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, 2009 and 2008 and for the years ended December 31, 2009, 2008 and 2007 (the **"Audited GAAP Financial Statements"**).

Dated: April 29, 2010

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 $5,813 million in aggregate principal amount of instruments, of which $1,751 million aggregate principal amount remained outstanding as of December 31, 2009. PLF issued these instruments in a variety of currencies and with maturities that varied from one to 20 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 PLF 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 sell 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, 2009 prepared in conformity with GAAP. The information as of December 31, 2009 in this table is derived from the audited GAAP financial statements of PLF as of December 31, 2009 and 2008 and for the years ended December 31, 2009, 2008 and 2007.

	December 31, 2009
Debt:	
Short-term debt	–
Long-term debt	$1,751,425,632
Total Debt	1,751,425,632
Equity:	
Paid-in capital	1,000
Retained earnings	24,589
Accumulated other comprehensive income	–
Total Equity	25,589
Total capitalization	$1,751,451,221

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, 2009. In addition, other than as described herein, there have been no recent developments having a material effect on PLF or its business since December 31, 2009. As of the date of this Annual 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, 2010.

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 applicable law; and
- this report constitutes a review by PLF's management of the business and position of PLF during the year ended December 31, 2009, and contains a fair review of that period.

Dated: April 29, 2010

/s/ Martin Couch
Martin Couch
Director

/s/ Dianne Scott
Dianne Scott
Director

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.

Effective December 31, 2009, Pacific LifeCorp, Pacific Life's parent, contributed its 100% stock ownership of Aviation Capital Group Corp. (**"ACG"**) to Pacific Life. ACG is engaged in the acquisition and leasing of commercial jet aircraft. The Audited GAAP Financial Statements included in this Annual Report have been prepared by combining the previously separate financial statements of Pacific Life and ACG as if the two entities had been combined as of the beginning of 2007, the first period presented in the Audited GAAP Financial Statements. This retrospective treatment is prescribed by GAAP whenever a transfer between entities under common control is effected.

The selected consolidated GAAP financial information for the Company as of December 31, 2009 and 2008 (other than "life insurance in force" and "employees" included in "Other Data") and for the years ended December 31, 2009, 2008 and 2007 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, 2007 (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 and includes unaudited adjustments to give effect to the ACG transfer to Pacific Life, since the audited consolidated financial statements as of December 31, 2007 were not reissued for purposed of this Annual Report, and also reflect certain reclassifications for noncontrolling interest (previously referred to as minority interest). These reclassifications are due to new guidance to the Financial Accounting Standards Board (**"FASB"**) Accounting Standards Codification's (**"Codification"**) Consolidation Topic, which the Company adopted effective January 1, 2009.

Certain of the Company's broker-dealer operations are classified as discontinued. Discontinued broker-dealer 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 initially classified its broker-dealer subsidiaries, other than PSD, as held for sale. During 2007 and 2008, these broker-dealers were sold. For consistency, other financial data in this Annual Report also classify the broker-dealer operations as discontinued operations.

Consolidated Statement of Operations Data:	Years Ended December 31, 2009	2008	2007
		(in millions)	
Revenues:			
Policy fees and insurance premiums	$ 2,275	$ 1,997	$ 1,780
Net investment income	1,862	1,994	2,120
Net realized investment loss	(158)	(1,329)	(29)
Realized investment gain on interest in PIMCO	–	109	–
Investment advisory fees	208	255	327
Aircraft leasing revenue	578	571	535
Other income	137	167	147
Total revenues	4,902	3,764	4,880
Benefits and Expenses:			
Interest credited to policyholder account balances	1,253	1,234	1,266
Policy benefits paid or provided	1,226	1,206	855
Commission expenses	691	715	690
Operating and other expenses	1,246	1,178	1,235
Total benefits and expenses	4,416	4,333	4,046
Income (loss) from continuing operations before provision (benefit) for income taxes	486	(569)	834
Provision (benefit) for income taxes	44	(315)	129
Income (loss) from continuing operations	442	(254)	705
Noncontrolling interest	14	3	(38)
Discontinued operations, net of taxes[1]	(20)	(6)	11
Net income (loss)	$ 436	$ (257)	$ 678

[1] Discontinued operations primarily include the Company's broker-dealer operations. Discontinued broker-dealer operations do not include the operations of PSD. In March 2007, the Company initially classified its broker-dealer subsidiaries, other than PSD, as held for sale. During 2007 and 2008, these broker-dealers were sold. For consistency, other financial data in this Annual Report also classify the Company's broker-dealer operations as discontinued operations.

Consolidated Statement of Financial Condition Data:	December 31, 2009	2008	2007
		($ in millions)	
Assets:			
Investments	$ 41,410	$ 36,752	$ 40,417
Cash and cash equivalents	1,919	3,397	694
Restricted cash	221	227	234
Deferred policy acquisition costs	4,806	5,012	4,481
Aircraft leasing portfolio, net	5,304	4,999	4,655
Other assets	2,253	3,276	1,794
Separate account assets	52,564	41,505	57,605
Total assets	$108,477	$ 95,168	$109,880
Liabilities and Equity			
Liabilities:			
Policyholder account balances	$ 33,984	$ 32,670	$ 32,017
Future policy benefits	7,403	9,841	6,025
Short-term debt	105	150	100
Long-term debt	5,632	4,459	4,471
Other liabilities	1,872	1,863	2,418
Separate account liabilities	52,564	41,505	57,605
Total liabilities	101,560	90,488	102,636
Equity:			
Common stock	30	30	30
Paid-in capital	982	782	781
Retained earnings	6,037	5,426	6,028
Accumulated other comprehensive income (loss)	(363)	(1,802)	191
Total stockholder's equity	6,686	4,436	7,030
Noncontrolling interest	231	244	214
Total equity	6,917	4,680	7,244
Total liabilities and equity	$108,477	$ 95,168	$109,880
Other Data:			
Life insurance in force	$220,935	$220,822	$207,548
Employees:			
Continuing operations	2,592	2,892	2,755
Discontinued operation[1]	–	–	234
Total employees	2,592	2,892	2,989

(1) Discontinued operations primarily include the Company's broker-dealer operations. Discontinued broker-dealer operations do not include the operations of PSD. In March 2007, the Company initially classified its broker-dealer subsidiaries, other than PSD, as held for sale. During 2007 and 2008, these broker-dealers were sold. For consistency, other financial data in this Annual Report also classify the Company's broker-dealer operations as discontinued operations.

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 a Nebraska stock life insurance company that conducts business in the District of Columbia and every state except the State of New York. Pacific Life is a direct, wholly owned subsidiary of Pacific LifeCorp, a Delaware stock holding company. Pacific LifeCorp is a direct, wholly owned subsidiary of Pacific Mutual Holding Company (**"PMHC"**), a Nebraska mutual insurance holding company. PMHC and Pacific LifeCorp were created in 1997 when Pacific Life converted into a mutual insurance holding company structure. Under this mutual insurance holding company structure, certain owners of insurance policies and annuity contracts (other than funding agreements and certain other types of contracts) issued by Pacific Life are automatically members of PMHC. Members of PMHC have the right to elect the directors of PMHC, to vote on other matters coming to a vote of the members at annual and special meetings and to receive distributions of surplus in the event of the dissolution or liquidation of PMHC. Under Nebraska law and the applicable organizational and conversion documents, PMHC must at all times own at least 51% of the outstanding voting stock of Pacific LifeCorp, and Pacific LifeCorp must at all times own all of the voting stock of Pacific Life.

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.

On December 31, 2009, Pacific LifeCorp contributed its 100% stock ownership of ACG to Pacific Life. The Audited GAAP Financial Statements included in this Annual Report have been prepared by combining the previously separate financial statements of Pacific Life and ACG as if the two entities had been combined as of the beginning of 2007, the first period presented in the Audited GAAP Financial Statements. This retrospective treatment is prescribed by GAAP whenever a transfer between entities under common control is effected.

The Company's primary business operations include (1) providing life insurance products, individual annuities and mutual funds, (2) offering to individuals, businesses and pension plans a variety of investment products and services, and (3) acquiring and leasing commercial aircraft. As of December 31, 2009, 2008 and 2007, the Company had $108.5 billion, $95.2 billion and $109.9 billion, respectively, in total assets, and total stockholder's equity of $6.7 billion, $4.4 billion and $7.0 billion, respectively. Life insurance in force was $220.9 billion, $220.8 billion and $207.5 billion as of December 31, 2009, 2008 and 2007, respectively. Net income (loss) was $436 million for the year ended December 31, 2009 as compared to ($257) million for the year ended December 31, 2008 and $678 million for the year ended December 31, 2007.

The following discusses the Company's primary operating segments: Life Insurance, Investment Management, Annuities & Mutual Funds (**"A&MF"**), Aircraft Leasing and Corporate and Other, 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, corporate owned life insurance and traditional products such as whole life and term life. 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, 2009, 2008 and 2007, the Life Insurance segment represented 26%, 28% and 25% 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. The segment's principal products include traditional guaranteed interest contracts (**"GICs"**), synthetic GICs, funding agreement-backed notes issued to institutional investors via medium–term note programs or to the Federal Home Loan Bank (**"FHLB"**) of Topeka, as well as group retirement annuities sold to pension plans and structured settlement annuities issued in conjunction with personal injury awards. As of December 31, 2009, 2008 and 2007, the Investment Management segment represented 12%, 16% and 15% of the Company's total assets, respectively. Effective January 1, 2010, the Investment Management segment's insurance products, including institutional investment products, were moved into other segments of the Company. Structured settlement and retirement annuities were moved to the A&MF segment and the other institutional investment products became part of the Corporate and Other segment. Going forward, the Investment Management segment will focus its strengths on managing the Company's investment portfolio.

The A&MF segment offers variable and fixed annuity products and mutual funds through multiple distribution sources. Distribution channels include independent planners, financial institutions and national/regional wirehouses. As of December 31, 2009, 2008 and 2007, the A&MF segment represented 53%, 48% and 52% of the Company's total assets, respectively. Effective March 1, 2010, the A&MF segment was renamed the Retirement Solutions segment.

The Aircraft Leasing segment encompasses the operations of ACG. This segment focuses primarily on the commercial aircraft acquisition and operating lease market, while also providing brokerage and asset management services to other third parties. Prior to December 31, 2009, ACG was a wholly owned subsidiary of Pacific LifeCorp. On December 31, 2009, Pacific LifeCorp contributed its 100% stock ownership in ACG to Pacific Life. The Aircraft Leasing segment's portfolio included, as of December 31, 2009, 241 aircraft that were leased to various airline customers throughout the world. As of December 31, 2009, 2008 and 2007, the Aircraft Leasing segment represented 6%, 6% and 5% of the Company's total assets, respectively.

The Corporate and Other segment primarily includes investment income, expenses and assets not attributable to the operating segments, and other subsidiaries not included elsewhere.

Principal Subsidiaries and Affiliates

ACG, which was founded in 1989, comprises the Company's Aircraft Leasing segment. ACG's corporate offices are located in Newport Beach, California. ACG also maintains offices in metropolitan New York, Seattle, London (United Kingdom), Shanghai (China), Singapore, and Santiago (Chile). ACG's business is comprised of two basic components. The first component consists of long-term aviation investments in owned aircraft, which ACG offers to its clients worldwide under operating leases. The second component involves aircraft trading activities, brokerage services and third-party management advisory services. In March 2010, Pacific Life made a cash capital contribution of $350 million to ACG.

Pacific Life & Annuity Company (**"PL&A"**), a wholly owned subsidiary of Pacific Life, markets and distributes variable universal life, structured settlement annuities, GICs, and variable annuities. PL&A is licensed to sell certain of its products in the State of New York and currently sells variable universal life insurance, term life insurance, variable annuity products and institutional products and services in New York. Additionally, PL&A has been deemed to be commercially domiciled in the State of New York and subject to certain requirements under New York insurance law that do not otherwise apply to New York-licensed insurers domiciled outside New York.

