	1,488
Other asset-backed securities	1,000	52	43	1,009
Redeemable preferred securities	327	10	19	318
Total fixed maturity securities	$26,357	$893	$396	$26,854
Perpetual preferred securities	$434	$5	$33	$406
Other equity securities	3			3
Total equity securities	$437	$5	$33	$409

The Company has investments in perpetual preferred securities that are primarily issued by European and U.S. banks. The net carrying amount and estimated fair value of the available for sale securities was $553 million and $266 million, respectively, as of December 31, 2008. Included in these amounts are perpetual preferred securities carried in trusts with a net carrying amount and estimated fair value of $168 million and $52 million, respectively, that are held in fixed maturities and included in the tables above in corporate securities. Perpetual preferred securities reported as equity securities available for sale are presented in the tables above as perpetual preferred securities.

The net carrying amount and estimated fair value of fixed maturity securities available for sale as of December 31, 2008, by contractual repayment date of principal, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Net Carrying Amount	Gross Unrealized		Estimated Fair Value
		Gains	Losses	
		(In Millions)		
Due in one year or less	$1,582	$9	$25	$1,566
Due after one year through five years	4,785	89	323	4,551
Due after five years through ten years	5,855	73	780	5,148
Due after ten years	4,427	201	645	3,983
	16,649	372	1,773	15,248
Mortgage-backed and asset-backed securities	8,065	152	1,523	6,694
Total	$24,714	$524	$3,296	$21,942

The following tables present the number of investments, estimated fair value and gross unrealized losses on investments where the estimated fair value has declined and remained continuously below the net carrying amount for less than twelve months and for twelve months or greater. Included in the tables are gross unrealized losses for fixed maturity securities available for sale and other securities, which include equity securities available for sale, cost method investments, and non marketable securities.

	Total		
	Number	Estimated Fair Value	Gross Unrealized Losses
		(In Millions)	
December 31, 2008:			
Obligations of states and political subdivisions	32	$276	$148
Foreign governments	5	66	7
Corporate securities	938	9,521	1,523
Mortgage-backed and asset-backed securities:			
Residential mortgage-backed securities	342	3,693	1,306
Commercial mortgage-backed securities	45	796	106
Other asset-backed securities	48	328	111
Redeemable preferred securities	18	153	95
Total fixed maturity securities	1,428	14,833	3,296
Perpetual preferred securities	30	197	174
Other securities	24	95	28
Total other securities	54	292	202
Total	1,482	$15,125	$3,498

	Less than 12 Months			12 Months or Greater		
	Number	Estimated Fair Value	Gross Unrealized Losses	Number	Estimated Fair Value	Gross Unrealized Losses
		(In Millions)			(In Millions)	
December 31, 2008:						
Obligations of states and political subdivisions	29	$254	$144	3	$22	$4
Foreign governments	5	66	7			
Corporate securities	650	6,649	799	288	2,872	724
Mortgage-backed and asset-backed securities:						
Residential mortgage-backed securities	145	2,229	699	197	1,464	607
Commercial mortgage-backed securities	31	569	74	14	227	32
Other asset-backed securities	29	204	49	19	124	62
Redeemable preferred securities	5	43	6	13	110	89
Total fixed maturity securities	894	10,014	1,778	534	4,819	1,518
Perpetual preferred securities	7	29	16	23	168	158
Other securities	18	89	27	6	6	1
Total other securities	25	118	43	29	174	159
Total	919	$10,132	$1,821	563	$4,993	$1,677

	Total		
	Number	Estimated Fair Value	Gross Unrealized Losses
		(In Millions)	
December 31, 2007:			
Obligations of states and political subdivisions	14	$61	$2
Corporate securities	636	6,131	203
Mortgage-backed and asset-backed securities:			
Residential mortgage-backed securities	387	3,882	126
Commercial mortgage-backed securities	16	326	3
Other asset-backed securities	51	523	43
Redeemable preferred securities	16	211	19
Total fixed maturity securities	1,120	11,134	396
Perpetual preferred securities	27	328	33
Other securities	30	50	7
Total other securities	57	378	40
Total	1,177	$11,512	$436

	Less than 12 Months			12 Months or Greater		
	Number	Estimated Fair Value	Gross Unrealized Losses	Number	Estimated Fair Value	Gross Unrealized Losses
		(In Millions)			(In Millions)	
December 31, 2007:						
Obligations of states and political subdivisions				14	$61	$2
Corporate securities	386	$3,572	$112	250	2,559	91
Mortgage-backed and asset-backed securities:						
Residential mortgage-backed securities	122	2,066	63	265	1,816	63
Commercial mortgage-backed securities	3	44	1	13	282	2
Other asset-backed securities	27	363	41	24	160	2
Redeemable preferred securities	12	190	17	4	21	2
Total fixed maturity securities	550	6,235	234	570	4,899	162
Perpetual preferred securities	20	226	21	7	102	12
Other securities	16	37	6	14	13	1
Total other securities	36	263	27	21	115	13
Total	586	$6,498	$261	591	$5,014	$175

Gross unrealized losses as of December 31, 2008 have increased significantly from December 31, 2007. General spread widening on fixed maturity investments caused by the recent disruption in the financial markets have led to decreases in their estimated fair values. The Company has evaluated fixed maturity and other securities with gross unrealized losses and determined that the unrealized losses are temporary and that the Company has the ability and intent to hold the securities until recovery.

Prime mortgages are loans made to borrowers with strong credit histories, whereas sub-prime mortgage lending is the origination of residential mortgage loans to customers with weak credit profiles. Alt-A mortgage lending is the origination of residential mortgage loans to customers who have good credit ratings, but have limited documentation for their source of income or some other standard input used to underwrite the mortgage loan. The slowing U.S. housing market, greater use of affordability mortgage products and relaxed underwriting standards for some originators for these loans has led to higher delinquency and loss rates, especially within the 2007 and 2006 vintage years.

The table below illustrates the breakdown of non-agency residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS) by investment rating from independent rating agencies and vintage year of the underlying collateral as of December 31, 2008.

				Vintage Breakdown					
Rating	Net Carrying Amount	Estimated Fair Value	Rating as % of Net Carrying Amount	2003 and Prior	2004	2005	2006	2007	2008
	($ In Millions)								
Prime RMBS:									
AAA	$3,226	$2,480	87%	14%	18%	21%	22%	12%	
AA	260	176	7%			3%	4%		
A	122	80	3%			1%	2%		
BAA	73	46	2%					2%	
BA and below	27	15	1%					1%	
Total	$3,708	$2,797	100%	14%	18%	25%	28%	15%	0%
Alt-A RMBS:									
AAA	$745	$506	80%		8%	12%	22%	38%	
AA	89	74	10%			1%	8%	1%	
A	9	5	1%				1%		
BAA	4	4	0%						
BA and below	79	79	9%					9%	
Total	$926	$668	100%	0%	8%	13%	31%	48%	0%
Sub-prime RMBS:									
AAA	$393	$293	82%	27%	36%	16%	1%	2%	
AA	70	46	15%	14%	1%				
A	1	1	0%						
BA and below	15	6	3%			3%			
Total	$479	$346	100%	41%	37%	19%	1%	2%	0%
CMBS:									
AAA	$1,052	$990	89%	59%	12%	4%		13%	1%
AA	63	57	5%	5%					
A	36	29	3%	3%					
BAA	28	17	2%					2%	
BA and below	12	7	1%	1%					
Total	$1,191	$1,100	100%	68%	12%	4%	0%	15%	1%

Monoline insurers guarantee the timely payment of principal and interest of certain securities. Municipalities will often purchase monoline insurance to wrap a security issuance in order to benefit from better market execution. The Company's net carrying amount and established fair value of total monoline insured securities was $845 million and $700 million, respectively, as of December 31, 2008. Included in these amounts are monoline insured municipal securities with a net carrying amount and estimated fair value of $560 million and $438 million, respectively, as of December 31, 2008. Of the net carrying value of the municipal bond portfolio, 24% of the overall credit quality of the municipal bond portfolio, including the benefits of monoline insurance, was rated A or better and 76% was rated BAA by independent rating agencies. As of December 31, 2008, the Company had no direct investments in monoline insurers.

As of December 31, 2008, the Company has received advances of $1.7 billion from the Federal Home Loan Bank (FHLB) of Topeka and has issued $1.7 billion in funding agreements to the FHLB of Topeka. Funding agreements are used as an alternative source of funds for the Company's spread lending business and the funding agreement liabilities are included in general account policyholder account balances. Assets with an estimated fair value of $2.2 billion as of December 31, 2008 are in a custodial account pledged as collateral for the funding agreements. The Company is required to purchase stock in FHLB of Topeka each time it receives an advance. As of December 31, 2008, the Company holds $87 million of FHLB of Topeka stock.

PL&A is a member of FHLB of San Francisco. As of December 31, 2008, no assets are pledged as collateral. As of December 31, 2008, the Company holds $25 million of FHLB of San Francisco stock.

The Company lends securities in connection with its securities lending program administered by one of the largest U.S. financial institutions specializing in securities lending and short-term fixed-income asset management. The Company requires an amount equal to 102% of the estimated fair value of the loaned securities to be separately maintained as collateral for the loaned securities. The collateral is restricted and not available for general use. Securities loaned were zero and $2 million as of December 31, 2008 and 2007, respectively.

Major categories of investment income and related investment expense are summarized as follows:

	Years Ended December 31,		
	2008	2007	2006
		(In Millions)	
Fixed maturity securities	$1,467	$1,492	$1,411
Equity securities	23	26	28
Mortgage loans	289	248	300
Real estate	86	68	58
Policy loans	223	209	193
Partnerships and joint ventures	21	170	133
Other	24	38	42
Gross investment income	2,133	2,251	2,165
Investment expense	136	137	123
Net investment income	$1,997	$2,114	$2,042

Net investment income includes prepayment fees on fixed maturity securities and mortgage loans of $10 million, $43 million and $61 million for the years ended December 31, 2008, 2007 and 2006, respectively.

