

PACIFIC LIFE 2008 Annual Report

Strength for Generations





PACIFIC MUTUAL



PACIFIC LIFE



**PACIFIC LIFE
& ANNUITY COMPANY**

Pacific Mutual Holding Company

Pacific Mutual Holding Company (Pacific Mutual) is the parent company of Pacific LifeCorp, which is the parent company of Pacific Life Insurance Company. Policyholders and contract holders of Pacific Life Insurance Company are members of Pacific Mutual and, as such, are able to attend an annual meeting of Pacific Mutual and to elect its board of directors. Through its direct and indirect subsidiaries, Pacific Mutual is engaged in a wide variety of insurance, financial services, and other investment-related businesses.

Pacific Life Insurance Company

Offering insurance since 1868, Pacific Life Insurance Company provides a wide range of life insurance products, annuities, and mutual funds, and offers a variety of investment products and services to individuals, businesses, and pension plans. With more than half of the 100 largest U.S. companies as its clients,¹ Pacific Life is also a member of the Insurance Marketplace Standards Association (IMSA), whose membership promotes high ethical standards for the sale of individual life insurance and annuities.

Pacific Life & Annuity Company

Pacific Life & Annuity Company offers a wide range of products, including life insurance, annuities, structured settlement annuities, and other investment products and services for individuals and businesses.

For current ratings, visit us online at www.PacificLife.com/ratings and www.PacificLifeandAnnuity.com/ratings.

Pacific Life Insurance Company, a subsidiary of Pacific Mutual Holding Company, is licensed in all states except New York. In New York, individual life insurance and annuity products are available through Pacific Life & Annuity Company, a subsidiary of Pacific Life Insurance Company.

¹ Client count data compiled by Pacific Life using the FORTUNE 500® list as of April 2008.

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Product availability and features vary by state. Insurance product and rider guarantees are backed by the financial strength and claims-paying ability of the issuing company and do not protect the value of the variable investment options. Each company is solely responsible for the financial obligations accruing under the policies it issues.

Variable products are issued by Pacific Life Insurance Company and Pacific Life & Annuity Company. Mutual funds are offered by Pacific Life Funds. These products are distributed by **Pacific Select Distributors, Inc.** (member FINRA & SIPC), a subsidiary of Pacific Life Insurance Company and an affiliate of Pacific Life & Annuity Company, and are available through licensed third-party broker-dealers.

Pacific Mutual Holding Company

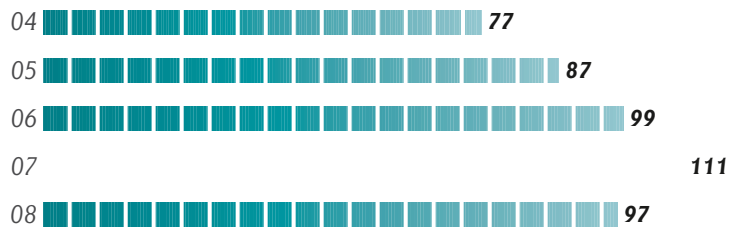
2008 Financial Summary

Dollars in Millions

December 31,	2008	2007
Company Assets	\$ 96,983	\$ 111,024
Policyholder & Other Liabilities	\$ 92,895	\$ 104,620
Equity ¹	\$ 5,876	\$ 6,263
Operating Revenues ²	\$ 5,252	\$ 5,077
Operating Income ³	\$ 534	\$ 654
Deposits ⁴	\$ 12,889	\$ 15,946

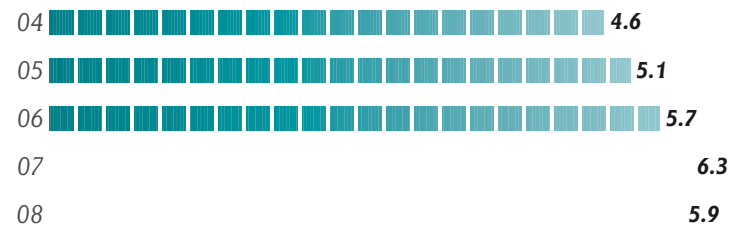
Company Assets

In Billions of Dollars



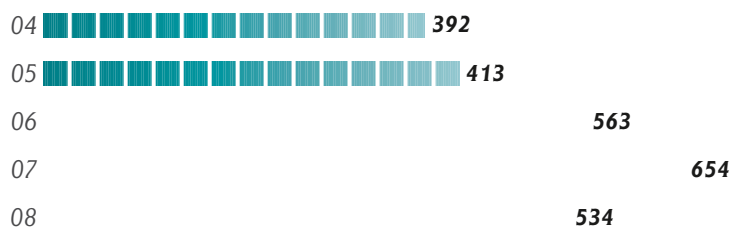
Equity¹

In Billions of Dollars



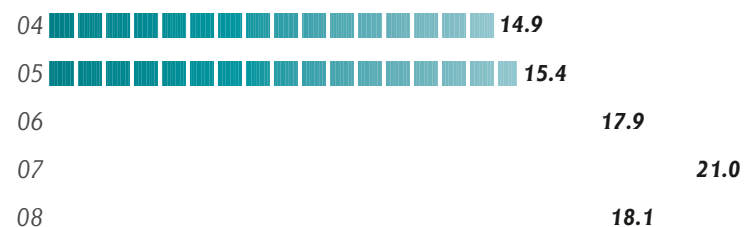
Operating Income³

In Millions of Dollars



Deposits⁴ & Operating Revenues²

In Billions of Dollars



¹ Excludes net unrealized gains/losses on derivatives and securities available for sale, and foreign currency translation adjustment.

² Excludes net realized investment gains/losses.

³ Excludes net realized investment gains/losses and discontinued operations.

⁴ Includes receipts from the following liabilities: universal life contracts, variable annuities, funding agreements, guaranteed interest contracts, and other deposits.