PSD is a registered 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.

Effective January 1, 2006, PSD distributed its ownership interests in its subsidiaries, including five broker-dealer subsidiaries, and certain related activities to Pacific Life, which contributed them to Pacific Select Group LLC (**"PSG"**). During the second quarter of 2007, Pacific Life formed a new wholly owned subsidiary, Pacific Select LLC (**"Pacific Select"**), to which Pacific Life contributed its ownership in PSG. In March 2007, the Company classified its broker-dealer subsidiaries, other than PSD, as held for sale. During the years ended December 31, 2008 and 2007, these broker-dealers were sold for an insignificant pre-tax gain and a pre-tax gain of $53 million, respectively. The Pacific Select broker-dealers were determined to be a discontinued operation and have been classified as such in the Audited GAAP Financial Statements included in this Annual Report.

Pacific Asset Holding LLC (**"PAH"**), a wholly owned subsidiary of Pacific Life, holds certain other investments, primarily private equity and real estate holdings. Until recently, PAH also held the Company's remaining beneficial economic interest in Pacific Investment Management Company LLC (**"PIMCO"**).

As of December 31, 2007, the Company owned a beneficial economic interest in 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. 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 for $288 million and recognized a pre-tax gain of $109 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, including aircraft leasing revenue. 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, 2009 compared to the Year Ended December 31, 2008

Net income for the year ended December 31, 2009 was $436 million as compared to net loss of $257 million for the year ended December 31, 2008. The increase was primarily due to a decrease in net realized investment loss in 2009 of $1,171 million as compared to 2008. The primary reason for the decrease in net realized investment loss was an $806 million increase in the positive mark-to-market of certain embedded derivatives related to variable annuity guaranteed living benefits in the A&MF segment, net of hedges and policy fees, in 2009 compared to 2008. Also contributing to the decrease in net realized investment loss in 2009 were lower other than temporary impairments (**"OTTI"**) of $311 million in 2009 compared to $580 million in 2008. These changes were partially offset by a pre-tax realized investment gain of $109 million that was recorded in relation to the sale of the Company's interest in PIMCO during 2008.

Policy fees and insurance premiums in 2009 were $2,275 million compared to $1,997 million for 2008, an increase of 14%. 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 policy fee assessments. The Investment Management segment also recorded increases to insurance premiums from increases in retirement annuity sales and increases in structured settlement annuity sales. These increases were partially offset by total policy fees that decreased in the A&MF segment primarily from lower contract fees from lower average assets under management.

Net investment income decreased from $1,994 million in 2008 to $1,862 million in 2009, a decrease of 7%. The decrease in 2009 as compared to 2008 primarily related to lower returns from the private equity portfolios, lower returns on equity real estate funds and other partnership returns, and lower investment income from other investments.

Net realized investment loss for 2009 amounted to $158 million compared to $1,329 million for 2008, a decrease of $1,171 million. The primary reason for the decrease in net realized investment loss was an $806 million increase in the positive mark-to-market of certain embedded derivatives related to variable annuity guaranteed living benefits in the A&MF segment, net of hedges and policy fees, in 2009 compared to 2008. Also contributing to the decrease in net realized investment loss in 2009 were lower OTTI of $311 million in 2009 compared to $580 million in 2008.

Realized investment gain on the sale of the Company's interest in PIMCO amounted to $109 million for 2008. See "Principal Subsidiaries and Affiliates" above for a discussion of the Company's interest in PIMCO.

Investment advisory fees decreased $47 million, or 18%, to $208 million in 2009 as compared to $255 million in 2008. This decrease was primarily attributable to lower average assets under management in the separate accounts during 2009 as compared to 2008. This decrease in average separate account assets was primarily the result of the impact of a significant drop in the equity markets during the recent financial market turmoil. See "Assets" below for further discussion of the changes in separate account assets.

Aircraft leasing revenue increased $7 million to $578 million in 2009 as compared to $571 million in 2008. This increase of $7 million was primarily the result of aircraft purchased after January 1, 2008, which earned revenue during the entire 2009 year as compared to no or partial earned revenue for 2008. This was offset by decreases in certain lease rates due to periodic interest rate index-based adjustments.

Other income decreased $30 million, or 18%, to $137 million in 2009 as compared to $167 million in 2008. The decrease in other income was primarily related to a decrease in the fees earned by PSD in connection with the Pacific Select Fund service plan. These fees are asset-based fees that are calculated on separate account assets and decreased primarily due to lower average separate account assets during 2009 compared to 2008. See "Assets" below for further discussion of the changes in separate account assets and "Principal Subsidiaries and Affiliates" above for a discussion of PSD and the Pacific Select Fund service plan.

Interest credited to policyholder account balances increased slightly to $1,253 million for 2009 as compared to $1,234 million in 2008. This includes interest credited on the universal life and annuities products and on floating rate institutional investment products. This slight increase in interest credited to policyholder account balances was the result of an increase in policyholder account values in the Life Insurance segment and an increase in average fixed account balances in the A&MF segment. These increases were partially offset by a decrease in the Investment Management segment's institutional investment products from maturing funding agreements, which decrease was partially offset by lower gains on the repurchase of funding agreements in 2009 as compared to 2008.

Policy benefits paid or provided increased $20 million, or 2%, to $1,226 million for 2009 as compared to $1,206 million for 2008. This increase was mainly attributable to the Investment Management segment, which also experienced a corresponding increase in insurance premiums as described above. In addition, there was an increase in benefits in the A&MF segment due to higher death benefit payments. This increase was slightly offset by a decrease in benefits paid by the Life Insurance segment due to lower mortality.

Commission expenses decreased $24 million, or 3%, to $691 million for 2009 as compared to $715 million for 2008. 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 decrease in 2009 versus 2008 was due to lower DAC amortization of commission expenses in the A&MF segment, mostly offset by higher DAC amortization resulting from the annual unlocking process and model revisions in the Life Insurance segment for 2009 as compared to 2008.

Operating and other expenses for 2009 increased $68 million, or 6%, to $1,246 million as compared to $1,178 million in 2008. The Corporate and Other segment's operating expenses increased $73 million principally due to the termination of the Company's defined benefit pension plan and the payment of plan benefits to the participants, which occurred in the fourth quarter of 2009. Operating expenses include components of DAC; the amortization of DAC, which directly affects operating expenses, is dependent on various factors that affect future gross profits by business segment. For most products, DAC amortization represents a percentage of gross profits. In addition, the increase in operating expenses was due to increased DAC amortization from the Life Insurance segment partially offset by A&MF segment's lower DAC amortization and a general reduction of other operating expenses. Also included in operating and other expenses is interest expense that remained consistent in 2009 as compared to 2008. Interest expense in the Aircraft Leasing segment decreased $39 million as a result of a significant decrease in the interest rates on variable rate debt at ACG; however, such decreases were offset by increased interest expense of $38 million in the Corporate and Other segment due to the issuance of $1.0 billion of surplus notes in June 2009. See "Liquidity and Capital Resources" below for further discussion of the surplus note issuance.

The provision for income taxes was $44 million for 2009 as compared to a benefit for income taxes of $315 million for 2008. The taxes in 2009 and 2008 were lower than the statutory rate due to a tax settlement from the favorable resolution of an issue relating to the separate account dividends received deduction and accrued interest on net refunds due from the Internal Revenue Service for prior years.

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

Net income (loss) was ($257) million for 2008 as compared to $678 million for 2007. The net loss for 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 A&MF segment in 2008 compared to 2007. See the discussion of consolidated statement of operations line items below.

Policy fees and insurance premiums for 2008 were $1,997 million compared to $1,780 million for 2007, an increase of 12%. Policy 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 $2,120 million for 2007 to $1,994 million for 2008. The decrease in 2008 as compared to 2007 primarily related 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 2008 amounted to $1,329 million compared to $29 million for 2007. The increase in net realized investment loss was primarily related to $482 million higher OTTI charges 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 A&MF segment in 2008 compared to 2007. In connection with the significant disruption in the residential mortgage and credit markets in 2008, OTTI charges recorded during 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 Company's interest in PIMCO amounted to a pre-tax gain of $109 million for 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 2008 as compared to $327 million for 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 2007 also contributed to this decrease. See "Principal Subsidiaries and Affiliates" above for additional information.

Aircraft leasing revenue increased $36 million to $571 million for 2008 as compared to $535 million for 2007. This increase was primarily the result of favorable terms negotiated in fixed leases during 2008 and the growth in the number of aircraft in the portfolio, partially offset by a decrease in revenues from floating rate leases.

Other income was $167 million for 2008 as compared to $147 million for 2007. Other income was higher in 2008 as compared to 2007 due to fees earned by PSD in connection with the Pacific Select Fund service plan. See "Principal Subsidiaries and Affiliates" above for additional information about the Pacific Select Fund service plan.

Interest credited to policyholder account balances decreased to $1,234 million for 2008 as compared to $1,266 million for 2007. This slight decrease in interest credited to policyholder account balances was 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 interest credited to policyholder account balances by the Life Insurance segment due to a growth in account values.

Policy benefits paid or provided increased $351 million to $1,206 million for 2008 as compared to $855 million for 2007. The increase was primarily related to the sale of structured settlement annuities in the Investment Management segment, which is discussed above. The A&MF segment also had an increase of $138 million in this line item 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 2008 increased $25 million to $715 million compared to $690 million for 2007. The primary reason for the increase was higher amortization of DAC in the Life Insurance segment as a result of increased sales and the adverse impact of negative market returns in 2008. This increase was partially offset by the A&MF segment's lower trail commissions and a DAC benefit from embedded derivative losses.

Operating expenses for 2008 decreased by $57 million, or 5%, to $1,178 million from $1,235 million in 2007. The decrease was partially attributable to decreased interest expense resulting from lower interest rates on variable rate debt at ACG. In addition, the decrease was due to a settlement accrual recorded in 2007, partially offset by an increase in net DAC and other operating expenses in 2008.

The provision (benefit) for income taxes for 2008 was ($315) million as compared to $129 million for 2007. This decrease in tax expense was primarily due to lower taxable income realized by the Company in 2008. The taxes in 2008 and in 2007 were lower than the statutory rate primarily due to the separate account dividends received deduction and utilization of low income housing and foreign tax credits.

Assets

As of December 31, 2009, the Company had total assets of $108.5 billion as compared to $95.2 billion as of December 31, 2008. This increase in total assets was primarily attributable to the increase in separate account assets from $41.5 billion as of December 31, 2008 to $52.6 billion as of December 31, 2009, primarily due to positive returns in the equity markets between December 31, 2008 and December 31, 2009. Also contributing to the increase in total assets was an increase of $4.7 billion in total investments primarily due to increases in fixed maturity securities, mortgage loans and equity securities, partially offset by a decrease in policy loans and other investments. These increases in total assets were also partially offset by a decrease in cash and cash equivalents of $1.5 billion and a decrease in other assets of $1.0 billion due to decreases in net deferred tax assets and reinsurance receivables, which decreases were partially offset by increases in premium receivables. See the Audited GAAP Financial Statements included in this Annual Report for additional information on investments.

As of December 31, 2008, the Company had total assets of $95.2 billion as compared to $109.9 billion as of December 31, 2007. This decrease in total assets was primarily a result of the decrease in separate account assets from $57.6 billion as of December 31, 2007 to $41.5 billion as of December 31, 2008, primarily due to the significant decline in the equity markets in 2008. Total investments also decreased from $40.4 billion at December 31, 2007 to $36.8 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 disruption in the financial markets in 2008 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 $2.7 billion. See the Audited GAAP Financial Statements included in this Annual Report for additional information on investments.