The components of net realized investment gain (loss) are as follows:

	Years Ended December 31,		
	2008	2007	2006
	(In Millions)		
Fixed maturity securities:			
Gross gains on sales	$100	$117	$39
Gross losses on sales	(37)	(23)	(37)
Other than temporary impairments	(454)	(98)	(6)
Other	4	20	12
Total fixed maturity securities	(387)	16	8
Equity securities:			
Gross gains on sales		5	14
Other than temporary impairments	(68)		(3)
Other	1		1
Total equity securities	(67)	5	12
Trading securities	(22)	(1)	2
Real estate and mortgage loans	27	18	9
Variable annuity guaranteed living benefit embedded derivatives	(2,775)	(222)	41
Variable annuity guaranteed living benefit policy fees	108	78	64
Variable annuity derivatives	1,901	44	(71)
Other derivatives	(47)	(11)	(8)
Other investments - other than temporary impairments	(55)		
Other	(10)	27	5
Total	($1,327)	($46)	$62

During the years ended December 31, 2008, 2007 and 2006, the Company recorded other than temporary impairments of $577 million, $98 million and $9 million, respectively. In connection with the recent significant disruption in the housing, financial and credit markets, the other than temporary impairment charges recorded during the year ended December 31, 2008 were primarily related to the Company's exposure to Alt-A RMBS, certain structured securities and direct exposure to banks and corporate credits. The table below summarizes the other than temporary impairments by type:

	Years Ended December 31,		
	2008	2007	2006
	(In Millions)		
RMBS:			
Alt-A	$214		
Prime	13		
Structured credit	31	$15	
CDOs	125	73	
Other asset-backed securities	1	5	$2
Corporate debt:			
Financial institutions	48	2	1
Other	22	3	3
Equities:			
Financial institutions	34		3
Other	34		
Private equity	51		
Other investments	4		
Total other than temporary impairments	$577	$98	$9

The change in unrealized gain (loss) on investments in available for sale and trading securities is as follows:

	Years Ended December 31,		
	2008	2007	2006
	(In Millions)		
Available for sale securities:			
Fixed maturity	($3,269)	($211)	($298)
Equity	(143)	(49)	(10)
Total	($3,412)	($260)	($308)
Trading securities	($19)	($2)	($2)

Trading securities totaled $114 million and $129 million as of December 31, 2008 and 2007, respectively. The cumulative unrealized gains (losses) on trading securities held as of December 31, 2008 and 2007 were ($19) million and zero, respectively.

Fixed maturity securities, which have been non-income producing for the twelve months preceding December 31, 2008 and 2007, totaled $4 million and $23 million, respectively.

As of December 31, 2008 and 2007, fixed maturity securities of $12 million and $13 million, respectively, were on deposit with state insurance departments to satisfy regulatory requirements.

Mortgage loans totaled $5,622 million and $4,585 million as of December 31, 2008 and 2007, respectively. Mortgage loans are collateralized by commercial real estate properties primarily located throughout the U.S. As of December 31, 2008, $1,169 million, $746 million, $565 million, $446 million and $324 million were located in California, Florida, Washington, Texas and Washington D.C., respectively. As of December 31, 2008, $503 million was located in Canada. There were no defaults during the years ended

December 31, 2008, 2007, and 2006. The Company did not have mortgage loans with accrued interest more than 180 days past due as of December 31, 2008 or 2007. As of December 31, 2008, mortgage loan investments with one commercial sponsor exceeded 10% of stockholder's equity. The carrying value of these investments was $767 million as of December 31, 2008.

Investments in real estate totaled $459 million and $400 million as of December 31, 2008 and 2007, respectively. There were no real estate write-downs during the years ended December 31, 2008, 2007 and 2006.

9. DERIVATIVES AND HEDGING ACTIVITIES

The Company primarily utilizes derivative instruments to manage its exposure to interest rate risk, foreign currency risk, credit risk, and equity risk. Derivative instruments are also used to manage the duration mismatch of assets and liabilities. The Company utilizes a variety of derivative instruments including swaps, foreign exchange forward contracts, caps, floors, and options. In addition, certain insurance products offered by the Company contain features that are accounted for as derivatives.

The Company applies hedge accounting by designating derivative instruments as either fair value or cash flow hedges on the date the Company enters into a derivative contract. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. In this documentation, the Company specifically identifies the asset, liability, firm commitment, or forecasted transaction that has been designated as a hedged item and states how the hedging instrument is expected to hedge the risks related to the hedged item. The Company formally assesses and measures effectiveness of its hedging relationships both at the hedge inception and on an ongoing basis in accordance with its risk management policy.

The following table summarizes the notional amount and estimated fair value by hedge designation and derivative type. Collateral received from or pledged to counterparties is not included in the amounts below.

	Notional Amount		Estimated Fair Value Asset/(Liability)	
	December 31,		December 31,	
	2008	2007	2008	2007
	(In Millions)		(In Millions)	
Cash flow hedges:				
Foreign currency interest rate swaps	$6,488	$8,043	($57)	$219
Forward starting interest rate swap agreements	1,535	1,935	252	29
Interest rate swaps	1,743	859	(43)	(9)
Total cash flow hedges	9,766	10,837	152	239
Fair value hedges:				
Interest rate swaps	1,264	1,455	(120)	(33)
Foreign currency interest rate swaps	18	18	1	2
Total fair value hedges	1,282	1,473	(119)	(31)
Derivatives not designated as hedging instruments:				
Variable annuity guaranteed living benefit embedded derivatives	33,455	27,935	(3,342)	(161)
Variable annuity derivatives - equity put swaps	5,173	2,827	937	18
Variable annuity derivatives - interest rate swaps	2,150		372	
Variable annuity derivatives - total return swaps	2,437	470	(31)	26
Variable annuity guaranteed living benefit reinsurance contracts	13,274	7,358	429	23
Synthetic GICs	23,856	11,477	(3)	
Interest rate swaps	535	97	(13)	
Foreign currency interest rate swaps	460	367	3	(2)
Floors and options	204	119	3	5
Credit default swaps	128	128	(39)	(4)
Other	367	264		(11)
Total derivatives not designated as hedging instruments	82,039	51,042	(1,684)	(106)
Total	$93,087	$63,352	($1,651)	$102

Notional amount represents a standard of measurement of the volume of derivatives. Notional amount is not a quantification of market risk or credit risk and is not recorded on the consolidated statements of financial condition. Notional amounts generally represent those amounts used to calculate contractual cash flows to be exchanged and are not paid or received, except for certain contracts such as currency swaps. The notional amount of the variable annuity guaranteed living benefit reinsurance contracts represents the full protected basis of the underlying embedded derivative and estimated fair value represents the amount recoverable from reinsurers based on the portion of risk ceded.

The following table summarizes the asset and liability values of the Company's derivative instruments, which are calculated based on the aggregate estimated fair value of all derivative instruments with each counterparty, net of collateral received or pledged, in accordance with legally enforceable counterparty master netting agreements. Net cash collateral received from counterparties was $1,392 million and $270 million as of December 31, 2008 and 2007, respectively. This unrestricted cash collateral is included in cash and cash equivalents and the obligation to return it is netted against the estimated fair value of derivatives in other investments. Net cash collateral pledged to counterparties was $66 million and zero as of December 31, 2008 and 2007, respectively. A receivable representing the right to call this collateral back from the counterparty is netted against the estimated fair value of derivatives in other liabilities. If the net estimated fair value exposure to the counterparty is positive, the amount is reflected in other investments or other assets, whereas, if the net estimated fair value exposure to the counterparty is negative, the estimated fair value is included in future policy benefits or other liabilities, depending on the nature of the derivative.

	Asset Value		Liability Value	
	December 31,		December 31,	
	2008	2007	2008	2007
	(In Millions)		*(In Millions)*	
Other investments	$249	$183		
Other assets	429	23		
Future policy benefits			$3,342	$161
Other liabilities			313	213
Total	$678	$206	$3,655	$374

As of December 31, 2008 and 2007, the Company had also accepted collateral consisting of various securities with an estimated fair value of $147 million and $16 million, respectively, which are held in separate custodial accounts. The Company is permitted by contract to sell or repledge this collateral and as of December 31, 2008 and 2007, $15 million and $16 million, respectively, of the collateral had been repledged. As of December 31, 2008 and 2007, the Company provided collateral in the form of various securities of $17 million and $14 million, respectively, which are included in fixed maturity securities. The counterparties are permitted by contract to sell or repledge this collateral.

CASH FLOW HEDGES

The Company primarily uses foreign currency interest rate swaps, forward starting interest rate swaps and interest rate swaps to manage its exposure to variability in cash flows due to changes in foreign currencies and the benchmark interest rate. These cash flows include those associated with existing assets and liabilities, as well as the forecasted interest cash flows related to anticipated investment purchases and liability issuances. Such anticipated investment purchases and liability issuances are considered probable to occur and are generally completed within 22 years of the inception of the hedge.

Foreign currency interest rate swap agreements are used to convert a fixed or floating rate, foreign-denominated asset or liability to a U.S. dollar fixed rate asset or liability. The foreign currency interest rate swaps involve the exchange of an initial principal amount in two currencies, and the agreement to re-exchange the currencies at a future date, at an agreed exchange rate. There is also periodic exchange of interest payments in the two currencies at specified intervals, calculated using agreed upon rates and the exchanged principal amounts. The main currencies that the Company hedges are the Euro, British Pound, and Canadian Dollar.

Forward starting interest rate swaps are used to hedge the variability in the future interest receipts or payments stemming from the anticipated purchase of fixed rate securities or issuance of fixed rate liabilities due to changes in benchmark interest rates. These derivatives are predominantly used to lock in interest rate levels to match future cash flow characteristics of assets and liabilities. Forward starting interest rate swaps involve the exchange, at specified intervals, of interest payments resulting from the difference between fixed and floating rate interest amounts calculated by reference to an underlying notional amount to begin at a specified date in the future for a specified period of time. Generally, no cash is exchanged at the outset of the contract and no principal payments are made by either party. The notional amounts of the contracts do not represent future cash requirements, as the Company intends to close out open positions prior to expiration.