To Our Policyholders & Clients

We will long remember 2008 as a year when an unprecedented mortgage crisis created a credit crisis that challenged the nation's financial systems and led to a sharp drop in investor confidence in stocks and bonds alike. The Standard & Poor's 500 index finished the year down 37 percent — its worst year since 1931. The bond market, typically a source of stability for investors, was anything but stable.

Our investment portfolio is sound and diversified, but it does reflect the general economy and, as such, it lost value in 2008. The insurance industry's greatest investment concerns have been in two primary areas — residential mortgage-backed securities and exposure to financial companies — and I am comfortable with our position in both. Our exposure to subprime mortgages (the mortgages often cited as the root cause of the financial crisis) is at just over 1.1 percent of our investments, and our exposure to Alt-A mortgage securities — sometimes referred to as midprime — is approximately 2.1 percent of investments. Our exposure to the entire financial services industry is low at approximately 5 percent of investments. Still, these exposures caused losses for our company that are not typical of our annual results.

Our results were also adversely affected by the significant drop in equity markets, which led to losses in our variable annuity product line. That is an unusual result for us, as we earned more than \$910 million in net income during the preceding five years in that business. While the company as a whole generated a gain in operating income of \$534 million in 2008, overall net income for the company was a loss of \$289 million. The poor net income result is due to significant investment losses that are uncharacteristic for us and are a reflection of the most difficult financial environment in decades.



Our structure as a mutual holding company continues to serve us well in all environments, especially during financially volatile periods. With no publicly traded stock and no outside investors, Pacific Life is operated for the benefit of our policyholders and clients. We can and do operate with a long-term view in our business and investment strategies. This long-term view is what keeps our company strong and stable.

During the year, we added to the long-term reserves that back our life insurance and annuity businesses, so we continue to operate with significant reserves and capital to support the long-term guarantees and promises we make to our policyholders.

Business Operations

In 2008, we benefited from our longstanding reputation for quality and strength as many individuals reviewed their financial plans and increased insurance coverage. We set a company record with new life insurance sales of \$349 million, an increase of more than 19 percent over one year ago. Our variable annuity sales were down, which was the situation throughout the industry. Because of the volatile investment environment, many investors were cautious in their decision making. In the last half of the year, we had success with a fixed annuity product that will become a larger part of our future plans. Our sales of guaranteed investment contracts were at a record level of over \$1 billion as investors looked for guarantees within their retirement plans. And last, even in an extremely difficult operating environment, Aviation Capital Group, our aircraft leasing subsidiary, had its best year ever with more than \$81 million in net income.

Most of our businesses and products fared well in 2008. We are very proud of the quality of our product offerings, the customization of the services we provide, and the care and treatment we provide to existing clients across all of our businesses.

To Our Policyholders & Clients

“We promise to maintain a heightened awareness of what our policyholders and clients expect from Pacific Life, and a determination to provide products and services that meet the evolving needs of individuals and businesses.”

Transactions

In the third quarter of 2008, we purchased the international reinsurance operations of Scottish Re. This London and Singapore based business is an excellent strategic fit for us and provides geographic and business line diversification for our company. We welcome David Howell, CEO of the newly named Pacific Life Re, and the entire team to the Pacific Life family.

Earlier in the year, we exercised our final right to require that Allianz purchase our remaining interest in PIMCO. This generated net income of \$62 million. Pacific Life continues to enjoy a close business relationship with PIMCO.

Acknowledgments

Bill Robinson, executive vice president, Annuities & Mutual Funds Division, retired at the end of 2008. Bill was instrumental in the startup, growth, and maturation of our annuities business and also spearheaded our entry into the mutual funds business. We thank him for his significant contributions during his many years with Pacific Life.

Frank A. Bruni, a member of our board of directors for years, retired from the board in 2008. We appreciate his wisdom and considerable contributions to our board during his long tenure. J. Michael Shepherd was elected to the boards of Pacific Mutual Holding Company and Pacific LifeCorp in July 2008. Mr. Shepherd, president and CEO of Bank of the West, brings a breadth of valuable experience to our boards.



Looking Forward

The future is sure to bring more change for all. We promise to maintain a heightened awareness of what our policyholders and clients expect from Pacific Life, and a determination to provide products and services that meet the evolving needs of individuals and businesses. In times such as these, our customers will have significantly increased needs for retirement savings, business planning, and insurance and will be interested in sound solutions that help them meet their goals. Our proven solutions do just that — solutions based on the fundamentals of financial strength, a long-term view toward managing our businesses, and a philosophy of providing our existing clients with industry-leading services.

Our company is not measured by one single year, but by the long term. We are proud to have provided strength and reliability to our policyholders and clients for generation after generation. We appreciate the trust you have placed in us and look forward to being there in the years ahead for you, your family, and future generations.



James T. Morris

Chairman, President and Chief Executive Officer

Life Insurance Division

We work with financial and insurance professionals to give families and businesses the life insurance coverage needed to meet important financial protection, wealth accumulation, and wealth preservation goals. The financial future of our customers is important to us and we will continue to provide the diverse products, financial integrity, and outstanding service that have made us a trusted name in life insurance.



Strength for Generations – Our life insurance products have helped generations of Americans achieve their wealth preservation, estate planning, supplemental retirement income, and business continuation goals.