Liabilities

As of December 31, 2009, the Company had total liabilities of $101.6 billion as compared to $90.5 billion as of December 31, 2008. This increase in total liabilities was primarily attributable to the increase in separate account liabilities from $41.5 billion as of December 31, 2008 to $52.6 billion as of December

31, 2009, primarily due to positive returns in the equity markets between December 31, 2008 and December 31, 2009. In addition, long-term debt increased $1.1 billion primarily due to the issuance of $1.0 billion of surplus notes in June 2009. See “Liquidity and Capital Resources” below for further discussion of the surplus note issuance. Total liabilities also increased as a result of a $1.3 billion increase to policyholder account balances. These increases were slightly offset by a $2.4 billion decrease in future policy benefits.

As of December 31, 2008, the Company had total liabilities of $90.5 billion as compared to $102.6 billion as of December 31, 2007. This decrease in total liabilities was primarily the result of a decrease in separate account liabilities from $57.6 billion at December 31, 2007 to $41.5 billion at December 31, 2008, consistent with the decrease in separate account assets described above. This decrease was partially offset by an increase to future policy benefits of $3.8 billion.

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, including aircraft leasing revenue. 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 decreased $1,478 million during 2009 as compared to an increase of $2,703 million during 2008. Total cash and cash equivalents decreased $747 million during 2007.

Net cash provided by operating activities was $2,410 million during 2009, $2,456 million during 2008 and $2,451 million in 2007. 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 flows from financing activities rather than as cash flows 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 ($5,334) million during 2009 and was $837 million in 2008 as compared to ($3,212) million during 2007. The increase in net cash used in investing activities in 2009 was due to increased purchases of fixed maturity and equity securities in 2009. 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. The Company also had fluctuations in payments for nonhedging derivative settlements and change in collateral received or pledged during 2009, 2008 and 2007. The increase from 2008 to 2009 in cash payments for nonhedging derivative settlements was due to instruments which are tied to the return of the S&P 500 Index. In 2009, on an aggregate basis, the Company returned cash collateral to counterparties due to a decrease in the net aggregate exposure resulting from a decrease in the derivative positions’ market value.

Net cash provided by (used in) financing activities was $1,446 million during 2009 and was ($590) million in 2008 as compared to $14 million during 2007. The increase in 2009 as compared to 2008 primarily related to the issuance by Pacific Life of an aggregate principal amount of $1.0 billion in surplus notes in June 2009 and a $200 million contribution from Pacific LifeCorp to Pacific Life in 2009 compared to a $345 million cash dividend paid by Pacific Life to Pacific LifeCorp in 2008. The decrease in 2008 as compared to 2007 was primarily due to the $345 million cash dividend paid by Pacific Life to Pacific LifeCorp in 2008. Also, changes in universal life and investment-type product account balances and changes in short-term and long-term debt were additional drivers of the change in cash flows from financing activities.

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 or distribution to Pacific LifeCorp within five business days after declaration of the dividend or distribution, and may not pay the dividend or distribution 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 or distribution within such ten business day period. In addition, Pacific Life may not pay an "extraordinary" dividend or distribution to Pacific LifeCorp until the Nebraska Department of Insurance has either (i) approved the payment of the dividend or distribution or (ii) not disapproved the payment of the dividend or distribution within thirty days after receiving notice of the declaration of the dividend or distribution. 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 2009 statutory results, Pacific Life could pay $629 million in ordinary dividends or distributions during 2010, subject to the ten business day notice period described above. Dividends in excess of such amount would be considered "extraordinary" dividends or distributions for purposes of Nebraska law and would be subject to the thirty day notice and non-disapproval requirement described above. No dividends were paid by Pacific Life during 2009 and 2007. During 2008, Pacific Life paid a cash dividend to Pacific LifeCorp of $345 million. In March 2010, Pacific Life paid a cash dividend to Pacific LifeCorp of $150 million.

Liquidity and Capital 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, 2009		December 31, 2008	
	Amount	% of Total	Amount	% of Total
	($ in millions)			
Subject to discretionary withdrawal:				
With fair value adjustment	$ 3,720	6%	$ 2,263	4%
At book value less current surrender charge of 5% or more	2,811	4%	1,923	3%
At fair value	44,216	70%	35,114	63%
Total with adjustment or at fair value	50,747	80%	39,300	70%
At book value without adjustment	2,129	3%	1,790	3%
Not subject to discretionary withdrawal	10,850	17%	14,816	27%
Total (gross)	63,726	100%	55,906	100%
Reinsurance ceded	–		409	
Total (net)	$ 63,726		$ 55,497	

As noted in the table above, as of December 31, 2009 and 2008, only 3% of these liabilities were subject to withdrawal at book value without adjustment. The other 97% of these liabilities as of December 31, 2009 and 2008 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.

In June 2009, Pacific Life issued an aggregate principal amount of $1.0 billion in surplus notes maturing on June 15, 2039. Pacific Life is required to pay interest on these surplus notes at an annual rate of 9.25%, subject to regulatory approval. Pacific Life also has outstanding $150 million of surplus notes due December 30, 2023 on which Pacific Life is required to pay interest at an annual rate of 7.90%, subject to regulatory approval. The Company has entered into interest rate swaps to convert some of these fixed rate obligations to variable rate obligations based upon the London InterBank Offered Rate. See Note 13 in the Audited GAAP Financial Statements included in this Annual Report for additional information.

In February 2010, Pacific LifeCorp issued $450 million of senior notes at a fixed interest rate of 6.0%, maturing on February 10, 2020. Interest is payable semiannually on February 10 and August 10. Pacific LifeCorp may redeem all or a portion of the notes at any time at the redemption price described under the terms of the senior notes. In March 2010, the Nebraska Department of Insurance approved the issuance of an internal surplus note by Pacific Life to Pacific LifeCorp for $450 million. Pacific Life is required to pay Pacific LifeCorp interest on the internal surplus note semiannually on February 5 and August 5 at a fixed annual rate of 6.0%, subject to regulatory approval. The internal surplus note matures on February 5, 2020.

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, and other marketable 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 was no commercial paper debt outstanding as of December 31, 2009 and 2008. 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, 2009, 2008 and 2007. As of and during the years ended December 31, 2009, 2008 and 2007, 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, 2009, 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, 2009, 2008 and 2007. The Company had $127 million and $1.0 billion of additional funding capacity from eligible collateral as of December 31, 2009 and 2008, respectively.

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 $102 million. Of this amount, half, or $51 million, can be borrowed for terms other than overnight, 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, 2009, 2008 and 2007, PL&A had no debt outstanding with the FHLB of San Francisco.

In the Aircraft Leasing segment, ACG finances the equity for its aircraft investments through internally generated funds and from capital contributions. In March 2010, Pacific Life made a cash capital contribution of $350 million to ACG. ACG has raised debt financing for its assets from the domestic U.S. bank loan market, the issuance of asset-backed debt in the capital markets, European Export Credit Agency and U.S. Export-Import Bank guaranteed loans, and the issuance of corporate debt obligations.

ACG had a revolving credit agreement with a bank for a $105 million borrowing facility, which was entered into in May 2009. Interest was at variable rates and the facility matured and was repaid in March 2010. The amount outstanding as of December 31, 2009 was $105 million, bearing an interest rate of 4.8%. As of and during the year ended December 31, 2009, ACG was in compliance with the debt covenants related to this facility.

ACG had a revolving credit agreement with a bank for a $150 million borrowing facility, which was entered into in April 2008. The amount outstanding as of December 31, 2008 was $150 million, bearing an interest rate of 2.3%. This credit facility matured and was repaid in May 2009.

The majority of ACG's aircraft are financed through the issuance of asset-backed securitized notes sold in the capital markets. All asset-backed securitized debt is non-recourse to ACG. Asset-backed securitized debt is very long-term, effectively offering permanent financing for the aircraft in the pool. ACG acts as administrative and remarketing agent in each securitization.

ACG has also established corporate note programs aimed at raising debt financing for the repayment of existing debt and for general corporate purposes. In April 2010, ACG issued $255 million of senior unsecured notes in a private placement offering with maturities ranging from 2015 to 2020 at fixed interest rates ranging from 5.71% to 7.20%.

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 its principal subsidiaries, only PAH 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 has previously paid 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 made no distributions to Pacific Life during the year ended December 31, 2009.

The payment of dividends and other distributions 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 or distribution to be paid by PL&A to Pacific Life. PL&A may not pay an "extraordinary" dividend or distribution to Pacific Life until the Arizona Department of Insurance has either (i) approved the payment of the dividend or distribution or (ii) not disapproved the payment of the dividend or distribution within thirty days after receiving notice of the declaration of the dividend or distribution. 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 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. Based on this limitation and 2009 statutory results, PL&A could pay $23 million in dividends to Pacific Life in 2010 without prior regulatory approval. PL&A did not pay any dividends to Pacific Life during the years ended December 31, 2009, 2008 or 2007.

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.

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 downturns and volatility in the equity and credit markets and the global economy;

- fluctuations in reserves relating to the Company's guaranteed minimum benefit riders together with changes in the valuation of derivatives, including derivatives entered into in connection with these guaranteed minimum benefit riders;

- changes in interest rates which may reduce profitability, negatively affect liquidity and significantly affect the value of the Company's fixed maturity investment portfolio;

- adverse capital and credit market conditions which may significantly affect the Company's access to debt and capital markets and affect the Company's ability to meet liquidity needs or refinancing requirements in the future;

- losses due to defaults by others, including issuers of investment securities or reinsurance and derivative counterparties;

- the ability of the U.S. government, the Federal Reserve and other governmental and regulatory bodies to act successfully to stabilize the financial markets;

- adverse regulatory developments;

- new accounting rules or changes to existing accounting rules;

- downgrades or potential downgrades in Pacific Life's ratings;

- strong competition in the Company's business;

- the ability of ACG's airline customers to meet their obligations;

- the ability of ACG's manufacturers to remain financially stable and to fulfill their contractual obligations;

- the ability of ACG to recover its entire investment in the aircraft in its fleet;

- changes in tax laws and the interpretation thereof;

- the adoption of new tax laws that would adversely affect the products offered by the Company;

- deviations from assumptions regarding future persistency, mortality and interest rates used in calculating reserve amounts and pricing the Company's products;

- significant market valuation fluctuations of the Company's investments that are relatively illiquid;

- subjectivity in methodology, estimates and assumptions in the valuation of fixed maturity, equity and trading securities;

- sensitivity of the statutory risk-based capital the Company is required to hold to factors outside of the Company's control;

- market capacity constraints on statutory reserve financings;

- litigation and regulatory investigations;

- lack of available, affordable or adequate reinsurance;

- the inability of Pacific LifeCorp, the parent company of Pacific Life, to access its credit facilities and the availability of credit to the Company as a whole;

- significant variances from pricing expectations for mortality or persistency rates;

- the inability to attract and retain key personnel;

- the occurrence of events that would require the acceleration of the amortization of deferred policy acquisition costs;

- the impact of current international tensions between the U.S. and other nations, including any terrorist attack, or on-going military and other actions, or a large-scale pandemic;

- requirements to post collateral or make payments related to declines in the market value of specified assets;

- exposure to unidentified or unanticipated risks;

- a computer system failure or security breach; and

- adverse global climate changes.

Recently Adopted Accounting Pronouncements

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

Legal Proceedings

The Company is subject to a number of legal proceedings, some of which involve allegations for extra-contractual damages. In addition, in connection with the sale of certain broker-dealer subsidiaries, certain indemnifications triggered by breaches of representations, warranties or covenants were provided by Pacific Life, including indemnification for certain third-party claims arising from the normal operation of the broker-dealers prior to the closing and within the nine month period following the sale.

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 and indemnification claims against the Company. For a further discussion, see Note 21 to Pacific Life's Audited GAAP Financial Statements included in this Annual Report.