Interest rate swap agreements are used to convert a floating rate asset or liability to a fixed rate to hedge the variability of cash flows of the hedged asset or liability due to changes in benchmark interest rates. These derivatives are predominantly used to better match the cash flow characteristics between assets and liabilities. These agreements involve the exchange, at specified intervals, of interest payments resulting from the difference between fixed rate and floating rate interest amounts calculated by reference to an underlying notional amount. Generally, no cash is exchanged at the outset of the contract and no principal payments are made by either party.

When a derivative is designated as a cash flow hedge, the effective portion of changes in the estimated fair value of the derivative is recorded in OCI and recognized in earnings when the hedged item affects earnings, and the ineffective portion of changes in the estimated fair value of the derivative is recorded in net realized investment gain (loss). For the year ended December 31, 2008, the net loss related to the ineffective portion of designated cash flow hedges was $4 million, and was insignificant for the years ended December 31, 2007 and 2006. No component of the hedging instrument's estimated fair value is excluded from the determination of effectiveness. For the years ended December 31, 2008, 2007 and 2006, the Company had net losses of zero, $21 million and $2 million, respectively, reclassified from accumulated other comprehensive income (AOCI) to earnings resulting from the discontinuance of cash flow hedges due to forecasted transactions that were no longer probable of occurring. Over the next twelve months, the Company anticipates that $10 million of deferred losses on derivative instruments in AOCI will be reclassified to earnings. For the years ended December 31, 2008, 2007 and 2006, all of the Company's hedged forecasted transactions were determined to be probable of occurring.

FAIR VALUE HEDGES

The Company primarily uses interest rate swaps to manage its exposure to changes in the estimated fair values of its assets and liabilities due to fluctuations in the benchmark interest rate.

Interest rate swap agreements are used to convert a fixed rate asset or liability to a floating rate to hedge the changes in estimated fair value of the hedged asset or liability due to changes in benchmark interest rates. These derivatives are used primarily to closely match the duration of the assets supporting specific liabilities.

When a derivative is designated as a fair value hedge, the changes in the estimated fair value of the derivative and the hedged item are recognized in net realized investment gain (loss). The change in value of the hedged item associated with the risk being hedged is reflected as an adjustment to the carrying amount of the hedged item. For the year ended December 31, 2008, hedge ineffectiveness related to designated fair value hedges reflected in net realized investment gain (loss) was ($1) million, and was insignificant for the years ended December 31, 2007 and 2006. No component of the hedging instrument's estimated fair value is excluded from the determination of effectiveness.

DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS

The Company has certain insurance and reinsurance contracts that are considered to contain embedded derivatives. When it is determined that the embedded derivative possesses economic and risk characteristics that are not clearly and closely related to those of the host contract and that a separate instrument with the same terms would qualify as a derivative instrument, it is separated from the host contract and accounted for as a stand-alone derivative. The changes in the estimated fair value of the derivatives not designated as hedging instruments are recognized in net realized investment gain (loss).

The Company offers a rider on certain variable annuity contracts that guarantees net principal over a ten-year holding period, as well as riders on certain variable annuity contracts that guarantee a minimum withdrawal benefit over specified periods, subject to certain restrictions. These variable annuity guaranteed living benefits (GLBs) are considered embedded derivatives and are recorded in future policy benefits.

GLBs on new variable annuity contracts issued since January 1, 2007 are partially covered by reinsurance. These reinsurance arrangements have been used to offset a portion of the Company's exposure to the GLBs for the lives of the host variable annuity contracts issued since January 1, 2007. The ceded portion of the GLBs is considered an embedded derivative and is recorded in other assets or other liabilities as either a reinsurance recoverable or reinsurance payable.

The Company employs hedging strategies and derivatives (variable annuity derivatives) designed to mitigate the equity risk associated with the GLBs not covered by reinsurance. Equity put swaps are utilized to economically hedge against a portion of the movements in the equity markets. These equity put swaps involve the exchange of periodic fixed rate payments for the return, at the end of the swap agreement, of the equity index below a specified strike price. Generally, no cash is exchanged at the outset of the contract and no principal payments are made by either party. The Company utilizes total return swaps based upon the S&P 500 Index (S&P 500) primarily to economically hedge the equity risk of the mortality and expense fees in its variable annuity products. These contracts provide periodic payments to the Company in exchange for the total return of the S&P 500 in the form of a payment or receipt, depending on whether the return relative to the index on the trade date is positive or negative, respectively.

The Company uses interest rate swaps to hedge fluctuations in the valuation of GLBs as a result of changes in risk free rates. These agreements involve the exchange, at specified intervals, of interest payments resulting from the difference between fixed rate and floating rate interest amounts calculated by reference to an underlying notional amount.

The Company issues synthetic GICs to Employee Retirement Income Security Act of 1974 (ERISA) qualified defined contribution employee benefit plans (ERISA Plan). The ERISA Plan uses the contracts in its stable value fixed income option. The Company receives a fee for providing book value accounting for the ERISA Plan stable value fixed income option. The Company does not manage the assets underlying synthetic GICs. In the event that plan participant elections exceed the estimated fair value of the assets or if the contract is terminated and at the end of the termination period the book value under the contract exceeds the fair value of the assets, then the Company is required to pay the ERISA Plan the difference between book value and estimated fair value. The Company mitigates the investment risk through pre-approval and monitoring of the investment guidelines, requiring high quality investments and adjustments to the plan crediting rates to compensate for unrealized losses in the portfolios.

The Company uses credit default swaps in combination with cash instruments to reproduce the investment characteristics of certain investments. Credit default swaps involve the receipt or payment of fixed amounts at specific intervals in exchange for the assumption of or protection from potential credit events associated with the underlying security. A payment is delivered if the underlying security of the derivative defaults. Under this event, the required maximum potential amounts of future payments were $95 million and $115 million as of December 31, 2008 and 2007, respectively. As of December 31, 2008 and 2007, the fair value of credit derivatives sold by the Company was ($38) million and ($4) million, respectively. The terms for these instruments range from one to seven years.

CREDIT EXPOSURE

Credit exposure is measured on a counterparty basis as the net positive aggregate estimated fair value, net of collateral received, if any. The credit exposure for over the counter derivatives as of December 31, 2008 and 2007 was $150 million and $196 million, respectively.

For all derivative contracts other than GLBs and synthetic GICs, the Company enters into master agreements that may include a termination event clause associated with the Company's insurer financial strength rating. If the Company's insurer financial strength rating falls below a specified level assigned by certain rating agencies or, in most cases, if one of the rating agencies ceases to provide an insurer financial strength rating, the counterparty can terminate the master agreement with payment due based on the estimated fair value of the underlying derivatives. As of December 31, 2008, the Company's insurer financial strength rating was above the specified level.

The Company attempts to limit its credit exposure by dealing with creditworthy counterparties, establishing risk control limits, executing legally enforceable master netting agreements, and obtaining collateral where appropriate. In addition, each counterparty is reviewed to evaluate its financial stability before entering into each agreement and throughout the period that the financial instrument is owned. All of the Company's credit exposure from derivative contracts is with investment grade counterparties. For the year ended December 31, 2008, the Company has incurred losses of $7 million, included in net realized gain (loss), on derivative instruments due to a counterparty default related to the bankruptcy of Lehman Brothers Holdings Inc. These losses were a result of the contractual collateral threshold amounts and open collateral calls in excess of such amounts immediately prior to the bankruptcy filing. For the year ended December 31, 2008, swap contracts are still open with Lehman Brothers Special Finance with a fair value of ($24) million, which resulted in a loss of $12 million included in net realized investment gain (loss).

10. POLICYHOLDER LIABILITIES

POLICYHOLDER ACCOUNT BALANCES

The detail of the liability for policyholder account balances is as follows:

	December 31, 2008	December 31, 2007
	(In Millions)	
Universal life	$18,729	$17,742
Funding agreements	7,890	9,190
Fixed account liabilities	4,515	4,159
GICs	1,536	926
Total	$32,670	$32,017

FUTURE POLICY BENEFITS

The detail of the liability for future policy benefits is as follows:

	December 31, 2008	December 31, 2007
	(In Millions)	
Annuity reserves	$4,455	$4,184
Variable annuity guaranteed living benefit embedded derivatives	3,342	161
URR	925	726
Policy benefits payable	433	295
Life insurance	360	327
Closed Block liabilities	311	309
Other	15	23
Total	$9,841	$6,025

11. SEPARATE ACCOUNTS AND VARIABLE ANNUITY GUARANTEED BENEFIT FEATURES

The Company issues variable annuity contracts through separate accounts for which investment income and investment gains and losses accrue directly to, and investment risk is borne by, the contract holder (traditional variable annuities). These contracts also include various types of guaranteed minimum death benefit (GMDB) and GLB features. For a discussion of certain GLBs accounted for as embedded derivatives, see Note 9.

The GMDBs provide a specified minimum return upon death. Many of these death benefits are spousal, whereby a death benefit will be paid upon death of the first spouse. The survivor has the option to terminate the contract or continue it and have the death benefit paid into the contract and a second death benefit paid upon the survivor's death. The GMDB features include those where the Company contractually guarantees to the contract holder either (a) return of no less than total deposits made to the contract less any partial withdrawals (return of net deposits), (b) the highest contract value on any contract anniversary date through age 80 minus any payments or withdrawals following the contract anniversary (anniversary contract value), or (c) the highest of contract value on certain specified dates or total deposits made to the contract less any partial withdrawals plus a minimum return (minimum return).

The guaranteed minimum income benefit (GMIB) is a GLB that provides the contract holder with a guaranteed return of premium, adjusted proportionately for withdrawals, after a specified time period (10 years) selected by the contract holder at the issuance of the variable annuity contract. In general, the GMIB requires a minimum allocation to guaranteed term options or adherence to limitations required by an approved asset allocation strategy. The GMIB is a living benefit that provides the contract holder with a guaranteed annuitization value.

Information in the event of death on the various GMDB features outstanding was as follows (the Company's variable annuity contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed are not mutually exclusive):

	December 31, 2008	December 31, 2007
	($ In Millions)	
Return of net deposits		
Separate account value	$36,672	$50,709
Net amount at risk [(1)]	11,557	690
Average attained age of contract holders	61 years	60 years
Anniversary contract value		
Separate account value	$13,465	$20,280
Net amount at risk [(1)]	5,750	606
Average attained age of contract holders	62 years	62 years
Minimum return		
Separate account value	$1,107	$1,933
Net amount at risk [(1)]	898	339
Average attained age of contract holders	64 years	63 years

(1) Represents the amount of death benefit in excess of the current account balance as of December 31.