Life Insurance Division

Dollars in Millions

December 31,	2008	2007
Assets	\$ 26,729	\$ 27,992
Operating Revenues ¹	\$ 1,845	\$ 1,630

PRINCIPAL PRODUCTS

Universal life insurance
Variable universal life
Indexed universal life
Interest-sensitive whole life
Joint and last survivor life
Term life

DISTRIBUTION SYSTEMS

27 Regional and district offices
117 M Financial Group offices
12 Marketing organizations
849 Broker-dealer firms
50 Regional wirehouses
5 National wirehouses
105 Financial institutions

PRIMARY MARKETS

Individuals
Small businesses
Corporations

SENIOR MANAGEMENT

Michael A. Bell
Executive Vice President

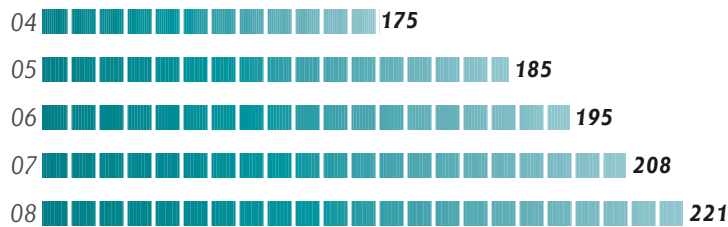
Martha Gates, ACS
Senior Vice President
Operations

Richard J. Schindler, CLU, FLMI
Senior Vice President and
Chief Marketing Officer

Individual Life Insurance In Force

Life Insurance Division

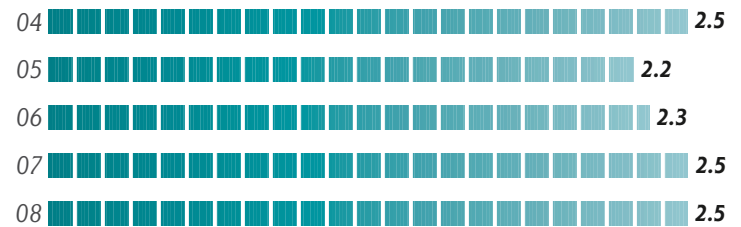
In Billions of Dollars



Direct Premium²

Life Insurance Division

In Billions of Dollars



2008 Highlights

- Achieved a record-breaking \$349 million in new life insurance sales, a 19 percent increase over the previous year, despite challenging economic times for our nation. Ranked second in the sales of variable universal life insurance as well as indexed universal life. Attained the number three sales ranking for both universal life and survivorship life. Ranked seventh for total life insurance sales.³
- Increased life insurance sales by an average of 6.3 percent over the last 10 years, while the industry averaged 3 percent.⁴
- Updated our entire product line with the new industry-mandated 2001 Commissioners Standard Ordinary Mortality Tables to reflect longer life expectancy.
- Launched our newest indexed universal life insurance product featuring three different accounts, each with a different level of risk and liquidity so clients can tailor the growth strategy of their policy's accumulated value. For clients seeking a higher upside potential on the rate credited to their policy, we offer a five-year indexed account that currently provides for unlimited growth potential while limiting the downside risk by providing a minimum annual guarantee.
- Offered a policy rider for variable universal life insurance clients seeking protection against prolonged market downturns.
- Enhanced Planned Performance Tracking, our industry-leading Web-based policy management system, to help financial and insurance professionals easily monitor and make recommendations on any adjustments needed for their clients' Pacific Life policies.

¹ Excludes net realized investment gains/losses.

² Statutory basis.

³ LIMRA International, *2008 Confidential Sales Survey of Participating Life Insurance Companies*. Sales rankings for Pacific Life are based on annualized new premium as measured against 78 participating companies. Percentage increases are based on recurring premium vs. 2007 year-end results.

⁴ LIMRA International, *U.S. Individual Life Insurance Trends, 1999–2008*, and the *U.S. Individual Life Insurance Sales Summary Report 2008*, based on annualized new premium. The industry average is a preliminary estimate based on data compiled from these reports. The 10-year average for Pacific Life is based on new annualized target premium.

Annuities & Mutual Funds Division

We help safeguard individuals and families from financial risks that can affect their investments, retirement savings, and businesses. Our strategy is to leverage our strengths in product development, technology, service, and risk management to create retirement solutions. With a range of annuities and mutual funds available, financial professionals can help their clients increase their assets and can provide retirement income for financial independence.



Strength for Generations – Building on our strengths and experience, we continue to offer innovative retirement products in a fluid marketplace.

Annuities & Mutual Funds Division

Dollars in Millions

December 31,	2008	2007
Assets	\$ 45,285	\$ 57,322
Operating Revenues ¹	\$ 1,219	\$ 1,347

PRINCIPAL PRODUCTS

Variable annuities
 Fixed annuities
 Mutual funds
 Small business 401(k) programs
 529 college savings plan²
 Individual(k) programs

DISTRIBUTION SYSTEMS

849 Broker-dealer firms
 50 Regional wirehouses
 5 National wirehouses
 105 Financial institutions

PRIMARY MARKETS

Individuals
 Small businesses

SENIOR MANAGEMENT

Dewey Bushaw
 Executive Vice President

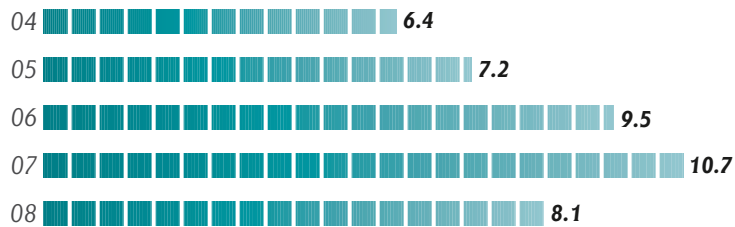
Adrian S. Griggs
 Senior Vice President
 Finance and Compliance

Chris van Mierlo
 Senior Vice President, Sales
 Chief Marketing Officer

Annuity Sales

Annuities & Mutual Funds Division

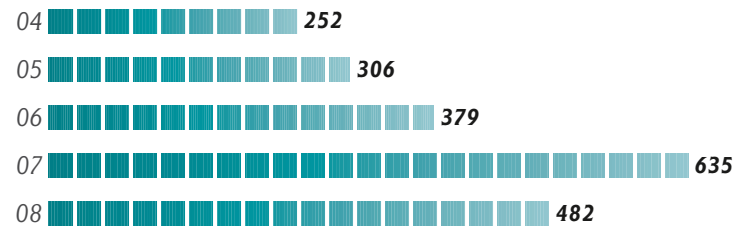
In Billions of Dollars



Mutual Fund Sales

Annuities & Mutual Funds Division

In Millions of Dollars



2008 Highlights

- Generated \$8.6 billion in annuity and mutual fund sales.
- Ranked 11th in the United States in variable annuity assets.³
- Ranked 10th in the United States based on new sales.³
- Introduced a new variable annuity that offers an immediate credit enhancement and optional guaranteed lifetime withdrawal benefits.
- Introduced additional asset allocation investment options, including best-in-class asset managers, and launched a custom model program that allows investors to create a portfolio which matches their objectives and risk tolerance.
- Continued to offer Portfolio Optimization, a sophisticated asset allocation service, to our variable annuity clients (at no additional charge) to help them meet their investment objectives. In 2008, the Portfolio Optimization service was selected by 84 percent of our variable annuity clients.
- Refocused our efforts on fixed annuities, a strategy that resulted in increasing sales of those products during the second half of 2008.