Ratings

An insurer's financial strength rating represents an opinion by the issuing rating agency regarding the ability of an insurance company to meet its financial obligations to its policyholders and contract holders. A rating is an opinion of the rating agency only and not a statement of fact or recommendation to purchase, sell or hold any security, policy or contract. These ratings do not imply approval of the Company's products and do not reflect any indication of their performance. 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. A negative outlook indicates that the rating could change based on certain future events relating to the financial condition of the rated entity. 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.	A1 (Good)	Fifth highest of 21 ratings	Stable
Standard and Poor's Rating Services	AA- (Very strong)	Fourth highest of 21 ratings	Negative
Fitch Ratings	A+ (Strong)	Fifth highest of 21 ratings	Stable
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 debt securities of Pacific Life and PLF, 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, 2009, the Company had approximately 2,600 employees. None of the Company's employees are covered by a collective bargaining agreement. The Company believes that its employee relations are satisfactory.

Properties

The Company'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 also leases office space at various locations throughout the U.S. Other principal leases include other subsidiary home offices, regional life and other sales offices and storage facilities. In February 2008, the Company completed construction of a new office building in Aliso Viejo, California. The Company believes that its facilities are adequate for its present needs in all material respects.

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, 2009 and 2008 and for the years ended December 31, 2009, 2008 and 2007

Audited GAAP Consolidated Financial Statements of Pacific Life Insurance Company as of December 31, 2009 and 2008 and for the years ended December 31, 2009, 2008 and 2007

AUDITED GAAP FINANCIAL STATEMENTS OF
PACIFIC LIFE FUNDING, LLC
AS OF DECEMBER 31, 2009 AND 2008 AND
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

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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, 2009 and 2008, and the related statements of operations and retained earnings and cash flows for each of the three years in the period ended December 31, 2009. 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, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

April 23, 2010

Member of
Deloitte Touche Tohmatsu

Pacific Life Funding, LLC

B A L A N C E S H E E T S
(Expressed in United States Dollars)

	December 31, 2009	2008
	(In Thousands)	
ASSETS		
Cash and cash equivalents	$26	$26
Funding Agreements	1,751,426	2,653,076
Accrued interest receivable	51,737	78,805
TOTAL ASSETS	$1,803,189	$2,731,907
LIABILITIES AND MEMBER'S EQUITY		
Liabilities:		
Notes payable	$1,751,426	$2,653,076
Accrued interest payable	51,737	78,805
TOTAL LIABILITIES	1,803,163	2,731,881
Member's Equity:		
Share capital	1	1
Retained earnings	25	25
TOTAL MEMBER'S EQUITY	26	26
TOTAL LIABILITIES AND MEMBER'S EQUITY	$1,803,189	$2,731,907

See Notes to Financial Statements

Pacific Life Funding, LLC

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

	Years Ended December 31,		
	2009	2008	2007
		(In Thousands)	
INCOME			
Interest on Funding Agreements	$111,951	$166,269	$213,154
Foreign exchange gain on Funding Agreements			21,579
Foreign exchange gain on notes payable	179,611	564,384	
Other			18
TOTAL INCOME	291,562	730,653	234,751
EXPENSES			
Interest on notes payable	111,951	166,269	213,154
Foreign exchange loss on Funding Agreements	179,611	564,384	
Foreign exchange loss on notes payable			21,579
Other			17
TOTAL EXPENSES	291,562	730,653	234,750
NET INCOME	$0	$0	$1
RETAINED EARNINGS, BEGINNING OF YEAR	$25	$25	$24
Net income	0	0	1
RETAINED EARNINGS, END OF YEAR	$25	$25	$25

See Notes to Financial Statements

Pacific Life Funding, LLC

STATEMENTS OF CASH FLOWS
(Expressed in United States Dollars)

	Years Ended December 31,		
	2009	2008	2007
	(In Thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$0	$0	$1
Adjustments to reconcile net income to net cash provided by operating activities:			
Change in accrued interest receivable	27,068	25,666	23,610
Change in accrued interest payable	(27,068)	(25,666)	(23,610)
Amortization on Funding Agreements	965	931	342
Amortization on notes payable	(965)	(931)	(342)
NET CASH PROVIDED BY OPERATING ACTIVITIES	0	0	1
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturities of Funding Agreements	696,074	408,204	783,352
NET CASH PROVIDED BY INVESTING ACTIVITIES	696,074	408,204	783,352
CASH FLOWS FROM FINANCING ACTIVITIES			
Redemption of notes payable	(696,074)	(408,204)	(783,352)
NET CASH USED IN FINANCING ACTIVITIES	(696,074)	(408,204)	(783,352)
NET CHANGE IN CASH AND CASH EQUIVALENTS	0	0	1
Cash and cash equivalents, beginning of year	26	26	25
CASH AND CASH EQUIVALENTS, END OF YEAR	$26	$26	$26
NON-CASH INVESTING AND FINANCING ACTIVITIES			
Cancellation of Funding Agreement	$25,000		
Cancellation of notes payable	(25,000)		
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest paid	$ 139,984	$ 192,866	$ 237,106

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. QSPV Limited, the trustee of the Charitable Trust, is the sole member of the Company.

The Company has established a program (the Program) for the issuance of up to $8 billion 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).

Reclassifications have been made to certain operating activities on the statements of cash flows for 2008 and 2007 to conform them to the 2009 presentation. Changes in accrued interest receivable and accrued interest payable, as well as amortization on Funding Agreements and notes payable have been presented on a gross basis, instead of a net basis. Reclassifications have also been made to the 2008 financial statements to conform to the 2009 financial statement presentation to separately disclose accrued interest receivable and accrued interest payable.

The Company has evaluated events subsequent to December 31, 2009 and through April 23, 2010, the date the financial statements were available to be issued. The Company has not evaluated subsequent events after that date for presentation in these financial statements.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Effective September 30, 2009, the Company adopted the Financial Accounting Standards Board (FASB) Accounting Standard Codification (Codification) as the single source of authoritative U.S. GAAP. The Codification does not create new accounting and reporting guidance, rather it reorganized then-existing U.S. GAAP pronouncements into approximately 90 Topics within a consistent structure. All guidance in the Codification carries an equal level of authority. After the effective date of the Codification, all nongrandfathered accounting literature not included in the Codification is superseded and deemed nonauthoritative. Adoption of the Codification also changed how the Company references the U.S. GAAP in its 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. The carrying values approximate fair values due to the short-term maturities of these instruments.

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. 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 conformity 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, 2009, 2008 and 2007, Pacific Life paid $313 thousand, $510 thousand, and $268 thousand, 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 January 2010 to September 2021.

The following schedules detail the notes payable outstanding as of December 31, 2009 and 2008. The detail schedules for the Funding Agreements are not included, but would contain similar information, except that the schedules would reflect the investments related to the Instruments.

4. FUNDING AGREEMENTS/NOTES PAYABLE (CONTINUED)

December 31, 2009:

Issue	Currency	Principal Denominated in Currency of Issuance (In Thousands)	Maturity	Interest Rate	Principal	Foreign Currency Gains (Losses) ($ In Thousands)	Carrying Value
Series 11 Tranche 1	EUR	36,500	3/12/2019	4.70 %	$40,880	$11,319	$52,199
Series 23 Tranche 1	EUR	100,000	12/12/2011	(A)	103,250	39,760	143,010
Series 25 Tranche 1	EUR	90,000	8/17/2011	6.08 %	90,855	37,854	128,709
Series 26 Tranche 1	JPY	3,000,000	1/26/2010	2.00 %	28,400	3,969	32,369
Series 31 Tranche 1	CHF	100,000	6/30/2010	4.75 %	60,032	36,030	96,062
Series 33 Tranche 1	USD	28,560	9/15/2021	6 mth USD LIBOR + .40%	28,560	-	28,560
Series 36 Tranche 1	EUR	29,000	9/29/2020	3 mth EURIBOR + .37%	25,418	16,054	41,472
Series 39 Tranche 1	GBP	25,000	12/7/2015	5.81 %	35,500	4,526	40,026
Series 40 Tranche 1	EUR	27,000	2/5/2021	3 mth EURIBOR + .43%	25,313	13,301	38,614
Series 41 Tranche 1	GBP	200,000	2/8/2011	6.25 %	295,000	25,210	320,210
Series 47 Tranche 1	GBP	150,000	8/16/2013	6.00 %	214,000	26,157	240,157
Series 47 Tranche 2	GBP	50,000	8/16/2013	6.00 %	72,900	7,153	80,053
Series 63 Tranche 1	USD	111,146	12/20/2010	5.28 %	79,130	-	79,130
Series 66 Tranche 1	HKD	160,000	7/31/2014	5.00 %	20,600	31	20,631
Series 67 Tranche 1	GBP	200,000	1/20/2015	5.13 %	375,000	(54,790)	320,210
Series 68 Tranche 1	HKD	200,000	1/26/2015	4.28 %	25,664	125	25,789
Series PLF003 Tranche 1	EUR	25,358	2/15/2014	4.00 %	33,219	3,046	36,265
Series PLF005 Tranche 1	EUR	200	2/15/2010	3.15 %	259	27	286
Series PLF007 Tranche 1	GBP	1,010	2/15/2013	5.00 %	1,906	(289)	1,617
Series PLF012 Tranche 1	EUR	10,000	3/15/2015	3.80 %	12,860	1,441	14,301
Series PLF014 Tranche 1	GBP	256	3/15/2013	4.80 %	484	(74)	410
Series PLF015 Tranche 1	GBP	500	5/15/2013	5.00 %	959	(158)	801
Series PLF019 Tranche 1	EUR	5,016	6/15/2017	4.00 %	6,340	833	7,173
Series PLF025 Tranche 1	GBP	250	7/15/2010	4.55 %	453	(53)	400
Series PLF029 Tranche 1	GBP	650	11/15/2013	4.65 %	1,159	(118)	1,041
Series PLF031 Tranche 1	EUR	1,350	12/15/2015	3.80 %	1,580	351	1,931
TOTAL					$1,579,721	$171,705	$1,751,426

4. FUNDING AGREEMENTS/NOTES PAYABLE (CONTINUED)

December 31, 2008:

Issue	Currency	Principal Denominated in Currency of Issuance *(In Thousands)*	Maturity	Interest Rate	Principal	Foreign Currency Gains (Losses) *($ In Thousands)*	Carrying Value
Series 1 Tranche 1	FRF	2,000,000	5/28/2009	5.50 %	$330,315	$99,587	$429,902
Series 5 Tranche 1	NLG	106,000	7/15/2009	5.15 %	51,961	16,075	68,036
Series 11 Tranche 1	EUR	36,500	3/12/2019	4.70 %	40,880	10,747	51,627
Series 20 Tranche 1	EUR	10,000	12/30/2009	(B)	10,500	3,644	14,144
Series 23 Tranche 1	EUR	100,000	12/12/2011	(A)	103,250	38,195	141,445
Series 25 Tranche 1	EUR	90,000	8/17/2011	6.08 %	90,855	36,445	127,300
Series 26 Tranche 1	JPY	3,000,000	1/26/2010	2.00 %	28,400	4,867	33,267
Series 31 Tranche 1	CHF	100,000	6/30/2010	4.75 %	60,031	34,999	95,030
Series 33 Tranche 1	USD	28,560	9/15/2021	6 mth USD LIBOR + .40%	28,560	-	28,560
Series 36 Tranche 1	EUR	29,000	9/29/2020	3 mth EURIBOR + .37%	25,418	15,600	41,018
Series 39 Tranche 1	GBP	25,000	12/7/2015	5.81 %	35,500	571	36,071
Series 40 Tranche 1	EUR	27,000	2/5/2021	3 mth EURIBOR + .43%	25,313	12,878	38,191
Series 41 Tranche 1	GBP	200,000	2/8/2011	6.25 %	295,000	(6,429)	288,571
Series 45 Tranche 1	JPY	3,100,000	7/17/2013	3 mth JPY LIBOR + .15%	25,000	9,376	34,376
Series 47 Tranche 1	GBP	150,000	8/16/2013	6.00 %	214,000	2,428	216,428
Series 47 Tranche 2	GBP	50,000	8/16/2013	6.00 %	72,900	(757)	72,143
Series 58 Tranche 1	EUR	300,000	5/14/2009	5.50 %	269,400	154,934	424,334
Series 61 Tranche 1	USD	72,257	12/20/2009	4.47 %	14,570	-	14,570
Series 62 Tranche 1	USD	43,473	12/20/2009	4.47 %	8,821	-	8,821
Series 63 Tranche 1	USD	111,146	12/20/2010	5.28 %	79,270	-	79,270
Series 65 Tranche 1	USD	30,645	12/20/2009	4.54 %	6,185	-	6,185
Series 66 Tranche 1	HKD	160,000	7/31/2014	5.00 %	20,600	45	20,645
Series 67 Tranche 1	GBP	200,000	1/20/2015	5.13 %	375,000	(86,429)	288,571
Series 68 Tranche 1	HKD	200,000	1/26/2015	4.28 %	25,664	142	25,806
BALANCE TO CARRYFORWARD					$2,237,393	$346,918	$2,584,311