Information regarding GMIB features outstanding is as follows:

	December 31, 2008	December 31, 2007
	($ In Millions)	
Separate account value	$2,230	$3,804
Average attained age of contract holders	57 years	57 years

The determination of GMDB and GMIB liabilities is based on models that involve a range of scenarios and assumptions, including those regarding expected market rates of return and volatility, contract surrender rates and mortality experience. The following table summarizes the GMDB and GMIB liabilities, which are recorded in future policy benefits, and changes in these liabilities, which are reflected in policy benefits paid or provided:

	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
	GMDB		GMIB	
	(In Millions)		(In Millions)	
Balance, beginning of year	$48	$44	$24	$26
Changes in reserves	119	12	38	(2)
Benefits paid	(48)	(8)		
Balance, end of year	$119	$48	$62	$24

Reinsurance recoverables related to GMDB reserves totaled $3 million and $1 million as of December 31, 2008 and 2007, respectively, which are included with other reinsurance receivables in other assets. Reinsurance recoverables related to GMIB reserves are not significant.

Account balances of variable annuity contracts with guarantees were invested in separate account investment options as follows:

	December 31, 2008	December 31, 2007
	(In Millions)	
Asset type		
Domestic equity	$17,927	$26,899
International equity	5,476	9,519
Bonds	12,182	13,614
Money market	1,087	677
Total	$36,672	$50,709

12. DEBT

Debt consists of the following:

	December 31, 2008	December 31, 2007
	(In Millions)	
Short-term debt: Commercial paper		$100
Long-term debt:		
Surplus notes	$150	150
SFAS No. 133 fair value adjustment	55	13
Other non-recourse debt	121	119
VIE debt (Note 4)	2	15
Total long-term debt	328	297
Total short-term and long-term debt	$328	$397

SHORT-TERM DEBT

Pacific Life maintains a $700 million commercial paper program. There was no commercial paper debt outstanding as of December 31, 2008. The amount outstanding as of December 31, 2007 was $100 million, bearing an average interest rate of 4.4%. In addition, Pacific Life has a bank revolving credit facility of $400 million maturing in 2012 that serves as a back-up line of credit for the commercial paper program. This facility had no debt outstanding as of December 31, 2008 and 2007. As of and during the year ended December 31, 2008, Pacific Life was in compliance with the debt covenants related to this facility.

PL&A maintains a $40 million reverse repurchase line of credit with a commercial bank. These borrowings are at variable rates of interest based on collateral and market conditions. There was no debt outstanding in connection with this line of credit as of December 31, 2008 and 2007.

Pacific Life is a member of the FHLB of Topeka. Pacific Life has approval from the FHLB of Topeka to advance amounts up to 40% of Pacific Life's statutory general account assets provided it has available collateral and is in compliance with debt covenant restrictions and insurance laws and regulations. There was no debt outstanding with the FHLB of Topeka as of December 31, 2008 and 2007. Certain assets are on deposit with the FHLB of Topeka with an estimated fair value of $3.6 billion as of December 31, 2008, of which $2.2 billion have been pledged and $1.4 billion are available for future advances from the FHLB of Topeka. This amounts to a borrowing capacity of approximately $1.0 billion as of December 31, 2008.

PL&A is a member of the FHLB of San Francisco. PL&A is eligible to borrow from the FHLB of San Francisco amounts based on a percentage of statutory capital and surplus and could borrow up to amounts of $99 million. Of this amount, half, or $49.5 million, can be borrowed for terms other than overnight, out to a maximum term of nine months. These borrowings are at variable rates of interest, collateralized by certain mortgage loan and government securities. As of December 31, 2008 and 2007, PL&A had no debt outstanding with the FHLB of San Francisco.

LONG-TERM DEBT

Pacific Life has $150 million of surplus notes outstanding at a fixed interest rate of 7.9%, maturing on December 30, 2023. Interest is payable semiannually on June 30 and December 30. The surplus notes may not be redeemed at the option of Pacific Life or any holder of the surplus notes. The surplus notes are unsecured and subordinated to all present and future senior indebtedness and policy claims of Pacific Life. All future payments of interest and principal on the surplus notes can be made only with the prior approval of the Director of Insurance of the State of Nebraska.

Pacific Life entered into interest rate swaps converting the fixed interest rate surplus notes to variable rate notes based upon the London Interbank Offered Rate. In accordance with SFAS No. 133, the interest rate swaps were designated as fair value hedges of the surplus notes. The SFAS No. 133 fair value adjustment, which increased long-term debt by $55 million and $13 million as of December 31, 2008 and 2007, respectively, represents the cumulative change in the estimated fair value of the interest rate swaps. An offsetting fair value adjustment has also been recorded for the interest rate swap derivative instruments.

Certain subsidiaries of Pacific Asset Holding LLC (PAH), a wholly owned subsidiary of Pacific Life, entered into various term loans with third-parties. Interest on these loans accrues at fixed rates, is payable monthly and range from 5.8% to 6.2% as of December 31, 2008 and 2007. As of December 31, 2008 and 2007, there was $87 million outstanding on these loans with maturities ranging from 2010 to 2012. All of these loans are secured by real estate properties and are non-recourse to the Company.

Certain subsidiaries of PAH also entered into various property improvement loans with third-parties for a maximum loan balance of $43 million. Interest on these loans accrues at variable rates, is payable monthly and range from 2.6% and 3.2% as of December 31, 2008 and 6.4% to 7.0% as of December 31, 2007. As of December 31, 2008, there was $34 million outstanding on these loans with maturities ranging from 2009 to 2011. Principal payments due over the next twelve months are $26 million. As of December 31, 2007, there was $32 million outstanding on these loans. All of these loans are secured by real estate properties and are non-recourse to the Company.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 157

SFAS No. 157 establishes a hierarchy that prioritizes the inputs of valuation methods used to measure fair value for financial assets and financial liabilities that are carried at fair value. The hierarchy consists of the following three levels that are prioritized based on observable and unobservable inputs.

Level 1 Unadjusted quoted prices for identical instruments in active markets. Level 1 financial instruments would include securities that are traded in an active exchange market.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments on inactive markets; and model-derived valuations for which all significant inputs are observable market data. Level 2 instruments include most corporate debt securities and U.S. government and agency mortgage-backed securities that are valued by models using inputs that are derived principally from or corroborated by observable market data.

Level 3 Valuations derived from valuation techniques in which one or more significant inputs are unobservable. Level 3 instruments include less liquid securities for which significant inputs are not observable in the market, such as structured securities and variable annuity GLB embedded derivatives that require significant management assumptions or estimation in the fair value measurement.

This hierarchy requires the use of observable market data when available.

The following table presents, by fair value hierarchy level, the Company's financial assets and financial liabilities that are carried at fair value as of December 31, 2008.

	Level 1	Level 2	Level 3	Netting Adjustments [1]	Total
			(In Millions)		
Assets:					
Fixed maturity securities		$15,807	$6,135		$21,942
Equity securities		204	12		216
Trading securities [2]		17	97		114
Cash equivalents	$2,597				2,597
Other investments			150		150
Derivatives		1,291	1,435	($656)	2,070
Separate accounts assets [3]	41,145	275	61		41,481
Total	$43,742	$17,594	$7,890	($656)	$68,570
Liabilities:					
Derivatives		$900	$3,477	($656)	$3,721
Total		$900	$3,477	($656)	$3,721

(1) Netting adjustments represent the impact of offsetting asset and liability positions held with the same counterparty as permitted by FIN 39 and FSP FIN 39-1.

(2) Trading securities are presented in other investments in the consolidated statement of financial condition.

(3) Separate account assets are measured at fair value. Investment performance related to separate account assets is offset by corresponding amounts credited to contract holders whose liability is reflected in the separate account liabilities. Separate account liabilities are measured to equal the fair value of separate account assets as prescribed by SOP 03-1. Separate account assets as presented in the table above differ from the amounts presented in the consolidated statement of financial condition because cash and receivables for securities are not subject to SFAS No. 157.

FAIR VALUE MEASUREMENT

SFAS No. 157 defines fair value as the price that would be received to sell the asset or paid to transfer the liability at the measurement date. This "exit price" notion is a market-based measurement that requires a focus on the value that market participants would assign for an asset or liability.

The following section describes the valuation methodologies used by the Company to measure various types of financial instruments at fair value.

FIXED MATURITY, EQUITY AND TRADING SECURITIES

The fair values of fixed maturity securities available for sale, equity securities available for sale and trading securities are determined by management after considering external pricing sources and internal valuation techniques.

For publicly traded securities with sufficient trading volume, prices are obtained from third-party pricing services. For structured or complex securities that are traded infrequently, prices are obtained from independent brokers or are valued internally using various valuation techniques. Such techniques include matrix model pricing and internally developed models, which incorporate observable market data, where available. Matrix model pricing measures fair value using cash flows, which are discounted using observable market yield curves provided by a major independent data service. The matrix model determines the discount yield based upon significant factors that include the security's weighted average life and rating.

Where matrix model pricing is not used, particularly for RMBS and asset-backed securities, other internally derived valuation models are utilized. The inputs used to measure fair value in the internal valuations include, but are not limited to, benchmark yields, issuer spreads, bids, offers, reported trades, estimated cash flows and prepayment speeds.

Prices obtained from independent third-parties are generally evaluated based on the inputs indicated above. The Company's management analyzes and evaluates these prices and determines whether they are reasonable estimates of fair value. Management's analysis may include, but is not limited to, review of third-party pricing methodologies and inputs, analysis of recent trades, and development of internal models utilizing observable market data of comparable securities. Based on this analysis, prices received from third-parties may be adjusted if the Company determines that there is a more appropriate fair value based on available market information.