¹ Excludes net realized investment gains/losses.

² The Pacific Life Funds 529 College Savings Plan (MT) is approved and issued by the state of Montana and offered through the Montana Family Education Savings Program (MFESP). Neither the program nor the principal nor the return of the Pacific Life Funds 529 Plan is guaranteed or insured by any state, by Pacific Life Funds, by Pacific Life or its affiliates, or by College Savings Bank.

³ Source: Morningstar, Inc. *Variable Annuity Sales and Asset Survey*, Fourth Quarter 2008.

Investment Management Division

We offer high-quality investment and annuity products to institutional investors. In addition, our fixed income and private equity investment strategies provide diversification and attractive returns that support our products and benefit our policyholders.



Strength for Generations – As a strong and stable company, we provide investments to retirement plans and other lifetime income products that have benefited millions of Americans over many generations.

Investment Management Division

Dollars in Millions

December 31,	2008	2007
Assets	\$ 15,155	\$ 16,163
Operating Revenues ¹	\$ 1,239	\$ 1,129

PRINCIPAL PRODUCTS & SERVICES

Stable value products
Single premium group annuity contracts
Structured settlement annuities
Funding agreements
Fixed income investments
Private equity investments
High-yield and money market advisory services

DISTRIBUTION SYSTEMS

Home office staff
Stable value intermediaries
Benefit consulting firms
Structured settlement brokers
Investment and commercial banks

PRIMARY MARKETS

Stable value funds in defined contribution plans
Corporate pension plans
Public pension plans
Non-pension institutional investors

SENIOR MANAGEMENT

Mark W. Holmlund
Executive Vice President and Chief Investment Officer

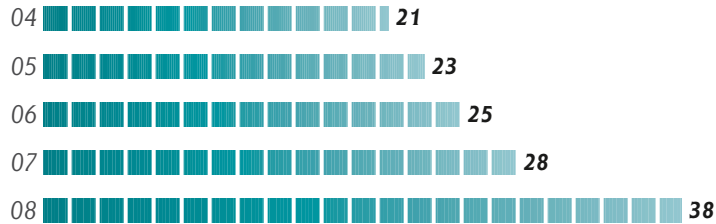
Joseph E. Celentano
Senior Vice President Product, Risk, Financial, and Information Management

Tod Nasser
Senior Vice President Portfolio Management

Managed & Wrapped Assets

Investment Products & Annuities

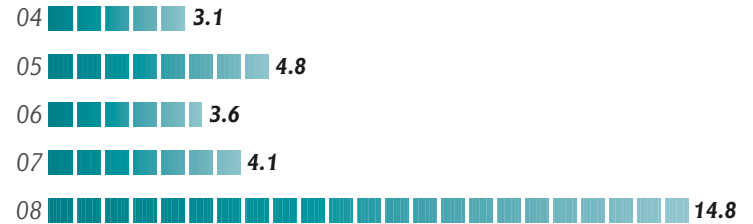
In Billions of Dollars



New Annualized Premiums & Deposits²

Investment Products & Annuities

In Billions of Dollars



2008 Highlights

- Achieved record sales in both our stable value and annuity product lines of business, a result of the division possessing diversified product offerings and access to a variety of markets.
- Exceeded a record \$1 billion in sales of traditional guaranteed income contracts (GICs).
- Achieved a record \$244 million in structured settlement annuity sales, up 59 percent over last year.
- Reached \$125 million in retirement annuity sales to defined benefit and defined contribution pension plans.
- Achieved a record \$12.5 billion in synthetic GIC sales.
- Pacific Asset Management,³ the division's third-party asset management arm, managed approximately \$2.5 billion in assets.
- Demonstrated strong performance in our private equity portfolio managed by our affiliate Montauk TriGuard, which closed its \$336 million Fund IV to continue its multi-niche secondary strategy.

¹ Excludes net realized investment gains/losses.

² Includes synthetic GICs.

³ Pacific Asset Management is a division of Pacific Life Fund Advisors LLC, an SEC registered investment advisor and wholly owned subsidiary of Pacific Life Insurance Company (Pacific Life). Investment professionals at Pacific Asset Management also have investment responsibilities at Pacific Life and manage assets within Pacific Life as well as assets within Pacific Asset Management.

Aviation Capital Group

Aviation Capital Group (ACG), a wholly owned subsidiary of Pacific LifeCorp, is engaged in the acquisition and leasing of new narrow-body commercial jet aircraft to airlines around the world. Our owned and managed portfolios currently include 233 aircraft leased to 92 airline customers in 40 countries. ACG also provides third-party fee-based aircraft asset management services and opportunistic investments in the global aviation industry. We are one of the top-tier aircraft operating lease companies in the world.



Strength for Generations – ACG continues to provide its airline customers with flexible operating leases and its institutional partners with strong results through good and challenging economic times.