4. FUNDING AGREEMENTS/NOTES PAYABLE (CONTINUED)

December 31, 2008 (Continued):

Issue	Currency	Principal Denominated in Currency of Issuance (In Thousands)	Maturity	Interest Rate	Principal	Foreign Currency Gains (Losses)	Carrying Value
						($ In Thousands)	
CARRYFORWARD BALANCE					$2,237,393	$346,918	$2,584,311
Series PLF002 Tranche 1	EUR	2,792	2/15/2009	3.05%	3,657	292	3,949
Series PLF003 Tranche 1	EUR	25,358	2/15/2014	4.00%	33,219	2,649	35,868
Series PLF005 Tranche 1	EUR	200	2/15/2010	3.15%	259	24	283
Series PLF007 Tranche 1	GBP	1,010	2/15/2013	5.00%	1,906	(449)	1,457
Series PLF012 Tranche 1	EUR	10,000	3/15/2015	3.80%	12,861	1,284	14,145
Series PLF014 Tranche 1	GBP	256	3/15/2013	4.80%	484	(115)	369
Series PLF015 Tranche 1	GBP	500	5/15/2013	5.00%	958	(237)	721
Series PLF018 Tranche 1	EUR	1,000	6/15/2009	2.05%	1,264	150	1,414
Series PLF019 Tranche 1	EUR	5,016	6/15/2017	4.00%	6,340	755	7,095
Series PLF020 Tranche 1	EUR	180	6/15/2009	1.90%	227	28	255
Series PLF025 Tranche 1	GBP	250	7/15/2010	4.55%	453	(92)	361
Series PLF029 Tranche 1	GBP	650	11/15/2013	4.65%	1,159	(221)	938
Series PLF031 Tranche 1	EUR	1,350	12/15/2015	3.80%	1,580	330	1,910
TOTAL					$2,301,760	$351,316	$2,653,076

4. FUNDING AGREEMENTS/NOTES PAYABLE (Continued)

(A) 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%.

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

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

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

	December 31, 2009	
	Carrying Amount	Estimated Fair Value
	(In Thousands)	
Assets:		
Funding agreements (Note 4)	$1,751,426	$1,847,305
Liabilities:		
Notes payable (Note 4)	1,751,426	1,847,305

	December 31, 2008	
	Carrying Amount	Estimated Fair Value
	(In Thousands)	
Assets:		
Funding agreements (Note 4)	$2,653,076	$2,728,329
Liabilities:		
Notes payable (Note 4)	2,653,076	2,728,329

6. SHARE CAPITAL

Authorized:
50 thousand ordinary shares of U.S. $1 par value each

Issued and fully paid:
One thousand ordinary shares of U.S. $1 par value each

As of December 31, 2009 and 2008, one thousand ordinary shares had been issued at par to QSPV Limited.

**AUDITED GAAP CONSOLIDATED FINANCIAL STATEMENTS OF
PACIFIC LIFE INSURANCE COMPANY
AS OF DECEMBER 31, 2009 AND 2008 AND
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007**

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, 2009 and 2008, and the related consolidated statements of operations, equity and cash flows for each of the three years in the period ended December 31, 2009. 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, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1 and 9 to the consolidated financial statements, the accompanying consolidated financial statements have been retrospectively adjusted to give effect of comparative information as a result of the aircraft leasing company transfer.

As discussed in Note 1 to the consolidated financial statements, in 2009, the Company changed its method of accounting and reporting for other than temporary impairments of debt and equity securities.

As discussed in Note 1 to the consolidated financial statements, in 2009, the Company adopted new guidance requiring retrospective application and presentation requirements for noncontrolling interest (previously known as minority interest).

Deloitte & Touche LLP

March 4, 2010

Member of
Deloitte Touche Tohmatsu

Pacific Life Insurance Company and Subsidiaries

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31, 2009	December 31, 2008
	(In Millions)	
ASSETS		
Investments:		
Fixed maturity securities available for sale, at estimated fair value	$26,039	$21,942
Equity securities available for sale, at estimated fair value	278	216
Mortgage loans	6,577	5,622
Policy loans	6,509	6,920
Other investments	2,007	2,052
TOTAL INVESTMENTS	41,410	36,752
Cash and cash equivalents	1,919	3,397
Restricted cash	221	227
Deferred policy acquisition costs	4,806	5,012
Aircraft leasing portfolio, net	5,304	4,999
Other assets	2,253	3,276
Separate account assets	52,564	41,505
TOTAL ASSETS	$108,477	$95,168
LIABILITIES AND EQUITY		
Liabilities:		
Policyholder account balances	$33,984	$32,670
Future policy benefits	7,403	9,841
Short-term debt	105	150
Long-term debt	5,632	4,459
Other liabilities	1,872	1,863
Separate account liabilities	52,564	41,505
TOTAL LIABILITIES	101,560	90,488
Commitments and contingencies (Note 21)		
Stockholder's Equity:		
Common stock - $50 par value; 600,000 shares authorized, issued and outstanding	30	30
Paid-in capital	982	782
Retained earnings	6,037	5,426
Accumulated other comprehensive loss	(363)	(1,802)
Total Stockholder's Equity	6,686	4,436
Noncontrolling interest	231	244
TOTAL EQUITY	6,917	4,680
TOTAL LIABILITIES AND EQUITY	$108,477	$95,168

See Notes to Consolidated Financial Statements

Pacific Life Insurance Company and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2009	2008	2007
		(In Millions)	
REVENUES			
Policy fees and insurance premiums	$2,275	$1,997	$1,780
Net investment income	1,862	1,994	2,120
Net realized investment gain (loss)	153	(749)	69
Other than temporary impairments, consisting of $641 in total, net of $330 recognized in other comprehensive income (loss) for the year ended December 31, 2009	(311)	(580)	(98)
Realized investment gain on interest in PIMCO		109	
Investment advisory fees	208	255	327
Aircraft leasing revenue	578	571	535
Other income	137	167	147
TOTAL REVENUES	4,902	3,764	4,880
BENEFITS AND EXPENSES			
Interest credited to policyholder account balances	1,253	1,234	1,266
Policy benefits paid or provided	1,226	1,206	855
Commission expenses	691	715	690
Operating and other expenses	1,246	1,178	1,235
TOTAL BENEFITS AND EXPENSES	4,416	4,333	4,046
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE PROVISION (BENEFIT) FOR INCOME TAXES	486	(569)	834
Provision (benefit) for income taxes	44	(315)	129
INCOME (LOSS) FROM CONTINUING OPERATIONS	442	(254)	705
Discontinued operations, net of taxes	(20)	(6)	11
Net income (loss)	422	(260)	716
Less: net (income) loss attributable to the noncontrolling interest from continuing operations	14	3	(38)
NET INCOME (LOSS) ATTRIBUTABLE TO THE COMPANY	$436	($257)	$678

See Notes to Consolidated Financial Statements

Pacific Life Insurance Company and Subsidiaries

CONSOLIDATED STATEMENTS OF EQUITY

	Common Stock	Paid-in Capital	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 Stockholder's Equity	Noncontrolling Interest	Total Equity
				(In Millions)				
BALANCES, JANUARY 1, 2007	**$30**	**$780**	**$5,379**	**$445**	**$62**	**$6,696**	**$107**	**$6,803**
Comprehensive income (loss):								
Net income			678			678	38	716
Other comprehensive loss, net				(300)	(16)	(316)		(316)
Total comprehensive income						362		400
Cumulative effect of adoption of new accounting principle, net of tax			(29)			(29)		(29)
Contributions, net, received by noncontrolling interest							69	69
Other equity adjustment		1				1		1
BALANCES, DECEMBER 31, 2007	**30**	**781**	**6,028**	**145**	**46**	**7,030**	**214**	**7,244**
Comprehensive loss:								
Net loss			(257)			(257)	(3)	(260)
Other comprehensive loss, net				(1,896)	(97)	(1,993)		(1,993)
Total comprehensive loss						(2,250)		(2,253)
Dividend to parent			(345)			(345)		(345)
Contributions, net, received by noncontrolling interest							33	33
Other equity adjustment		1				1		1
BALANCES, DECEMBER 31, 2008	**30**	**782**	**5,426**	**(1,751)**	**(51)**	**4,436**	**244**	**4,680**
Cumulative effect of adoption of new accounting principle, net of tax			175	(170)		5		5
REVISED BALANCES, DECEMBER 31, 2008	**30**	**782**	**5,601**	**(1,921)**	**(51)**	**4,441**	**244**	**4,685**
Comprehensive income (loss):								
Net income (loss)			436			436	(14)	422
Other comprehensive income (loss)				1,562	47	1,609	(7)	1,602
Total comprehensive income						2,045		2,024
Contribution from parent		200				200		200
Contributions, net, received by noncontrolling interest							8	8
BALANCES, DECEMBER 31, 2009	**$30**	**$982**	**$6,037**	**($359)**	**($4)**	**$6,686**	**$231**	**$6,917**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2009	2008	2007
	(In Millions)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss) excluding discontinued operations	$442	($254)	$705
Adjustments to reconcile net income (loss) excluding discontinued operations to net cash provided by operating activities:			
Net accretion on fixed maturity securities	(142)	(144)	(150)
Depreciation and amortization	281	259	255
Deferred income taxes	451	(511)	86
Net realized investment (gain) loss	(153)	749	(69)
Other than temporary impairments	311	580	98
Realized investment gain on interest in PIMCO		(109)	
Net change in deferred policy acquisition costs	(202)	(175)	(302)
Interest credited to policyholder account balances	1,253	1,234	1,266
Change in future policy benefits and other insurance liabilities	111	1,182	666
Other operating activities, net	85	(337)	(33)
NET CASH PROVIDED BY OPERATING ACTIVITIES BEFORE DISCONTINUED OPERATIONS	2,437	2,474	2,522
Net cash used in operating activities of discontinued operations	(27)	(18)	(71)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,410	2,456	2,451
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed maturity and equity securities available for sale:			
Purchases	(5,507)	(2,730)	(5,885)
Sales	1,463	2,084	2,041
Maturities and repayments	2,542	2,136	2,718
Repayments of mortgage loans	406	470	439
Fundings of mortgage loans and real estate	(1,434)	(1,665)	(1,658)
Change in policy loans	411	(510)	(342)
Sale of interest in PIMCO		288	
Change in restricted cash	6	7	60
Purchases of derivative instruments	(20)	(12)	(17)
Terminations of derivative instruments	20	84	(41)
Proceeds from nonhedging derivative settlements	64	728	2
Payments for nonhedging derivative settlements	(1,540)	(89)	(43)
Change in collateral received or pledged	(1,226)	1,056	17
Purchases of and advance payments on aircraft leasing portfolio	(561)	(694)	(646)
Other investing activities, net	42	(323)	67
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES BEFORE DISCONTINUED OPERATIONS	(5,334)	830	(3,288)
Net cash provided by investing activities of discontinued operations		7	76
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(5,334)	837	(3,212)

(Continued)

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Continued)	Years Ended December 31, 2009	2008	2007
		(In Millions)	
CASH FLOWS FROM FINANCING ACTIVITIES			
Policyholder account balances:			
Deposits	$8,003	$7,320	$6,876
Withdrawals	(7,972)	(7,602)	(7,131)
Net change in short-term debt	(45)	50	100
Issuance of long-term debt	1,692	335	1,013
Payments of long-term debt	(433)	(381)	(913)
Contribution from (dividend to) parent	200	(345)	
Other financing activities, net	1	33	69
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,446	(590)	14
Net change in cash and cash equivalents	(1,478)	2,703	(747)
Cash and cash equivalents, beginning of year	3,397	694	1,441
CASH AND CASH EQUIVALENTS, END OF YEAR	$1,919	$3,397	$694
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Income taxes paid (received), net	($143)	($20)	$67
Interest paid	$146	$195	$272

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 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.