Most securities priced by a major independent third-party service have been classified as Level 2, as management has verified that the inputs used in determining their fair values are market observable and appropriate. Other externally priced securities for which fair value measurement inputs are not sufficiently transparent, such as securities valued based on broker quotations, have been classified as Level 3. Internally valued securities, including adjusted prices received from independent third-parties, where significant management assumptions have been utilized in determining fair value, have been classified as Level 3.

CASH EQUIVALENTS

Cash equivalents include, but are not limited to, corporate discount notes and money market mutual funds instruments. The fair value of cash equivalents is measured at amortized cost due to the short-term, highly liquid nature of these securities, which have original maturities of three months or less. These securities are classified as Level 1.

DERIVATIVE INSTRUMENTS

Derivative instruments are reported at fair value using pricing valuation models, which utilize market data inputs or independent broker quotations. Excluding embedded derivatives, as of December 31, 2008, 99% of derivatives based upon notional values were priced by valuation models, which utilize independent market data. The remaining derivatives were priced by broker quotations. The derivatives are valued using mid-market inputs that are predominantly observable in the market. Inputs used to value derivatives include, but are not limited to, interest swap rates, foreign currency forward and spot rates, credit spreads and correlations, interest and equity volatility and equity index levels. In accordance with SFAS No. 157, a Credit Valuation Analysis (CVA) was performed for all derivative positions to measure the risk that one of the counterparties to the transaction will be unable to perform under the contractual terms. As of December 31, 2008 the CVA for derivatives was immaterial.

The Company performs a monthly analysis on derivative valuations, which includes both quantitative and qualitative analysis. Examples of procedures performed include, but are not limited to, review of pricing statistics and trends, analyzing the impacts of changes in the market environment, and review of changes in market value for each derivative including those derivatives priced by brokers.

Derivative instruments classified as Level 2 primarily include interest rate, currency and certain credit default swaps. The derivative valuations are determined using pricing models with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Derivative instruments classified as Level 3 include complex derivatives, such as equity options and swaps and certain credit default swaps. Also included in Level 3 classification for derivatives are embedded derivatives in certain insurance and reinsurance contracts. These derivatives are valued using pricing models, which utilize both observable and unobservable inputs and, to a lesser extent, broker quotations. A derivative instrument containing Level 1 or Level 2 inputs will be classified as a Level 3 financial instrument in its entirety if it has at least one significant Level 3 input.

The Company utilizes derivative instruments to manage the risk associated with certain assets and liabilities. However, the derivative instrument may not be classified within the same fair value hierarchy level as the associated assets and liabilities. Therefore, the realized and unrealized gains and losses on derivatives reported in Level 3 may not reflect the offsetting impact of the realized and unrealized gains and losses of the associated assets and liabilities.

OTHER INVESTMENTS

Other investments include non marketable equity securities that do not have readily determinable fair values. Certain significant inputs used in determining the fair value of these equities are based on management assumptions or contractual terms with another party that cannot be readily observable in the market. These securities are classified as Level 3 assets.

SEPARATE ACCOUNT ASSETS

Separate account assets are primarily invested in mutual funds, but also have investments in fixed maturity, short-term and equity securities. Separate account assets are valued in the same manner, and using the same pricing sources and inputs, as the fixed maturity securities available for sale, equity securities available for sale and trading securities of the Company. Mutual funds are included in Level 1. Most fixed maturity and equity securities are included in Level 2. Level 3 assets include less liquid securities and any investments where fair value is determined by management based on broker quotes.

VARIABLE ANNUITY GLBs

Fair values for variable annuity GLBs classified as derivatives, and related reinsurance, are calculated based upon significant unobservable inputs using internally developed models because active, observable markets do not exist for those items. As a result, GLB derivatives and related reinsurance are categorized as Level 3. Below is a description of the Company's fair value methodologies for relevant GLBs, and related reinsurance.

Prior to January 1, 2008, the Company used the guidance prescribed in SFAS No. 133 and other related accounting literature on fair value, which represented the amount for which a financial instrument could be exchanged in a current transaction between knowledgeable, unrelated and willing parties (the Pre-SFAS No. 157 definition of fair value) using assumptions, which include capital market and policyholder behavior inputs.

The Company's SFAS No. 157 fair value is calculated as an aggregation of the Pre-SFAS No. 157 definition of fair value and additional risk margins including, Behavior Risk Margin, Mortality Risk Margin and Credit Standing Adjustment. The resulting aggregation is reconciled or calibrated, if necessary, to market information that is, or may be, available to the Company, but may not be observable by other market participants, including reinsurance discussions and transactions. Each of the components described below are unobservable in the market place and requires subjectivity by the Company in determining their value.

- <u>Behavior Risk Margin</u>: This component adds a margin that market participants would require for the risk that the Company's assumptions about policyholder behavior used in the Pre-SFAS No. 157 definition of fair value model could differ from actual experience.

- <u>Mortality Risk Margin</u>: This component adds a margin in mortality assumptions, both for decrements for policyholders with GLBs, and for expected payout lifetimes in guaranteed minimum withdrawal benefits.

- <u>Credit Standing Adjustment</u>: This component makes an adjustment that market participants would make to reflect the chance that GLB obligations or the GLB reinsurance recoverables will not be fulfilled (nonperformance risk).

LEVEL 3 RECONCILIATION

The table below presents a reconciliation of the beginning and ending balances of the Level 3 financial assets and financial liabilities that have been measured at fair value on a recurring basis using significant unobservable inputs.

		Total Gains or Losses					
	January 1, 2008	Included in Earnings	Included in Other Comprehensive Income (Loss)	Transfers In and/or Out of Level 3	Purchases, Sales, Issuances, and Settlements	December 31, 2008	Unrealized Gains (Losses) Still Held (1)
				(In Millions)			
Assets:							
Fixed maturity securities	$2,874	($93)	($595)	$3,606	$343	$6,135	($16)
Equity securities	47	(34)			(1)	12	
Trading securities	47	(12)		10	52	97	(11)
Other investments	460	105	(133)		(282)	150	
Derivatives, net	(103)	(1,945)	2		4	(2,042)	(1,822)
Separate account assets(2)	11	(5)		46	9	61	(25)
Total	$3,336	($1,984)	($726)	$3,662	$125	$4,413	($1,874)

(1) Represents the net amount of total gains or losses for the period, included in earnings, attributable to the change in unrealized losses relating to assets and liabilities classified as Level 3 that are still held as of December 31, 2008.

(2) The realized/unrealized gains (losses) included in net income (loss) for separate account assets are offset by an equal amount for separate account liabilities, which results in a net zero impact on net income (loss) for the Company.

Transfers in Level 3 primarily relate to RMBS previously priced by an independent third-party pricing service that were transferred from Level 2 to Level 3. The Company valued many RMBS internally based upon internal models due to the housing market crisis' impact on RMBS valuations and the absence of trading activity. The internal valuation models included detailed evaluations of the performance of the underlying collateral of specific securities across the entire RMBS portfolio with significant judgment in determining discount rates including liquidity premiums, default and prepayment assumptions, loss severity and other inputs.

SFAS No. 107

The carrying amount and estimated fair value of the Company's financial instruments under SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, that are not carried at fair value are as follows:

	December 31, 2008		December 31, 2007	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In Millions)			
Assets:				
Mortgage loans	$5,622	$5,645	$4,585	$4,800
Policy loans	6,920	6,920	6,410	6,410
Other invested assets	305	334	307	345
Collateral received	(1,392)	(1,392)	(270)	(270)
Liabilities:				
Funding agreements and GICs[1]	9,419	10,136	10,104	10,250
Fixed account liabilities	4,515	4,515	4,159	4,159
Short-term and long-term debt	328	242	397	389
Collateral pledged	(66)	(66)		

(1) Balance excludes embedded derivatives that are included in SFAS No. 157 in the tables above.

The following methods and assumptions were used to estimate the fair value of these financial instruments as of December 31, 2008 and 2007:

MORTGAGE LOANS

The estimated fair value of the mortgage loan portfolio is determined by discounting the estimated future cash flows, using a market rate that is applicable to the yield, credit quality and average maturity of the composite portfolio.

POLICY LOANS

The carrying amounts of policy loans are a reasonable estimate of their fair values because interest rates are generally variable and based on current market rates.

OTHER INVESTED ASSETS

The estimated fair value of private equity investments is based on the ownership percentage of the underlying equity of the investments.

COLLATERAL RECEIVED AND PLEDGED

The carrying values of cash collateral received and pledged approximate fair value due to the short-term maturities of these instruments.

FUNDING AGREEMENTS AND GICs

The fair value of funding agreements and GICs is estimated using the rates currently offered for deposits of similar remaining maturities.

FIXED ACCOUNT LIABILITIES

Fixed account liabilities include annuity and deposit liabilities. The estimated fair value of annuity liabilities approximates carrying value and primarily includes policyholder deposits and accumulated credited interest. The estimated fair value of deposit liabilities with no defined maturities is the amount payable on demand.

SHORT-TERM AND LONG-TERM DEBT

The carrying amount of short-term debt is a reasonable estimate of its fair value because the interest rates are variable and based on current market rates. The estimated fair value of long-term debt is based on market quotes, except for VIE debt and non-recourse debt, for which the carrying amounts are reasonable estimates of their fair values because the interest rate approximates current market rates.