Aviation Capital Group

Dollars in Millions

December 31,	2008	2007
Assets	\$ 5,400	\$ 5,319
Operating Revenues ¹	\$ 609	\$ 594

PRINCIPAL PRODUCTS & SERVICES

Commercial jet aircraft for lease to airlines worldwide
 Aircraft asset management for third-party financial institutions
 Aircraft and aviation-related joint venture investments

DISTRIBUTION SYSTEMS

In-house marketing and technical team provides global coverage for all aspects of our business

PRIMARY MARKETS

Commercial airlines
 Aircraft manufacturers
 Financial institutions
 Other aircraft and aviation-related companies

SENIOR MANAGEMENT

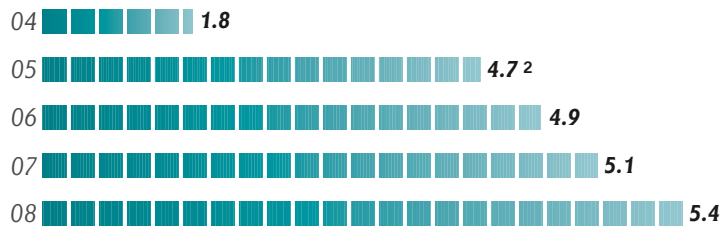
R. Stephen Hannahs
 Group Managing Director and Chief Executive Officer

Benjamin L. Jung
 Managing Director Administration and Chief Operating Officer

Aircraft Portfolio Assets

Aviation Capital Group

In Billions of Dollars



2008 Highlights

- Posted the 19th consecutive year of record operating revenues and net income.
- Increased operating lease revenues from \$535 million to \$571 million, a 7 percent increase compared with 2007.
- Achieved investment-grade rating reaffirmation in the fourth quarter.
- Placed an order with Airbus for future delivery of 23 A320 aircraft.
- Placed orders with Boeing for future delivery of 32 Next-Generation 737 aircraft.
- Added 12 new aircraft to our fleet.
- Sold seven aircraft from our managed investment portfolio and six aircraft from our fleet that no longer met our investment objectives.

¹ Excludes net realized investment gains/losses.

² Includes June 2005 Boullioun Aviation Services acquisition.

Real Estate Division

We help maintain the quality of Pacific Life's underlying assets by investing in high-quality commercial mortgage loans, commercial mortgage-backed securities (CMBS), real estate investment trust (REIT) debt, and equity real estate investments. Clients are offered speed, certainty of execution, and flexibility. We provide fixed-rate loans and variable floating rates at terms from one to 30 years, and we offer both construction and permanent loans.

SENIOR MANAGEMENT

Michael S. Robb, CRF, CRA
Executive Vice President



2008 Highlights

- Achieved superior commercial mortgage loan performance with zero loan delinquencies, defaults, and losses.
- Retained Standard & Poor's highest primary servicing rating of "Strong" and Fitch's high rating of "Commercial Primary Servicer 1."
- Increased the commercial mortgage loan portfolio assets by \$1 billion, to a total of \$5.6 billion.
- Continued strong performance in both our CMBS and REIT portfolios, with no realized losses.

PRINCIPAL PRODUCTS

Fixed-rate and floating-rate construction and permanent mortgage loans

Equity real estate properties and funds

Commercial mortgage-backed securities

REIT debt

DISTRIBUTION SYSTEMS

Home office staff

Regional field office system

Mortgage bankers and brokers

Investment and commercial bankers

PRIMARY MARKETS

All property types in the United States and Canada

Pacific Life Re

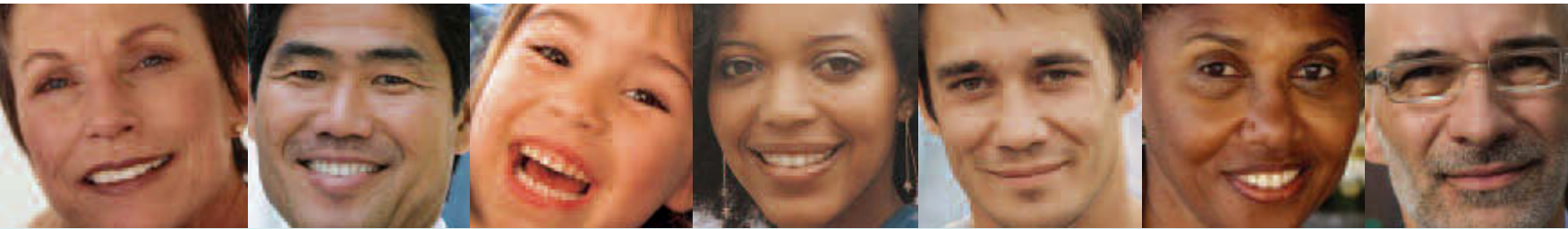
A wholly owned subsidiary of Pacific LifeCorp, Pacific Life Re is a specialist life reinsurer. The operation is the newest addition to the Pacific Life family, having been acquired in July 2008. Headquartered in London, we also have a branch office in Singapore and a representative office in Tokyo. We specialize in risk and capital management of life assurance, critical illness, income protection, and annuity business, offering a comprehensive range of reinsurance products and services to insurance companies in the United Kingdom, Ireland, and selected markets in Asia.

SENIOR MANAGEMENT

David R. Howell, FSA
Chief Executive Officer

David G. Heeney, FIA
Chief Marketing Officer

Duncan Hayward, ACA
Chief Financial Officer



2008 Highlights

- Generated earned premium income of \$128 million in 2008.¹
- Completed the successful transfer of existing business from all our major clients.
- Launched our new Web-based underwriting manual, *Ocean*, to clients in the United Kingdom and Asia.
- Completed a longevity-only reinsurance transaction for a significant portfolio of in-payment annuities in the United Kingdom.
- Helped a client in Malaysia to develop a new distribution channel.

PRINCIPAL PRODUCTS & SERVICES

Reinsurance of life, critical illness, and income protection business

Reinsurance of annuity and longevity risk

Associated reinsurance services and technical support

DISTRIBUTION SYSTEMS

In-house marketing to insurance companies

PRIMARY MARKETS

United Kingdom

Ireland

Selected markets in Asia

¹ Figures for the period prior to July 18, 2008 have been prepared on a pro forma basis. Pacific Life Re operated formerly as the International Segment of Scottish Re Group, and the results of its operations were reported within the consolidated financial statements of that company.