Effective December 31, 2009, Pacific LifeCorp contributed its 100% stock ownership of Aviation Capital Group Corp. (ACG) to Pacific Life (Note 9). ACG is engaged in the acquisition and leasing of commercial jet aircraft. These financial statements and the accompanying footnotes have been prepared by combining the previously separate financial statements of Pacific Life and ACG as if the two entities had been combined as of the beginning of 2007, the first period presented in these consolidated financial statements. This retrospective treatment is prescribed by accounting principles generally accepted in the United States of America (U.S. GAAP) whenever a transfer between entities under common control is effected.

Pacific Life and its subsidiaries and affiliates have primary business operations consisting of life insurance, individual annuities, mutual funds, pension and institutional products, and aircraft leasing.

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 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. Noncontrolling interest is primarily comprised of private equity funds (Note 4). All significant intercompany transactions and balances have been eliminated in consolidation.

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
- Aircraft valuation and impairment
- 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 2008 and 2007 consolidated financial statements to conform to the 2009 financial statement presentation. The most significant conforming reclassification was retrospectively adjusting the consolidated financial statements and respective notes to reflect the ACG transfer.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Effective September 30, 2009, the Company adopted the Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification) as the single source of authoritative U.S. GAAP. The Codification does not create new accounting and reporting guidance, rather it reorganized then-existing U.S. GAAP pronouncements into approximately 90 Topics within a consistent structure. All guidance in the Codification carries an equal level of authority. After the effective date of the Codification, all nongrandfathered accounting literature not included in the Codification is superseded and deemed nonauthoritative. Adoption of the Codification also changed how the Company references U.S. GAAP in its consolidated financial statements.

In April 2009, the FASB issued additional guidance under the Codification's Fair Value Measurements and Disclosures Topic. This update relates to determining fair values when there is no active market or where the price inputs being used represent distressed sales. The Company early adopted this guidance on March 31, 2009. This update provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. Also included is guidance on identifying circumstances that indicate a transaction is not orderly. The adoption of this guidance resulted in an increase of $436 million to the estimated fair value and a resulting decrease of $436 million to gross unrealized investment loss of residential mortgage-backed securities (RMBS) as of March 31, 2009. As of December 31, 2009, the year to date effect of this adoption was an increase of $214 million to the estimated fair value and a decrease of $214 million to the gross unrealized investment loss of RMBS. See Note 14 for information on the Company's fair value measurements and expanded disclosures.

In April 2009, the FASB issued additional guidance under the Codification's Investments – Debt and Equity Securities Topic. For debt securities, this guidance replaces the management assertion that it has the intent and ability to hold an impaired debt security until recovery with the requirement that management assert if it either has the intent to sell the debt security or if it is more likely than not the entity will be required to sell the debt security before recovery of its amortized cost basis. If management intends to sell the debt security or it is more likely than not the entity will be required to sell the debt security before recovery of its amortized cost basis, an other than temporary impairment (OTTI) shall be recognized in earnings equal to the entire difference between the debt security's amortized cost basis and its fair value at the reporting date. After the recognition of an OTTI, the debt security is accounted for as if it had been purchased on the measurement date of the OTTI, with an amortized cost basis equal to the previous amortized cost basis less the OTTI recognized in earnings. The update also changes the presentation in the financial statements of non credit related impairment amounts for instruments within its scope. When the entity asserts it does not have the intent to sell the security and it is more likely than not it will not have to sell the security before recovery of its amortized cost basis, only the credit related impairment losses are to be recognized in earnings and non credit losses are to be recognized in other comprehensive income (OCI). Additionally, this update provides for enhanced presentation and disclosure of OTTIs of debt and equity securities in the consolidated financial statements. The Company early adopted this guidance effective January 1, 2009, resulting in an after tax decrease to OCI of $170 million, including an after tax DAC impact of $5 million, and an after tax increase to retained earnings of $175 million.

Effective January 1, 2009, the FASB issued additional guidance to the Codification's Consolidation Topic. This guidance 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. As a result of the adoption of this guidance, which required retrospective application of presentation requirements, total equity as of December 31, 2008 and 2007, increased by $244 million and $214 million, respectively, representing the noncontrolling interest, and other liabilities and total liabilities as of December 31, 2008 and 2007 decreased by $244 million and $214 million, respectively, as a result of reclassifying noncontrolling interest (previously known as minority interest) to equity.

Effective January 1, 2007, the FASB issued additional guidance to the Codification's Financial Services – Insurance Topic. This guidance governs the accounting for DAC on internal replacements on insurance and investment contracts. This guidance 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. The adoption of this guidance resulted in a reduction to DAC and the Company recorded a cumulative effect adjustment of $29 million, after tax, which was recorded as a reduction to retained earnings during the year ended December 31, 2007.

INVESTMENTS

Fixed maturity and equity securities available for sale are reported at estimated fair value, with unrealized gains and losses, net of adjustments related to DAC, future policy benefits and deferred income taxes, 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 OTTIs. If a decline in the estimated fair value of an available for sale security is deemed to be other than temporary, the OTTI is recorded equal to the difference between the estimated fair value and net carrying amount of the security. If the OTTI for a debt security is attributable to both credit and other factors, then the OTTI is bifurcated and the non credit related portion is recorded to OCI while the credit portion is recorded as a net realized investment loss. If the OTTI is related to credit factors only, it is recorded as a net realized investment loss.

The evaluation of OTTIs 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 OTTIs. The Company has an investment impairment committee comprised of investment and accounting professionals that reviews and evaluates securities for potential OTTIs 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.

Analysis of the probability that all cash flows will be collected under the contractual terms of a fixed maturity security and determination as to whether the Company does not intend to sell the security and that it is more likely than not that the Company will not be required to sell the security before recovery of the investment were key factors in determining whether a fixed maturity security is other than temporarily impaired.

For mortgage-backed and asset-backed securities, scrutiny was placed on the performance of the underlying collateral and projected future cash flows. In projecting future cash flows, 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 investment grade perpetual preferred securities, which do not have final contractual cash flows, the Company applied OTTI 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 holds a perpetual preferred security with an estimated fair value below cost that is not attributable to the credit deterioration of the issuer, then the investor would not be required to recognize an OTTI 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). As of December 31, 2009, two loans totaling $8 million were considered impaired, however no valuation allowance was necessary as the fair value of the collateral was greater than the carrying amount of the related loans. The Company had no write-downs during the years ended December 31, 2009, 2008 and 2007. 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 18). The amortization recorded in net investment income was $3 million, $5 million and $20 million for the years ended December 31, 2009, 2008 and 2007, 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 10).

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. 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, 2009 and 2008, the loans amounted to zero and $403 million, respectively. The fair values of the securities held in connection with the secured lending were zero and $410 million as of December 31, 2009 and 2008, respectively.

RESTRICTED CASH

Restricted cash primarily consists of security deposits, commitment fees, maintenance reserve payments, supplemental rental payments and rental payments received from certain lessees related to the aircraft leasing business.

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 in the Codification's Financial Services – Insurance Topic), 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, 2009 and 2008, the carrying value of DAC was $4.8 billion and $5.0 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 0.5% to 8.0% of each deposit. The capitalized sales inducement balance included in the DAC asset was $583 million and $552 million as of December 31, 2009 and 2008, respectively.

AIRCRAFT LEASING PORTFOLIO

Aircraft are recorded at cost, which includes certain acquisition costs, less accumulated depreciation. Major improvements to aircraft are capitalized when incurred. The Company evaluates carrying values of aircraft based upon changes in market and other physical and economic conditions and will record impairment losses to recognize a loss in the value of the aircraft when management believes that, based on estimated future cash flows, the recoverability of the Company's investment in an aircraft is unlikely (Note 9). The Company had four and two non-earning aircraft in the portfolio as of December 31, 2009 and 2008, respectively.

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 indicate that the goodwill might be impaired. Goodwill from acquisitions, included in other assets, totaled $43 million as of December 31, 2009 and 2008. There were no goodwill impairment write-downs from continuing operations during the years ended December 31, 2009, 2008 and 2007.

POLICYHOLDER ACCOUNT BALANCES

Policyholder account balances on UL and investment-type contracts, such as funding agreements, annuity and deposit 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 11). Interest credited to these contracts primarily ranged from 0.2% 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 11). Interest rates used in establishing such liabilities ranged from 1.6% to 11.3%.

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 (Note 11).

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 3.0% to 9.3%. Future dividends for participating business are provided for in the liability for future policy benefits.

As of December 31, 2009 and 2008, 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. 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 utilized for ceded transactions when risk transfer provisions 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. Prepaid reinsurance premiums, included in other assets, are premiums that are paid in advance for future coverage. Reinsurance recoverables, included in other assets, include balances due from reinsurance companies for paid and unpaid losses. Amounts receivable and payable are offset for account settlement purposes for contracts where the right of offset exists. See Note 16.

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, and the Pacific Life Funds, the investment vehicle for the Company's mutual fund products. 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 and other expenses and recorded when incurred.

Aircraft leases, which are structured as triple net leases, are accounted for as operating leases. Aircraft leasing revenue is recognized ratably over the terms of the lease agreements. ACG has four capital leases, which are accounted for under the provisions in the Codification's Leases Topic. As of December 31, 2009 and 2008, capital leases in the amount of $8 million and $11 million, respectively, are classified in other assets.

DEPRECIATION AND AMORTIZATION

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

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

Each reporting cycle the Company evaluates all identified contingent matters on an individual basis. 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 than any other, the Company records an estimated reserve at the low end of the range of losses. See Note 21.

SEPARATE ACCOUNTS

Separate accounts primarily include variable annuity and life contracts, as well as other guaranteed and non-guaranteed accounts. Separate account assets are recorded at estimated fair value and represent legally segregated contract holder funds. A separate account liability is recorded equal to the amount of separate account assets. 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.

For separate account funding agreements in which the Company provides a guarantee of principal and interest to the contract holder and 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, 10 and 14, 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, 2009, Pacific Life had one permitted practice approved by the NE DOI that differed from statutory accounting practices adopted by the National Association of Insurance Commissioners (NAIC). This 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, 2009 and 2008 did not reflect unrealized losses of $29 million and $88 million, respectively, with regards to this permitted practice. Pacific Life had a second permitted practice with a financial statement filing date of December 31, 2008 that expired on December 30, 2009. This permitted practice allowed Pacific Life to apply the revised version of Actuarial Guideline 39 (AG 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 lowering statutory reserves by $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, 2009 and 2008, this NE DOI prescribed accounting practice resulted in statutory reserves of $20 million and $12 million, respectively, as opposed to statutory reserves of zero and $640 million, respectively, using statutory accounting practices adopted by the NAIC.