14. OTHER COMPREHENSIVE INCOME (LOSS)

The Company displays comprehensive income (loss) and its components on the consolidated statements of stockholder's equity. The disclosure of the gross components of other comprehensive income (loss) and related taxes are as follows:

	Years Ended December 31,		
	2008	2007	2006
	(In Millions)		
Unrealized gain (loss) on derivatives and securities available for sale, net			
Gross holding gain (loss):			
Securities available for sale	($3,870)	($239)	($289)
Derivatives	387	(68)	(33)
Income tax benefit	1,220	106	114
Reclassification adjustment - realized (gain) loss:			
Sale of securities available for sale	458	(21)	(19)
Derivatives	(4)	(15)	(15)
Income tax expense (benefit)	(159)	12	11
Allocation of holding (gain) loss to DAC	356	(24)	(35)
Allocation of holding (gain) loss to future policy benefits	(119)	(15)	11
Income tax expense (benefit)	(83)	14	9
Unrealized loss on derivatives and securities available for sale, net	(1,814)	(250)	(246)
Other, net			
Holding gain on interest in PIMCO and other security	(24)	5	6
Income tax on holding gain	9	(1)	(2)
Reclassification of realized gain on sale of interest in PIMCO	(109)		(32)
Income tax on realized gain	42		10
Net unrealized gain (loss) on interest in PIMCO and other security	(82)	4	(18)
Cumulative effect of adoption of new accounting principle, net of tax		(20)	
Other, net of tax	(15)		2
Other, net	(97)	(16)	(16)
Total other comprehensive loss, net	($1,911)	($266)	($262)

15. REINSURANCE

Certain no lapse guarantee rider (NLGR) benefits of Pacific Life's UL insurance products are subject to Actuarial Guideline 38 (AG 38) statutory reserving requirements. AG 38 results in additional statutory reserves on UL products with NLGRs issued after June 30, 2005. U.S. GAAP benefit reserves for such riders are based on SOP 03-1. Substantially all the U.S. GAAP benefit reserves relating to NLGRs issued after June 30, 2005 are ceded from Pacific Life to Pacific Alliance Reinsurance Ltd. (PAR Bermuda), a Bermuda-based life reinsurance company wholly owned by Pacific LifeCorp and PAR Vermont under reinsurance agreements. Funded reserves in a trust account with Pacific Life as beneficiary and irrevocable letters of credit, in which Pacific LifeCorp is the co-applicant with PAR Bermuda and PAR Vermont, provide security for statutory reserve credits taken by Pacific Life.

The Company has entered into treaties to reinsure a portion of new variable annuity business under modified coinsurance arrangements and certain variable annuity living and death benefit riders under coinsurance agreements. Effective January 1, 2008, the quota share on variable annuity reinsurance treaties was increased from a total of 39% to 45%. Additionally, effective January 1, 2008, the Company recaptured a portion of the variable annuity business ceded during 2007.

Reinsurance receivables and payables generally include amounts related to claims, reserves and reserve related items. Reinsurance receivables were $839 million and $349 million as of December 31, 2008 and 2007, respectively. Reinsurance payables were $38 million and $54 million as of December 31, 2008 and 2007, respectively.

The ceding of risk does not discharge the Company from its primary obligations to contract owners. To the extent that the assuming companies become unable to meet their obligations under reinsurance contracts, the Company remains contingently liable. Each reinsurer is reviewed to evaluate its financial stability before entering into each reinsurance contract and throughout the period that the reinsurance contract is in place.

The components of insurance premiums presented in the consolidated statements of operations are as follows:

	Years Ended December 31,		
	2008	2007	2006
	(In Millions)		
Direct premiums	$410	$271	$249
Reinsurance ceded	(291)	(274)	(248)
Reinsurance assumed	53	53	57
Insurance premiums	$172	$50	$58

Other revenues and benefit and expense items in the consolidated statements of operations are shown net of the following reinsurance transactions:

	Years Ended December 31,		
	2008	2007	2006
	(In Millions)		
REVENUES			
Reinsurance ceded netted against policy fees	$205	$161	$145
Reinsurance ceded netted against net investment income	311	298	278
Reinsurance ceded netted against net realized investment gain (loss)	388	19	
Reinsurance ceded netted against investment advisory fees	20	12	2
BENEFITS AND EXPENSES			
Reinsurance ceded netted against interest credited	260	236	208
Reinsurance ceded netted against policy benefits	341	283	198
Reinsurance assumed included in policy benefits	32	38	30
Reinsurance ceded netted against commission expense	156	40	57
Reinsurance ceded netted against operating expense	31	47	39

16. EMPLOYEE BENEFIT PLANS

PENSION PLANS

Prior to December 31, 2007, Pacific Life provided a defined benefit pension plan covering all eligible employees of the Company. Certain subsidiaries did not participate in this plan. The full-benefit vesting period for all participants was five years. Pacific Life's funding policy was to contribute amounts to the plan sufficient to meet the minimum funding requirements set forth in ERISA, plus such additional amounts as was determined appropriate. All such contributions were made to a tax-exempt trust.

During 2007, the Company amended the defined benefit pension plan to terminate effective December 31, 2007. The net assets of the defined benefit pension plan will be allocated for payment of plan benefits to the participants in an order of priority determined in accordance with ERISA, applicable regulations thereunder and the defined benefit pension plan document. The final termination of the plan and payment of plan benefits to the participants is subject to regulatory approval.

In 2007, in anticipation of the final settlement of the defined benefit pension plan, the plan's investment strategy was revised and the mutual fund investments were sold, transferred to a separate account group annuity contract managed by the Company and invested primarily in fixed income investments to better match the expected duration of the liabilities.

Effective January 1, 2005, the contribution credits for employees with less than 10 years of service were suspended and replaced by contribution credits into the Retirement Incentive Savings Plan (RISP) provided by Pacific Life pursuant to section 401(k) of the Internal Revenue Code. Effective January 1, 2007, the contribution credits for all other employees were suspended and also replaced by contribution credits into the RISP.

In addition, Pacific Life maintains supplemental employee retirement plans (SERPs) for certain eligible employees. As of December 31, 2008 and 2007, the projected benefit obligation was $32 million and $34 million, respectively. The fair value of plan assets as of December 31, 2008 and 2007 was zero. The net periodic benefit cost of the SERPs was $5 million, $6 million and $6 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Components of the net periodic pension expense are as follows:

	Years Ended December 31, 2008	2007	2006
	(In Millions)		
Service cost - benefits earned during the year	$2	$2	$8
Interest cost on projected benefit obligation	14	16	15
Expected return on plan assets	(14)	(16)	(19)
Settlement costs	5	4	
Amortization of net obligations and prior service cost	1	3	4
Net periodic pension expense	$8	$9	$8

The following tables set forth the changes in benefit obligation, plan assets and funded status reconciliation using a measurement date of December 31:

	December 31, 2008	2007
	(In Millions)	
<u>Change in benefit obligation</u>:		
Benefit obligation, beginning of year	$248	$280
Service cost	2	2
Interest cost	14	15
Actuarial gain	(5)	(4)
Benefits paid	(29)	(45)
Benefit obligation, end of year	$230	$248
<u>Change in plan assets</u>:		
Fair value of plan assets, beginning of year	$287	$271
Actual return on plan assets	(20)	16
Employer contributions	4	45
Benefits paid	(29)	(45)
Fair value of plan assets, end of year	$242	$287
Funded status, end of year	$12	$39

	December 31, 2008	December 31, 2007
	(In Millions)	
Amounts recognized in the consolidated statements of financial condition consist of:		
Prior to adoption of the funded status provisions of SFAS No. 158:		
Prepaid benefit cost		$104
Accrued benefit liability		(34)
Intangible asset		3
Accumulated other comprehensive loss		3
Subsequent to adoption of the funded status provisions of SFAS No. 158:		
Assets	$44	$73
Liabilities	(32)	(34)
Net amount recognized	$12	$39
Amounts recognized in AOCI consist of:		
Initial net obligation	($1)	($1)
Prior service cost	(1)	(1)
Net loss	(56)	(34)
Accumulated other comprehensive loss	(58)	(36)
Accumulated contributions in excess of net periodic benefit cost	70	75
Net amount recognized	$12	$39
Changes recognized in OCI:		
Changes due to minimum liability and intangible asset recognized prior to adoption of SFAS No. 158:		
Decrease in additional minimum liability		($1)
Decrease in intangible asset		1
Other comprehensive loss		$0
Changes in plan assets and benefit obligations recognized in OCI:		
Net loss arising during the year	$29	
Adjustment for actual vs. expected benefit payments	(1)	
Amounts recognized as a component of net periodic benefit cost:		
Amortization, settlement or curtailment recognition of net transition obligation	(1)	
Amortization or settlement recognition of net loss	(6)	
	$21	
Amounts recognized as a component of net periodic benefit cost:		
Total recognized in net periodic benefit cost and other comprehensive loss	$30	$9
Estimated amounts that will be amortized from AOCI over the next year:		
Initial obligation		($1)
Prior service cost	($1)	
Net actuarial loss	(3)	
Total	($4)	($1)

	December 31, 2008	December 31, 2007
	(In Millions)	
Consolidated statement of financial condition adjustment:		
Increase in accumulated other comprehensive loss, pre-tax, to reflect the adoption of SFAS No. 158		$33
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	6.35%	6.25%
Rate of compensation increase	N/A	N/A

Effective January 1, 2007, contribution credits to the defined benefit pension plan were suspended, thus, the rate of compensation increase assumption is no longer applicable. The rate of compensation increase used to determine benefit obligations for the SERP was 4.5% for the years ended December 31, 2008 and 2007.

	Years Ended December 31, 2008	2007	2006
Weighted-average assumptions used to determine net periodic benefit costs:			
Discount rate	6.25%	5.75%	5.50%
Expected long-term return on plan assets	5.25%	6.13%	8.00%
Rate of compensation increase	N/A	N/A	4.50%

The rate of compensation increase used to determine the net periodic benefit costs for the SERP was 4.5% for the years ended December 31, 2008 and 2007.

In developing the expected long-term rate of return on plan assets, the Company considers many factors. These factors consist of a review of historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the plan's portfolio. This resulted in the selection of the 8.00% long-term rate of return on asset assumption for the first three months of 2007. In April 2007, the Company changed the asset allocation to fixed income assets in order to better match the expected duration of liabilities. The expected return on asset assumption was then lowered to 5.50% resulting in a weighted-average expected return on asset assumption of 6.13% for 2007. In anticipation of the final settlement of the plan, the Company changed the asset allocation to better match the liabilities by investing in only fixed income securities with a similar duration profile. As a result of the restructured portfolio, the expected return on assets assumption was lowered to 5.25% for 2008.