College Savings Bank

College Savings Bank, a wholly owned subsidiary of Pacific LifeCorp, is a New Jersey-chartered savings bank and member of the FDIC. The bank's primary products are certificates of deposit designed to help families save for future college costs through accounts eligible under section 529 of the Internal Revenue Code, Coverdell Education Savings accounts, and IRAs. Each product has a principal-protection focus, and deposits with College Savings Bank are insured by the FDIC. College Savings Bank is also the program manager for two state-sponsored section 529 programs.

SENIOR MANAGEMENT

Gilbert S. Johnson
President and
Chief Executive Officer

Dan Davenport
Chief Marketing Officer

Cheyenne Li
Chief Financial Officer



2008 Highlights

- Launched an equity-indexed certificate of deposit.
- Launched a series of fixed-rate CDs within the 529 plans.
- Increased new accounts by 85 percent.
- Increased total deposits by 16 percent.

PRINCIPAL PRODUCTS & SERVICES

529 college savings plans
Management for two state
529 programs
Variable and fixed-rate
certificates of deposit

DISTRIBUTION SYSTEMS

In-house marketing
Sales and service teams
National broker-dealers
Financial planners
Employers
Not-for-profit organizations
Trade associations
Retail financial institutions

PRIMARY MARKETS

Individuals

Deposits with College Savings Bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 (\$250,000 in 2009) for each depositor, subject to FDIC regulations.

The 529 plans are approved and issued by the state of Montana or the state of Arizona and are offered through the Montana Family Education Savings Program (MFESP) or the Arizona Family College Savings Program Trust Fund, respectively. The program, the principal, and the returns of the 529 plans are not insured by the state of Montana, the state of Arizona, or Pacific LifeCorp.

Pacific Asset Funding

Pacific Asset Funding provides customized trade finance solutions that deliver liquidity to corporate and financial institutions in the supply chain. We structure integrated logistics, trade finance, and credit risk management solutions focused on the commodity markets.

SENIOR MANAGEMENT

Robert G. Denhart
Managing Director

Thomas Degen
Sales Director



2008 Highlights

- Recorded fifth consecutive year of profitability.
- Increased operating revenues 4 percent to \$124 million.
- Grew fee income by 31 percent over last year.
- Increased gross margin by 14 percent over last year.
- Increased operating income 180 percent from prior year.

PRINCIPAL PRODUCTS & SERVICES

Structured trade finance facilities
Invoice discounting
Revolving credit facilities
Refinancing and refinancing of accounts receivable

DISTRIBUTION SYSTEMS

Direct sales by in-house marketing team
Representatives in Europe, Asia, and Latin America
Financial institutions worldwide

PRIMARY MARKETS

Global commodity trading companies
Manufacturers purchasing raw materials
International merchandisers

Investment Review



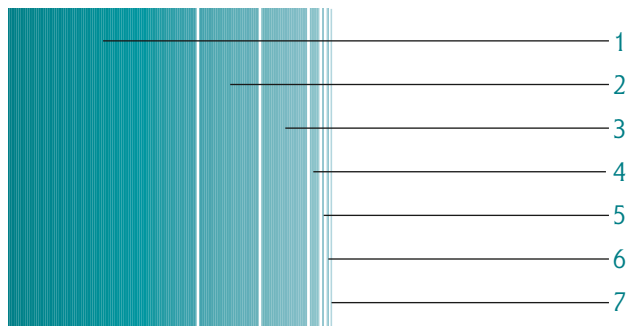
Distribution of Investments

To maintain the quality of Pacific Life's underlying assets, we primarily invest in high-quality securities, commercial mortgage loans, and equity real estate, and we closely monitor these investments. Pacific Life has a seasoned management team with experience in both positive and negative markets.

Distribution of Investments

Dollars in Millions December 31, 2008

1	Fixed Maturity Securities	\$ 22,604	60%
2	Policy Loans	6,920	19
3	Mortgage Loans	5,622	15
4	Other Investments	1,529	4
5	Real Estate	468	1
6	Equity Securities	219	1
7	Trading Securities	114	0
		\$ 37,476	100%



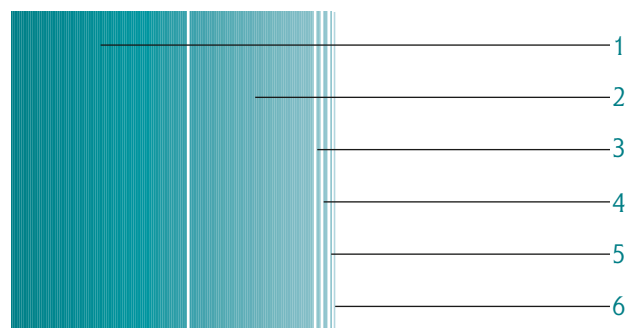
Quality of Investments

FIXED MATURITY SECURITIES The Securities Valuation Office of the National Association of Insurance Commissioners (NAIC) assigns quality ratings to fixed maturity securities held by insurance companies. Using the NAIC's designations for investment-grade fixed maturity securities (NAIC 1–2) and non-investment-grade fixed maturity securities (NAIC 3–6), Pacific Life's ratio of non-investment-grade fixed maturity securities to total investments was 3 percent at December 31, 2008.

Quality of Fixed Maturities

Dollars in Millions December 31, 2008

1	NAIC 1 - Highest Quality	\$ 12,678	56%
2	NAIC 2 - High Quality	8,767	39
	Investment-Grade	21,445	95
3	NAIC 3 - Medium Quality	812	3
4	NAIC 4 - Low Quality	160	1
5	NAIC 5 - Lower Quality	132	1
6	NAIC 6 - In or Near Default	55	0
	Non-Investment-Grade	1,159	5
		\$ 22,604	100%



Investment Review

MORTGAGE LOANS Pacific Life's mortgage loan portfolio continues to have excellent performance, continuing a trend of more than 11 years.