STATUTORY NET INCOME (LOSS) AND SURPLUS

Statutory net income (loss) of Pacific Life was $652 million, ($1,529) million and $362 million for the years ended December 31, 2009, 2008 and 2007, respectively. Statutory capital and surplus of Pacific Life was $5,006 million and $3,136 million as of December 31, 2009 and 2008, 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, 2009 and 2008, 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 2009 statutory results, Pacific Life could pay $629 million in dividends in 2010 to Pacific LifeCorp without prior approval from the NE DOI, subject to the notification requirement.

No dividends were paid during 2009 and 2007. During the year ended December 31, 2008, Pacific Life paid a cash dividend to Pacific LifeCorp of $345 million.

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 2009 statutory results, PL&A could pay $23 million in dividends to Pacific Life in 2010 without prior regulatory approval. No dividends were paid during 2009, 2008 and 2007.

OTHER

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, 2009, statutory reserves ceded to this reinsurer amounted to approximately $162 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 $285 million and $278 million as of December 31, 2009 and 2008, respectively. Liabilities allocated to the Closed Block, which are primarily included in future policy benefits, amounted to $307 million and $311 million as of December 31, 2009 and 2008, respectively. The net contribution to income from the Closed Block was $4 million, $1 million and $1 million for the years ended December 31, 2009, 2008 and 2007, respectively.

4. VARIABLE INTEREST ENTITIES

The following table presents, as of December 31, 2009 and 2008, 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
December 31, 2009:		(In Millions)		
Aircraft securitizations	$2,642	$218 [1]	$371	
Private equity funds	239	30		
Asset-backed securities			1,910	$103
Total	$2,881	$248	$2,281	$103
December 31, 2008:				
Aircraft securitizations	$2,777	$145 [1]	$427	
Private equity funds	236	30		
Asset-backed securities			3,816	$93
Total	$3,013	$175	$4,243	$93

[1] Excludes contingent purchase obligations (Note 21) totaling $100 million and $50 million as of December 31, 2009 and 2008, respectively.

AIRCRAFT SECURITIZATIONS

ACG has sponsored three financial asset securitizations secured by interests in aircraft. ACG serves as the remarketing agent and provides various aircraft related services in all three securitizations for a fee. This fee is eliminated for the two consolidated securitizations and is included in other income as earned for the unconsolidated securitization.

In 2005, ACG sponsored a securitization transaction whereby ACG Trust III acquired 74 of ACG's aircraft through a private placement note offering in the amount of $1,860 million. ACG receives all of the expected residual return from ACG Trust III. Therefore, ACG was determined to be the primary beneficiary of this VIE and ACG Trust III is consolidated into the consolidated financial statements of the Company. These private placement notes are the obligation of ACG Trust III and represent debt that is non-recourse to the Company (Note 13). Non-recourse debt consolidated from ACG Trust III was $1,309 million and $1,445 million as of December 31, 2009 and 2008, respectively. As of December 31, 2009 and 2008, the maximum exposure to loss, based on carrying value, was $130 million and $72 million, respectively. Consolidated assets are reported in aircraft leasing portfolio, net, restricted cash and other assets. Consolidated liabilities are reported in long-term debt and other liabilities.

In 2003, ACG sponsored a securitization transaction whereby Aviation Capital Group Trust II (ACG Trust II) acquired 37 of ACG's aircraft through a private placement note offering in the amount of $1,027 million. ACG owns 100% of the equity of ACG Trust II and absorbs any losses in the trust up to ACG's equity interest. Therefore, ACG was determined to be the primary beneficiary of this VIE and ACG Trust II is consolidated into the consolidated financial statements of the Company. These private placement notes are the obligation of ACG Trust II and represent debt that is non-recourse to the Company (Note 13). Non-recourse debt consolidated from ACG Trust II was $666 million and $728 million as of December 31, 2009 and 2008, respectively. As of December 31, 2009 and 2008, the maximum exposure to loss, based on carrying value, was $88 million and $73 million, respectively. Consolidated assets are reported in aircraft leasing portfolio, net, restricted cash and other assets. Consolidated liabilities are reported in long-term debt and other liabilities.

In 2000, ACG sponsored a financial asset securitization of aircraft to Aviation Capital Group Trust (Aviation Trust). ACG and Pacific Life are beneficial interest holders in Aviation Trust. Aviation Trust is not consolidated as the Company is not the primary beneficiary. The carrying value is comprised of beneficial interests issued by Aviation Trust. As of December 31, 2009 and 2008, the maximum exposure to loss, based on carrying value, was zero.

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 as of December 31, 2009 and 2008. Consolidated assets are reported in other investments and cash and cash equivalents and consolidated liabilities are reported in long-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 special purpose entities (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. 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 Company does not consolidate these entities. The investments are reported as fixed maturity securities available for sale and had a net carrying amount of $103 million and $93 million at December 31, 2009 and 2008, respectively. During the years ended December 31, 2009 and 2008, the Company recorded OTTIs of $60 million and $117 million, respectively, related to these securities.

FUTURE ACCOUNTING CHANGE

Effective January 1, 2010, the Company will change the methodology it employs to determine if an entity is a VIE and, once identified, if a VIE should be included in the consolidated financial statements. The new methodology will place more emphasis on the Company's ability to direct the activities that most significantly impact the entity's financial performance. The Company will examine anew all entities previously identified as VIEs. The Company does not expect this change to have a material impact on its consolidated financial statements.

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.

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, for $288 million. The Company recognized a pre-tax gain of $109 million for the year ended December 31, 2008.

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.

Operating results of discontinued operations were as follows:

	Years Ended December 31,		
	2009	2008	2007
		(In Millions)	
Revenues		$13	$276
Benefits and expenses	$31	22	300
Loss from discontinued operations	(31)	(9)	(24)
Benefit from income taxes	(11)	(3)	(8)
Loss from discontinued operations, net of taxes	(20)	(6)	(16)
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	($20)	($6)	$11

Assets and liabilities from discontinued operations are included in other assets and other liabilities, respectively. Assets related to discontinued operations were zero and $6 million as of December 31, 2009 and 2008, respectively. Liabilities related to discontinued operations were zero and $13 million as of December 31, 2009 and 2008, respectively.

7. DEFERRED POLICY ACQUISITION COSTS

Components of DAC are as follows:

	Years Ended December 31,		
	2009	2008	2007
		(In Millions)	
Balance, January 1	$5,012	$4,481	$4,248
Cumulative pre-tax effect of adoption of new accounting principle (Note 1)	7		(45)
Additions:			
Capitalized during the year	777	752	852
Amortization:			
Allocated to commission expenses	(446)	(444)	(432)
Allocated to operating expenses	(129)	(133)	(118)
Total amortization	(575)	(577)	(550)
Allocated to OCI	(415)	356	(24)
Balance, December 31	$4,806	$5,012	$4,481

During the years ended December 31, 2009, 2008 and 2007, the Company revised certain assumptions to develop EGPs for its products subject to DAC amortization (Note 1). This resulted in increases in DAC amortization expense of $23 million and $20 million for the years ended December 31, 2009 and 2008, respectively, and a decrease in DAC amortization expense of $12 million for the year ended December 31, 2007. The revised EGPs also resulted in an immaterial decrease in URR amortization for the year ended December 31, 2009, increased URR amortization of $2 million for the year ended December 31, 2008, 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 credit related OTTIs and changes in the estimated fair value of fixed maturity securities attributable to the hedged risk in a fair value hedge. See Note 14 for information on the Company's fair value measurement and disclosure.

	Net Carrying Amount	Gross Unrealized		Estimated Fair Value
		Gains	Losses	
	(In Millions)			
December 31, 2009:				
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$105	$10		$115
Obligations of states and political subdivisions	633	12	$46	599
Foreign governments	389	42		431
Corporate securities	17,256	905	308	17,853
RMBS	6,133	105	1,078	5,160
Commercial mortgage-backed securities	1,160	42	23	1,179
Collateralized debt obligations	118	27	33	112
Other asset-backed securities	562	45	17	590
Total fixed maturity securities	$26,356	$1,188	$1,505	$26,039
Perpetual preferred securities	$324	$6	$55	$275
Other equity securities	1	2		3
Total equity securities	$325	$8	$55	$278

	Net Carrying Amount	Gross Unrealized		Estimated Fair Value
		Gains	Losses	
	(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	15,828	307	1,618	14,517
RMBS	6,133	105	1,306	4,932
Commercial mortgage-backed securities	1,191	15	106	1,100
Collateralized debt obligations	126		2	124
Other asset-backed securities	615	32	109	538
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

The Company has investments in perpetual preferred securities that are issued primarily by European and U.S. banks. The net carrying amount and estimated fair value of the available for sale perpetual preferred securities was $451 million and $391 million, respectively, as of December 31, 2009. Included in these amounts are perpetual preferred securities carried in trusts with a net carrying amount and estimated fair value of $127 million and $116 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, 2009, by contractual repayment date of principal, are shown below. Expected maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Net Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In Millions)			
Due in one year or less	$1,825	$68	$25	$1,868
Due after one year through five years	5,235	288	54	5,469
Due after five years through ten years	7,210	366	135	7,441
Due after ten years	4,113	247	140	4,220
	18,383	969	354	18,998
Mortgage-backed and asset-backed securities	7,973	219	1,151	7,041
Total	$26,356	$1,188	$1,505	$26,039

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, 2009:			
Obligations of states and political subdivisions	27	$383	$46
Corporate securities	442	4,539	308
RMBS	307	3,844	1,078
Commercial mortgage-backed securities	19	339	23
Collateralized debt obligations	6	61	33
Other asset-backed securities	24	205	17
Total fixed maturity securities	825	9,371	1,505
Perpetual preferred securities	18	195	55
Other securities	31	97	26
Total other securities	49	292	81
Total	874	$9,663	$1,586

	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, 2009:						
Obligations of states and political subdivisions	11	$116	$6	16	$267	$40
Corporate securities	182	1,766	50	260	2,773	258
RMBS	53	498	94	254	3,346	984
Commercial mortgage-backed securities	6	100	5	13	239	18
Collateralized debt obligations	5	59	32	1	2	1
Other asset-backed securities				24	205	17
Total fixed maturity securities	257	2,539	187	568	6,832	1,318
Perpetual preferred securities				18	195	55
Other securities	16	54	9	15	43	17
Total other securities	16	54	9	33	238	72
Total	273	$2,593	$196	601	$7,070	$1,390

	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	956	9,674	1,618
RMBS	342	3,693	1,306
Commercial mortgage-backed securities	45	796	106
Collateralized debt obligations	5	2	2
Other asset-backed securities	43	326	109
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	655	6,692	805	301	2,982	813
RMBS	145	2,229	699	197	1,464	607
Commercial mortgage-backed securities	31	569	74	14	227	32
Collateralized debt obligations	4	1	2	1	1	
Other asset-backed securities	25	203	47	18	123	62
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

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 does not intend to sell the securities and it is more likely than not that the Company will not be required to sell the securities before recovery of their net carrying amounts.

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 by 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 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, 2009.

Rating	Net Carrying Amount	Estimated Fair Value	Rating as % of Net Carrying Amount	Vintage Breakdown 2004 and Prior	2005	2006	2007	2008	2009
	($ In Millions)								
Prime RMBS:									
AAA	$960	$878	29%	21%	7%	1%			
AA	320	279	9%	4%	2%	3%			
A	252	208	8%	1%	2%	3%	2%		
BAA	525	402	16%	2%	7%	6%	1%		
BA and below	1,264	893	38%		8%	18%	12%		
Total	$3,321	$2,660	100%	28%	26%	31%	15%	0%	0%
Alt-A RMBS:									
AAA	$58	$52	6%	6%					
AA	13	16	1%	1%					
A	13	9	1%	1%					
BAA	24	23	3%		1%	2%			
BA and below	843	556	89%		10%	27%	52%		
Total	$951	$656	100%	8%	11%	29%	52%	0%	0%
Sub-prime RMBS:									
AAA	$230	$179	52%	52%					
AA	97	73	22%	22%					
A	21	13	5%	5%					
BAA	42	32	9%		9%				
BA and below	53	37	12%	1%	9%	1%	1%		
Total	$443	$334	100%	80%	18%	1%	1%	0%	0%
CMBS:									
AAA	$1,017	$1,054	88%	65%	3%		15%	1%	4%
AA	66	61	6%	4%					2%
A	37	32	3%	3%					
BAA	28	22	2%				2%		
BA	12	10	1%	1%					
Total	$1,160	$1,179	100%	73%	3%	0%	17%	1%	6%

As of December 31, 2009, the Company has received advances of $1.5 billion from the Federal Home Loan Bank (FHLB) of Topeka and has issued 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 $1.8 billion as of December 31, 2009 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, 2009, the Company holds $76 million of FHLB of Topeka stock.