Benefit payments for the year ended December 31, 2008 amounted to $30 million. Pacific Life expects to contribute $5 million to these plans in 2009. The expected benefit payments are as follows for the years ending December 31 *(In Millions)*:

2009	2010	2011	2012	2013	2014-2018
$24	$22	$21	$21	$20	$88

The Company's pension plan's weighted-average asset allocations by asset category are as follows:

	December 31, 2008	December 31, 2007
Asset category:		
Fixed income investments	99%	99%
Other	1%	1%
Total	100%	100%

RETIREMENT INCENTIVE SAVINGS PLAN

Pacific Life provides a RISP covering all eligible employees of Pacific LifeCorp and certain of its subsidiaries. The RISP matches 75% of each employee's contributions, up to a maximum of 6% of eligible employee compensation in cash. Since 1997, the RISP provided the Company match in the form of Pacific LifeCorp common stock through the Employee Stock Ownership Plan (ESOP). In October 2006, Pacific LifeCorp's Board of Directors authorized a plan to terminate the ESOP feature of the RISP, replace it with a cash match benefit and repurchase the outstanding allocated and unallocated shares of the ESOP. On October 25, 2006, the outstanding allocated and unallocated shares of 2,867,719 were repurchased by Pacific LifeCorp in cash for $112 million and an ESOP loan, with an outstanding balance of $2 million, was also repaid to Pacific Life. Contributions made by the Company to the RISP amounted to $28 million, $24 million and $20 million for the years ended December 31, 2008, 2007 and 2006, respectively, and are included in operating expenses.

Amounts loaned to the ESOP by Pacific Life were included in unearned ESOP shares. The unearned ESOP shares account was reduced as ESOP shares were released for allocation to participants through ESOP contributions by Pacific Life. In addition, when the fair value of ESOP shares being released for allocation to participants was different from the original issue price of those shares, the difference was recorded in paid-in capital.

POSTRETIREMENT BENEFITS

Pacific Life provides a defined benefit health care plan and a defined benefit life insurance plan (the Plans) that provide postretirement benefits for all eligible retirees and their dependents. Generally, qualified employees may become eligible for these benefits if they have reached normal retirement age, have been covered under Pacific Life's policy as an active employee for a minimum continuous period prior to the date retired, and have an employment date before January 1, 1990. The Plans contain cost-sharing features such as deductibles and coinsurance, and require retirees to make contributions, which can be adjusted annually. Pacific Life's commitment to qualified employees who retire after April 1, 1994 is limited to specific dollar amounts. Pacific Life reserves the right to modify or terminate the Plans at any time. As in the past, the general policy is to fund these benefits on a pay-as-you-go basis.

The net periodic postretirement benefit cost for each of the years ended December 31, 2008, 2007 and 2006 was $1 million. As of December 31, 2008 and 2007, the accumulated benefit obligation was $18 million. The fair value of the plan assets as of December 31, 2008 and 2007 was zero.

The adjustment related to postretirement benefits to reflect the adoption of SFAS No. 158 resulted in an increase in AOCI of $2 million, pre-tax, as of December 31, 2007.

The discount rate used in determining the accumulated postretirement benefit obligation was 6.35% and 6.25% for 2008 and 2007, respectively.

Benefit payments for the year ended December 31, 2008 amounted to $3 million. The expected benefit payments are as follows for the years ending December 31 *(In Millions)*:

2009	2010	2011	2012	2013	2014-2018
$3	$4	$4	$4	$4	$22

OTHER PLANS

The Company has deferred compensation plans that permit eligible employees to defer portions of their compensation and earn interest on the deferred amounts. The interest rate is determined annually. The compensation that has been deferred has been accrued and the primary expense related to this plan, other than compensation, is interest on the deferred amounts. The Company also has performance-based incentive compensation plans for its employees.

17. INCOME TAXES

The provision (benefit) for income taxes is as follows:

	Years Ended December 31,		
	2008	2007	2006
	(In Millions)		
Current	$229	$97	$149
Deferred	(592)	1	49
Provision (benefit) for income taxes from continuing operations	(363)	98	198
Provision (benefit) for income taxes on discontinued operations	(3)	18	(2)
Total	($366)	$116	$196

A reconciliation of the provision (benefit) for income taxes from continuing operations based on the Federal corporate statutory tax rate of 35% to the provision (benefit) for income taxes from continuing operations reflected in the consolidated financial statements is as follows:

	Years Ended December 31,		
	2008	2007	2006
	(In Millions)		
Provision (benefit) for income taxes at the statutory rate	($247)	$253	$282
Separate account dividends received deduction	(107)	(103)	(43)
Low income housing and foreign tax credits	(31)	(33)	(34)
Other	22	(19)	(7)
Provision (benefit) for income taxes from continuing operations	($363)	$98	$198

Upon adoption of FIN 48 on January 1, 2007 (Note 1), the Company had unrecognized tax benefits of $32 million, which relate entirely to an uncertain tax position regarding refund claims for the impact of short-term capital gains on computing dividends received deductions relating to the Company's separate accounts (DRD). A reconciliation of the changes in the unrecognized tax benefits is as follows (*In Millions*):

Balance at January 1, 2007	$32
Additions and deletions	-
Balance at December 31, 2007	32
Additions and deletions	402
Balance at December 31, 2008	$434

Depending on the outcome of Internal Revenue Service (IRS) appeals proceedings, approximately $7 million of the unrecognized DRD tax benefits may be realized during the next twelve months. All realized tax benefits and related interest will be recorded as a discrete item that will impact the effective tax rate in the accounting period in which the uncertain DRD tax position is ultimately settled.

During 2008, the Company's FIN 48 tax contingency increased by $402 million for a tax position for which there is uncertainty about the timing, but not the deductibility, of certain tax deductions. Since the benefits of the tax position will be claimed on an amended return, the Company will not receive cash until the claim is audited and approved by the taxing authority and therefore will not accrue interest or penalties. Due to the nature of deferred tax accounting, the tax position will not have an impact on the annual effective tax rate.

During the year ended December 31, 2007, the Company paid an immaterial amount of interest and penalties to state tax authorities.

The net deferred tax asset (liability), included in other assets and other liabilities as of December 31, 2008 and 2007, respectively, is comprised of the following tax effected temporary differences:

	December 31,	
	2008	2007
	(In Millions)	
Deferred tax assets:		
Policyholder reserves	$1,274	$894
Investment valuation	271	133
Tax credit carryforward	122	
Deferred compensation	42	49
Tax net operating loss carryforward	15	
Dividends to policyholders	8	7
Interest in PIMCO		41
Other	16	
Total deferred tax assets	$1,748	$1,124
Deferred tax liabilities:		
DAC	(1,222)	(1,187)
Reinsurance	(74)	(51)
Partnership income	(51)	(53)
Retirement benefits	(18)	(19)
Hedging	(14)	(65)
Depreciation	(11)	(9)
Other	(42)	(16)
Total deferred tax liabilities	(1,432)	(1,400)
Net deferred tax asset (liability) from continuing operations	316	(276)
Unrealized (gain) loss on derivatives and securities available for sale	876	(102)
Unrealized (gain) loss on interest in PIMCO and other security	8	(43)
Deferred taxes on cumulative changes in accounting principles	27	27
Minimum pension liability and other adjustments	8	1
Net deferred tax asset (liability)	$1,235	($393)

The tax net operating loss carryforward relates to Federal tax losses incurred in 2008 with a 15-year carryforward.

SFAS No. 109, *Accounting for Income Taxes,* requires the reduction of deferred tax assets by a valuation allowance if, based on the weight of available evidence, it is more likely than not that a portion or all of the deferred tax assets will not be realized. Based on management's assessment, it is more likely than not that deferred tax assets will be realized through future taxable earnings.

The Company files income tax returns in U.S. Federal and various state jurisdictions and have tax years open by statute, or valid extension thereof, for tax years after 1997. The Company is under continuous audit by the IRS and is audited periodically by some state taxing authorities. The IRS and state taxing authorities have completed audits of the Company's tax returns through the tax years ended December 31, 2003 and are currently auditing the tax years ended December 31, 2005 and 2004. The Company does not expect the Federal and state audits to result in any material assessments.

18. SEGMENT INFORMATION

The Company has three operating segments: Life Insurance, Investment Management, and Annuities & Mutual Funds. These segments are managed separately and have been identified based on differences in products and services offered. All other activity is included in the Corporate and Other segment.

The Life Insurance segment offers UL, VUL and other life insurance products to individuals, small businesses and corporations through a network of distribution channels that include regional life offices, sales centers, marketing organizations, wirehouse broker-dealer firms and a national producer group that has produced over 20% of the segment's in force business.

The Investment Management segment offers investment and annuity products to pension fund sponsors and other institutional investors primarily through its home office marketing team and other intermediaries.

The Annuities & Mutual Funds segment offers variable annuities, fixed annuities and mutual funds to individuals and small businesses through independent financial planning firms, regional and national wirehouses, and financial institutions.

The Corporate and Other segment primarily includes investment income, expenses and assets not attributable to the operating segments, and the operations of certain subsidiaries that do not qualify as operating segments. The Corporate and Other segment also includes the interest in PIMCO and the elimination of intersegment transactions. Discontinued operations (Note 6) are also included in the Corporate and Other segment.

The Company uses the same accounting policies and procedures to measure segment net income and assets as it uses to measure its consolidated net income and assets. Net investment income and net realized investment gain (loss) are allocated based on invested assets purchased and held as is required for transacting the business of that segment. Overhead expenses are allocated based on services provided. Interest expense is allocated based on the short-term borrowing needs of the segment and is included in net investment income. The provision (benefit) for income taxes is allocated based on each segment's actual tax provision (benefit).

The operating segments are allocated equity based on formulas determined by management and receive a fixed interest rate of return on interdivision debentures supporting the allocated equity. The debenture amount is reflected as investment expense in net investment income in the Corporate and Other segment and as investment income in the operating segments.

The Company generates substantially all of its revenues and net income from customers located in the U.S. As of December 31, 2008 and 2007, the Company had foreign investments with an estimated fair value of $5.8 billion and $6.8 billion, respectively.