Quality of Mortgage Loans

Dollars in Millions December 31, 2008

1	Performing Mortgage Loans	\$ 5,622
2	Non-Performing Mortgage Loans	0
		\$ 5,622

REAL ESTATE Pacific Life's exposure to real estate is minimal, representing 1 percent of total investments. As of December 31, 2008, the total value of all real estate owned and actively managed by Pacific Life was \$468 million. Pacific Life owns \$171 million in company-occupied properties.

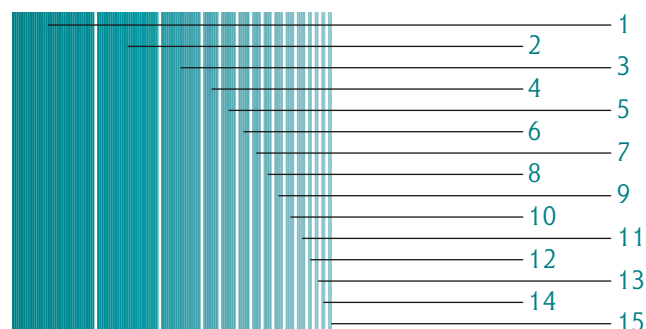
Diversification of Investments

FIXED MATURITY SECURITIES Pacific Life has a diversified investment portfolio that limits exposure to any single industry, issuer, or asset type. As a result, the risk of adverse events with any one credit having a material negative impact on the portfolio is small. Exposure limits are reviewed on a regular basis and modified as necessary by the Management Investment and Credit Committee. The committee is composed of Pacific Life senior management whose responsibilities include reviewing and monitoring investments to reflect changing market and economic conditions.

Fixed Maturity Securities

Dollars in Millions December 31, 2008

Mortgage-Backed:			
	Residential ¹	\$ 5,302	23%
	Commercial	1,103	5
1	Total Mortgage-Backed	6,405	28
2	Utilities	4,484	20
3	Manufacturing	2,880	13
4	Real Estate	1,413	6
5	Services	1,278	6
6	Retail & Wholesale Trade	871	4
7	Banking	773	3
8	Asset-Backed	670	3
9	Oil & Gas	664	3
10	U.S. & State Governments	642	3
11	Communication	631	3
12	Transportation	548	2
13	Diversified Financial	458	2
14	Foreign Government	331	2
15	Other	556	2
		\$ 22,604	100%



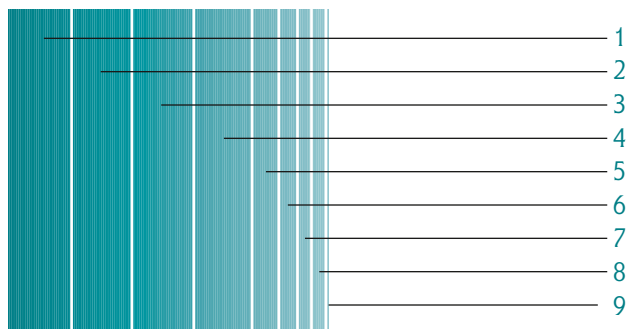
¹ Includes U.S. government agency issues of \$1,423 million.

MORTGAGE LOANS AND REAL ESTATE BY PROPERTY TYPE Pacific Life’s mortgage loan and real estate emphasis is on properties in high “barrier to entry” locations and regions exhibiting strong demographic and economic trends.

Mortgage Loans and Real Estate by Property Type

Dollars in Millions December 31, 2008

1	Resorts	\$ 1,296	21%
2	Office Buildings	1,286	21
3	Apartments	1,135	19
4	Hotels	1,123	18
5	Golf Courses	417	7
6	Industrial	375	6
7	Retail	240	4
8	Mobile Home Communities	174	3
9	Other	44	1
		\$ 6,090	100%

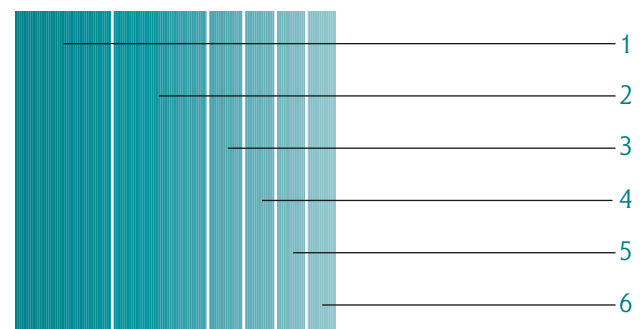


MORTGAGE LOANS AND REAL ESTATE BY GEOGRAPHIC REGION A major part of Pacific Life’s mortgage loan and real estate strategy is to focus on certain types of properties and to diversify holdings across different geographic regions. When looking at a particular region, high priority is given to the effects of demographic trends on the property types selected.

Mortgage Loans and Real Estate by Geographic Region

Dollars in Millions December 31, 2008

1	Atlantic	\$ 1,941	32%
2	Pacific	1,843	30
3	Mountain	732	12
4	North Central	583	10
5	Other	503	8
6	South Central	488	8
		\$ 6,090	100%



Investment Review

Investment Performance

Through effective asset management, Pacific Life has consistently generated strong returns that have not been earned at the expense of asset quality. Pacific Life has continued to maintain below-industry-average exposure to non-investment-grade bonds, subprime mortgage securities, and other high-risk asset classes. Through maintaining our disciplined approach to investing, even in tumultuous times, we have been able to add value and security for our clients.