The following is segment information as of and for the year ended December 31, 2008:

	Life Insurance	Investment Management	Annuities & Mutual Funds	Corporate and Other	Total
			(In Millions)		
REVENUES					
Policy fees and insurance premiums	$943	$363	$691		$1,997
Net investment income	855	876	178	$88	1,997
Net realized investment loss	(45)	(347)	(798)	(137)	(1,327)
Realized investment gain on interest in PIMCO				109	109
Investment advisory fees	22		233		255
Other income	11		117	1	129
Total revenues	1,786	892	421	61	3,160
BENEFITS AND EXPENSES					
Interest credited	661	440	133		1,234
Policy benefits	372	684	150		1,206
Commission expenses	268	18	429		715
Operating expenses	263	34	317	98	712
Total benefits and expenses	1,564	1,176	1,029	98	3,867
Income (loss) from continuing operations before provision (benefit) for income taxes	222	(284)	(608)	(37)	(707)
Provision (benefit) for income taxes	61	(103)	(329)	8	(363)
Income (loss) from continuing operations	161	(181)	(279)	(45)	(344)
Minority interest				11	11
Discontinued operations, net of taxes				(6)	(6)
Net income (loss)	$161	($181)	($279)	($40)	($339)
Total assets	$26,695	$15,155	$45,285	$2,527	$89,662
DAC	2,118	64	2,830		5,012
Separate account assets	4,525	284	36,696		41,505
Policyholder and contract liabilities	20,786	14,099	7,626		42,511
Separate account liabilities	4,525	284	36,696		41,505

The following is segment information as of and for the year ended December 31, 2007:

	Life Insurance	Investment Management	Annuities & Mutual Funds	Corporate and Other	Total
			(In Millions)		
REVENUES					
Policy fees and insurance premiums	$777	$224	$779		$1,780
Net investment income	803	905	186	$220	2,114
Net realized investment gain (loss)	1	20	(99)	32	(46)
Investment advisory fees	29		298		327
Other income	9		84	5	98
Total revenues	1,619	1,149	1,248	257	4,273
BENEFITS AND EXPENSES					
Interest credited	618	504	144		1,266
Policy benefits	308	535	12		855
Commission expenses	209	11	470		690
Operating expenses	252	34	346	108	740
Total benefits and expenses	1,387	1,084	972	108	3,551
Income from continuing operations before provision for income taxes	232	65	276	149	722
Provision (benefit) for income taxes	58	12	(6)	34	98
Income from continuing operations	174	53	282	115	624
Minority interest				(36)	(36)
Discontinued operations, net of taxes				11	11
Net income	$174	$53	$282	$90	$599
Total assets	$27,969	$16,163	$57,322	$3,049	$104,503
DAC	1,813	70	2,598		4,481
Separate account assets	6,529	333	50,743		57,605
Policyholder and contract liabilities	19,535	14,574	3,933		38,042
Separate account liabilities	6,529	333	50,743		57,605

The following is segment information for the year ended December 31, 2006:

	Life Insurance	Investment Management	Annuities & Mutual Funds	Corporate and Other	Total
REVENUES			(In Millions)		
Policy fees and insurance premiums	$722	$206	$610		$1,538
Net investment income	777	861	204	$200	2,042
Net realized investment gain (loss)	(6)	23	29	16	62
Realized investment gain on interest in PIMCO				32	32
Investment advisory fees	32		287		319
Other income	4	16	15	12	47
Total revenues	1,529	1,106	1,145	260	4,040
BENEFITS AND EXPENSES					
Interest credited	588	478	153		1,219
Policy benefits	280	468	32		780
Commission expenses	189	11	406		606
Operating expenses	234	25	261	110	630
Total benefits and expenses	1,291	982	852	110	3,235
Income from continuing operations before provision for income taxes	238	124	293	150	805
Provision for income taxes	60	32	58	48	198
Income from continuing operations	178	92	235	102	607
Minority interest				(13)	(13)
Discontinued operations, net of taxes				(4)	(4)
Net income	$178	$92	$235	$85	$590

19. TRANSACTIONS WITH AFFILIATES

PLFA serves as the investment adviser for the Pacific Select Fund, an investment vehicle provided to the Company's variable life insurance policyholders and variable annuity contract owners, and the Pacific Life Funds, the investment vehicle for the Company's mutual fund products. Prior to May 1, 2007, Pacific Life served in this capacity. Investment advisory and other fees are based primarily upon the net asset value of the underlying portfolios. These fees, included in investment advisory fees and other income, amounted to $287 million, $337 million and $316 million for the years ended December 31, 2008, 2007 and 2006, respectively. In addition, Pacific Life provides certain support services to the Pacific Select Fund, the Pacific Life Funds and other affiliates based on an allocation of actual costs. These fees amounted to $9 million, $8 million and $7 million for the years ended December 31, 2008, 2007 and 2006, respectively.

In addition, effective May 1, 2007, a service plan adopted by the Pacific Select Fund went into effect whereby the fund pays PSD, as distributor of the fund, a service fee in connection with services rendered or procured to or for shareholders of the fund or their variable contract owners. These services may include, but are not limited to, payment of compensation to broker-dealers, including PSD itself, and other financial institutions and organizations, which assist in providing any of the services. For the year ended December 31, 2008, PSD received $100 million in service fees from the Pacific Select Fund, which are recorded in other income. For the period May 1, 2007 through December 31, 2007, PSD received $74 million in service fees from the Pacific Select Fund, which are also recorded in other income. The service fees were allocated to the operating segments, primarily the Annuities & Mutual Funds segment (Note 18).

In April 2006, Pacific Life made a $16 million non-cash dividend to Pacific LifeCorp, consisting of a real estate investment, which resulted in a gain of $9 million for Pacific Life.

As discussed in Note 15, no lapse guarantee benefit riders are coinsured with PAR Bermuda and PAR Vermont.

20. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

The Company has outstanding commitments to make investments primarily in fixed maturity securities, mortgage loans, limited partnerships and other investments, as follows *(In Millions)*:

Years Ending December 31:	
2009	$1,148
2010 through 2013	841
2014 and thereafter	193
Total	$2,182

The Company leases office facilities under various noncancelable operating leases. Rent expense, which is included in operating expenses, in connection with these leases was $9 million, $12 million and $11 million for the years ended December 31, 2008, 2007 and 2006, respectively. In connection with the group insurance transaction (Note 6), PL&A is contingently liable until September 2009 for certain future rent and expense obligations, not to exceed $16 million, related to an office lease that has been assigned to the buyer. Aggregate minimum future commitments are as follows *(In Millions)*:

Years Ending December 31:	
2009	$6
2010 through 2013	19
2014 and thereafter	1
Total	$26

CONTINGENCIES - LITIGATION

During the year ended December 31, 2007, Pacific Life settled a national class action lawsuit, Cooper v. Pacific Life, for a combination of cash distributions and contract credits to owners of qualified annuity contracts who purchased their contracts between August 19, 1998, and April 30, 2002, or paid premium payments during that time period. Pacific Life strongly disagreed with the claims in the lawsuit. The settlement is not considered an admission or concession with respect to any claims made in the lawsuit and did not have a material adverse effect on the Company's consolidated financial position. Distributions were made to eligible class members in the first quarter of 2008 in accordance with the terms of the settlement agreement.

The Company is a respondent in a number of other legal proceedings, some of which involve allegations for extra-contractual damages. Although the Company is confident of its position in these matters, success is not a certainty and it is possible that in any case a judge or jury could rule against the Company. In the opinion of management, the outcome of such proceedings is not likely to have a material adverse effect on the Company's consolidated financial position. The Company believes adequate provision has been made in its consolidated financial statements for all probable and estimable losses for litigation claims against the Company.

CONTINGENCIES - IRS REVENUE RULING

On August 16, 2007, the IRS issued Revenue Ruling 2007-54, which provided the IRS' interpretation of tax law regarding the computation of the Company's DRD. On September 25, 2007, the IRS issued Revenue Ruling 2007-61, which suspended Revenue Ruling 2007-54 and indicated the IRS would address the proper interpretation of tax law in a regulation project that has been added to the IRS' priority guidance plan. If, after public notice and comment, the IRS regulation project ultimately adopts the

IRS' interpretation contained in Revenue Ruling 2007-54, the Company could lose a substantial amount of DRD tax benefits, which could have a material adverse effect on the Company's consolidated financial statements.

CONTINGENCIES - OTHER

In connection with the sale of certain broker-dealer subsidiaries (Note 6), certain indemnifications triggered by breaches of representations, warranties or covenants were provided by the Company. Also, included in the indemnifications is indemnification for certain third-party claims arising from the normal operation of these broker-dealers prior to the closing and within the nine month period following the sale. Management believes that its exposure to loss, if any, is not likely to have a material adverse effect on the Company's consolidated financial statements.

In the course of its business, the Company provides certain indemnifications related to other dispositions, acquisitions, investments, lease agreements or other transactions that are triggered by, among other things, breaches of representations, warranties or covenants provided by the Company. These obligations are typically subject to time limitations that vary in duration, including contractual limitations and those that arise by operation of law, such as applicable statutes of limitation. Because the amounts of these types of indemnifications often are not explicitly stated, the overall maximum amount of the obligation under such indemnifications cannot be reasonably estimated. The Company has not historically made material payments for these types of indemnifications. The estimated maximum potential amount of future payments under these obligations is not determinable due to the lack of a stated maximum liability for certain matters, and therefore, no related liability has been recorded. Management believes that judgments, if any, against the Company related to such matters are not likely to have a material adverse effect on the Company's consolidated financial statements.

Most of the jurisdictions in which the Company is admitted to transact business require life insurance companies to participate in guaranty associations, which are organized to pay contractual benefits owed pursuant to insurance policies issued by insolvent life insurance companies. These associations levy assessments, up to prescribed limits, on all member companies in a particular state based on the proportionate share of premiums written by member companies in the lines of business in which the insolvent insurer operated. The Company has not received notification of any insolvency that is expected to result in a material guaranty fund assessment.

In relation to an asset securitization sponsored by Aviation Capital Group Corp., a wholly owned subsidiary of Pacific LifeCorp, Pacific Life is contingently obligated to purchase certain notes from the asset securitization trust to cover shortfalls in amounts due to the holders of the notes, up to certain levels as specified under the related agreements. As of December 31, 2007, the maximum potential amount of this future investment commitment was $50 million.

In connection with the operations of certain subsidiaries, Pacific Life has made commitments to provide for additional capital funding as may be required.

See Note 9 for discussion of contingencies related to derivative instruments.

See Note 17 for discussion of other contingencies related to income taxes.