Asset/Liability Management

Asset/liability management is the process through which Pacific Life ensures that the cash flows produced by its assets are sufficient to meet payments to policyholders and clients. Asset/liability management is also an important tool used to optimize returns while reducing earnings volatility. The asset/liability management process is implemented by structuring specific asset portfolios that possess the characteristics suitable for each principal line of business. Sophisticated modeling techniques performed under a wide variety of economic and financial scenarios confirm that our portfolios are appropriately constructed. The results of this modeling process enable us to make adjustments to our portfolios to dynamically manage the risk and return profile. The methods and procedures underlying our asset/liability management are discussed in detail with the major rating agencies during their annual reviews of our financial strength. Our models are constructed using state-of-the-art commercial analytic systems along with proprietary internally developed systems. We continually monitor developments in the field to maintain methods and systems that are leading-edge, allowing us to optimize strategic market opportunities.

Liquidity

Pacific Life's principal sources of funds come from new premiums, investment income, regular investment sales, maturities, and dividends or distributions from its subsidiaries. The principal uses of funds are primarily related to policyholder benefits, maturities of investment-type products, asset purchases, payment of policy acquisition costs, income taxes, and operating expenses. Remaining funds not used as noted above are generally used to increase the capital base and meet the need for future policy benefit payments and for writing new business.

Pacific Life closely monitors its liquidity profile. Pacific Life's principal source of liquidity to meet unexpected cash outflows is its portfolio of liquid assets, which include U.S. Treasury securities, short-term money market investments, and public bonds (including 144A securities). These assets, with a market value of approximately \$20 billion, provide ample liquidity. As a matter of policy, Pacific Life includes provisions that reduce the likelihood of withdrawal in many of its products. A substantial portion of its liabilities is not subject to surrender, or can be surrendered only after deduction of a charge or market value adjustment. Additionally, Pacific Life maintains a \$700 million commercial paper program and a \$400 million revolving credit facility to meet working capital requirements, and a secured line of credit with the Federal Home Loan Bank of Topeka. Management believes that these sources of liquidity are more than adequate to meet Pacific Life's cash obligations.



Directors

Mariann Byerwalter^{1,2}
Chairman
JDN Corporate Advisory, LLC

Sharon A. Cheever³
*Senior Vice President and
General Counsel*
Pacific Life Insurance Company

Dwight W. Decker¹
*Retired Chairman and
Chief Executive Officer*
Conexant Systems, Inc.

Richard M. Ferry¹
Founder Chairman
Korn/Ferry International

John Gottschalk^{1,2}
Chairman
Omaha World-Herald Company

Lawrence F. Harr³
Partner
Lamson, Dugan and Murray, LLP

Audrey L. Milfs³
Vice President and Secretary
Pacific Life Insurance Company

Jacqueline C. Morby^{1,2}
Senior Advisor
TA Associates, Inc.

James T. Morris^{1,2,3}
*Chairman, President and
Chief Executive Officer*
Pacific Life Insurance Company

J. Fernando Niebla²
President
International Technology Partners, LLC

Susan Westerberg Prager¹
*Executive Director,
Chief Executive Officer*
Association of American Law Schools
Professor of Law and Dean, Emeritus
UCLA School of Law

J. Michael Shepherd^{1,2}
*President and
Chief Executive Officer*
Bank of the West

Thomas C. Sutton^{1,2}
*Retired Chairman and
Chief Executive Officer*
Pacific Life Insurance Company

William S. Thompson²
Retired Chief Executive Officer
PIMCO

Khanh T. Tran³
*Executive Vice President and
Chief Financial Officer*
Pacific Life Insurance Company

James R. Ukropina^{1,2}
Chief Executive Officer
Directions, LLC

Dean A. Yoost²
Managing Partner (Retired)
PricewaterhouseCoopers

Corporate Senior Management

James T. Morris, FSA
*Chairman, President and
Chief Executive Officer*

Khanh T. Tran
*Executive Vice President and
Chief Financial Officer*

Anthony J. Bonno
*Senior Vice President
Human Resources and Facilities*

Mary Ann Brown, FSA
*Senior Vice President
Corporate Development*

Edward R. Byrd
*Senior Vice President and
Chief Accounting Officer*

Sharon A. Cheever
*Senior Vice President and
General Counsel*

Robert G. Haskell
*Senior Vice President
Public Affairs*

Henry M. McMillan, PhD, FSA
*Senior Vice President and
Chief Risk Officer*

Andrew Oleksiw
*Senior Vice President
Business Development*

Contact Information

PACIFIC LIFE INSURANCE COMPANY/ PACIFIC LIFE & ANNUITY COMPANY

P.O. Box 9000
Newport Beach, CA 92658-9030
(800) 800-7646 / (949) 219-3011
E-mail: Info@PacificLife.com
www.PacificLife.com
www.PacificLifeandAnnuity.com

Life Insurance Division
45 Enterprise
Aliso Viejo, CA 92656-2601
(800) 800-7681 / (949) 420-6000

Annuities & Mutual Funds Division
(800) 722-4448

Investment Management Division
(800) 800-7646, ext. 3718

Real Estate Division
(800) 800-7646, ext. 4763

PRINCIPAL SUBSIDIARIES

Aviation Capital Group Corp.
610 Newport Center Drive, Suite 1400
Newport Beach, CA 92660-6465
(949) 219-4600
www.AviationCapitalGroup.com

Pacific Life Re Limited
Tower Bridge House
St. Katherine's Way
London E1W 1BA
+44 (0)20 7709 1700
www.PacificLifeRe.com

College Savings Bank
5 Vaughn Drive, Suite 100
Princeton, NJ 08540-6313
(800) 888-2723 / (609) 987-3700
www.CollegeSavings.com

Pacific Asset Funding, LLC
(800) 800-7646 / (949) 219-6493
www.PacificAssetFunding.com

Pacific Asset Management
(800) 800-7646 / (949) 219-1656
www.PAM.PacificLife.com

Pacific Select Distributors, Inc.
(800) 800-7646 / (949) 219-3881

TO REQUEST A COPY of the Pacific Mutual Holding Company consolidated financial statements, please send an e-mail to PublicAffairs@PacificLife.com or call (800) 800-7646, ext. 5002. Those financial statements are also available on our Web site at www.PacificLife.com/financials.