PL&A is a member of FHLB of San Francisco. As of December 31, 2009, no assets are pledged as collateral. As of December 31, 2009, the Company holds $25 million of FHLB of San Francisco stock.

The Company had a securities lending program administered by one of the largest U.S. financial institutions specializing in securities lending and short-term fixed-income asset management. This securities lending program was terminated in February 2009. Securities loaned were zero as of December 31, 2008.

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

	Years Ended December 31,		
	2009	2008	2007
	(In Millions)		
Fixed maturity securities	$1,448	$1,467	$1,492
Equity securities	20	23	26
Mortgage loans	297	289	248
Real estate	92	86	68
Policy loans	229	223	209
Partnerships and joint ventures	(78)	21	170
Other	12	21	44
Gross investment income	2,020	2,130	2,257
Investment expense	158	136	137
Net investment income	$1,862	$1,994	$2,120

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

	Years Ended December 31,		
	2009	2008	2007
	(In Millions)		
Fixed maturity securities:			
Gross gains on sales	$35	$100	$117
Gross losses on sales	(18)	(37)	(23)
Other	12	4	20
Total fixed maturity securities	29	67	114
Equity securities:			
Gross gains on sales			5
Gross losses on sales	(11)		
Other	2	1	
Total equity securities	(9)	1	5
Trading securities	20	(22)	(1)
Variable annuity GLB embedded derivatives	2,211	(2,775)	(222)
Variable annuity GLB policy fees	147	108	78
Variable annuity derivatives - interest rate swaps	(104)	402	
Variable annuity derivatives - total return swaps	(1,542)	646	13
Equity put options	(672)	853	31
Synthetic GIC policy fees	25	15	
Other derivatives	45	(62)	(11)
Other	3	18	62
Total	$153	($749)	$69

As a result of the significant disruption in the housing, financial and credit markets, the OTTI charges recorded during the year ended December 31, 2009 were primarily related to the Company's exposure to RMBS, certain structured securities and direct exposure to corporate securities. The table below summarizes the OTTIs by security type (*In Millions*):

	Recorded in Earnings	Included in OCI	Total
Year ended December 31, 2009:			
Corporate securities	$63 (1)	$2	$65
RMBS	116	315	431
Collateralized debt obligations	66	13	79
Perpetual preferred securities	26		26
Other investments	40		40
Total OTTIs	$311	$330	$641
Year ended December 31, 2008:			
Corporate securities	$70		
RMBS	227		
Collateralized debt obligations	156		
Other asset-backed securities	1		
Perpetual preferred securities	68		
Other equity securities	58		
Total OTTIs	$580		

(1) Included are $29 million of OTTI recorded in earnings on perpetual preferred securities carried in trusts.

In accordance with additional guidance under the Codification's Investments – Debt and Equity Securities Topic effective January 1, 2009, the Company began recording the credit loss portion of OTTI adjustments in earnings and the portion related to other factors in OCI. The table below details the amount of OTTIs attributable to credit losses recorded in earnings for which a portion was recognized in OCI (*In Millions*):

Cumulative credit loss, January 1, 2009	$88
Additions for credit impairments recognized on:	
Securities not previously other than temporarily impaired	48
Securities previously other than temporarily impaired	106
Total additions	154
Reductions for credit impairments previously recognized on:	
Securities that matured or were sold	(40)
Securities due to an increase in expected cash flows and time value of cash flows	(2)
Total subtractions	(42)
Cumulative credit loss, December 31, 2009	$200

The table below presents separately the gross unrealized losses on investments for which OTTI has been recorded in earnings in current or prior periods and the gross unrealized losses on temporarily impaired investments for which no OTTI has been recorded.

	Gross Unrealized Losses		
	OTTI Investments	Non-OTTI Investments	Total
		(In Millions)	
December 31, 2009:			
Obligations of states and political subdivisions		$46	$46
Corporate securities	$2	306	308
RMBS	328	750	1,078
CMBS		23	23
Collateralized debt obligations	32	1	33
Other asset-backed securities		17	17
Total fixed maturity securities	$362	$1,143	$1,505
Perpetual preferred securities		$55	$55
Total equity securities		$55	$55

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

	Years Ended December 31,		
	2009	2008	2007
		(In Millions)	
Available for sale securities:			
Fixed maturity	$2,455	($3,269)	($211)
Equity	124	(143)	(49)
Total available for sale securities	$2,579	($3,412)	($260)
Trading securities	$26	($19)	($2)

Trading securities totaled $206 million and $114 million as of December 31, 2009 and 2008, respectively. The cumulative unrealized gains (losses) on trading securities held as of December 31, 2009 and 2008 were $7 million and ($19) million, respectively.

As of December 31, 2009 and 2008, fixed maturity securities of $12 million were on deposit with state insurance departments to satisfy regulatory requirements.

Mortgage loans totaled $6,577 million and $5,622 million as of December 31, 2009 and 2008, respectively. Mortgage loans are collateralized by commercial real estate properties primarily located throughout the U.S. As of December 31, 2009, $1,122 million, $963 million, $785 million, $554 million and $369 million were located in California, Washington, Florida, Texas and Maryland, respectively. As of December 31, 2009, $543 million was located in Canada. There were no defaults during the years ended December 31, 2009, 2008, and 2007. The Company did not have any mortgage loans with accrued interest more than 180 days past due as of December 31, 2009 or 2008. As of December 31, 2009, mortgage loan investments with one commercial sponsor exceeded 10% of stockholder's equity. The carrying value of these investments was $725 million as of December 31, 2009.

Investments in real estate totaled $574 million and $459 million as of December 31, 2009 and 2008, respectively. There were no real estate write-downs during the years ended December 31, 2009, 2008 and 2007.

9. AIRCRAFT LEASING PORTFOLIO, NET

Aircraft leasing portfolio, net, consisted of the following:

	December 31, 2009	December 31, 2008
	(In Millions)	
Aircraft consolidated from VIEs	$3,081	$3,099
Other aircraft	3,217	2,667
	6,298	5,766
Accumulated depreciation	994	767
Aircraft leasing portfolio, net	$5,304	$4,999

As of December 31, 2009, domestic and foreign future minimum rentals scheduled to be received under the noncancelable portion of operating leases are as follows (*In Millions*):

	2010	2011	2012	2013	2014	Thereafter
Domestic	$23	$19	$15	$13	$13	$28
Foreign	526	448	369	274	214	390
Total operating leases	$549	$467	$384	$287	$227	$418

As of December 31, 2009 and 2008, aircraft with a carrying amount of $4,954 million and $4,366 million, respectively, were assigned as collateral to secure debt (Notes 4 and 13).

There were no impairments recorded during the years ended December 31, 2009, 2008 and 2007.

During the years ended December 31, 2009, 2008 and 2007, ACG recognized pre-tax gains on the sale of aircraft of zero, zero and $18 million, respectively, which are included in other income.

In December 2007, ACG sold its entire ownership interest in an unconsolidated affiliate. The transaction resulted in a pre-tax gain of $17 million, which is included in net realized investment gain (loss) for the year ended December 31, 2007.

10. 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.

Accounting for derivatives and hedging activities requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the consolidated statements of financial condition. In accordance with accounting for derivatives and hedging activities, 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 at inception 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.

DERIVATIVES DESIGNATED AS 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 are also periodic exchanges 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 their effective dates.

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 of certain 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 years ended December 31, 2009, 2008 and 2007, the Company had net losses of zero, zero and $21 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 $24 million of deferred losses on derivative instruments in AOCI will be reclassified to earnings. For the years ended December 31, 2009, 2008 and 2007, all of the Company's hedged forecasted transactions were determined to be probable of occurring.

The Company had the following outstanding derivatives designated as cash flow hedges:

	Notional Amount	
	December 31,	
	2009	2008
	(In Millions)	
Foreign currency interest rate swaps	$5,099	$6,488
Forward starting interest rate swaps	1,060	1,535
Interest rate swaps	3,910	4,384

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.

DERIVATIVES DESIGNATED AS FAIR VALUE HEDGES

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 years ended December 31, 2009, 2008 and 2007, hedge ineffectiveness related to designated fair value hedges reflected in net realized investment gain (loss) was $5 million, ($1) million and zero, respectively. No component of the hedging instrument's estimated fair value is excluded from the determination of effectiveness.

The Company had the following outstanding derivatives designated as fair value hedges:

	Notional Amount	
	December 31,	
	2009	2008
	(In Millions)	
Foreign currency interest rate swaps	$13	$18
Interest rate swaps	1,658	1,264

DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS

The Company has certain insurance and reinsurance contracts that are considered to have 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 and the periodic cash flows 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 GLBs are considered embedded derivatives and are recorded in future policy benefits.

GLBs on variable annuity contracts issued between January 1, 2007 and March 31, 2009 are partially covered by reinsurance. These reinsurance arrangements are used to offset a portion of the Company's exposure to the GLBs for the lives of the host variable annuity contracts issued. 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 (variable annuity derivatives) to mitigate equity risk associated with the GLBs not covered by reinsurance. 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 trade date is positive or negative, respectively. Payments are recognized in realized investment loss and receipts are recognized in realized investment gain. The Company has used interest rate swaps to hedge fluctuations in the valuation of GLBs as a result of changes in risk free rates. These agreements involved 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 also uses equity put options to hedge equity and credit risks. These equity put options involve the exchange of periodic fixed rate payments for the return, at the end of the option 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 offers equity indexed universal life insurance products, which credits the total return of the S&P 500 to the policy cash value. A policyholder may allocate the policy's net accumulated value to one or a combination of the following: fixed return account, one year indexed account capped at 12%, or a five year indexed account.

The Company utilizes one year European style S&P 500 call options to hedge the annual exposure of the indexed life insurance product's index growth rate for the one year indexed account. The Company also purchases five year European style S&P 500 Asian call options to hedge the five year exposure of the indexed life insurance product's index growth rate for the five year indexed account.

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 estimated 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. The Company writes credit default swaps for which a payment is delivered if the underlying security of the derivative defaults. The maximum potential amounts of future payments under credit default swaps were $50 million and $95 million as of December 31, 2009 and 2008, respectively. As of December 31, 2009 and 2008, the fair value of credit derivatives sold by the Company was ($17) million and ($38) million, respectively. The terms for these instruments range from five to seven years.

The Company had the following outstanding derivatives not designated as hedging instruments:

	Notional Amount	
	December 31,	
	2009	2008
	(In Millions)	
Variable annuity GLB embedded derivatives	$36,408	$33,455
Variable annuity derivatives - interest rate swaps		2,150
Variable annuity derivatives - total return swaps	4,456	2,437
Variable annuity GLB reinsurance contracts	14,878	13,274
Equity put options	5,267	5,173
Synthetic GICs	23,993	23,856
Interest rate swaps	178	535
Foreign currency interest rate swaps	398	460
Other	1,021	849

CONSOLIDATED FINANCIAL STATEMENT IMPACT

Derivative instruments are recorded in the Company's consolidated statements of financial condition at fair value and are presented as assets or liabilities determined by calculating the net position for each derivative counterparty by legal entity, taking into account income accruals and net cash collateral.

The following table summarizes the gross asset or liability derivative fair value and excludes the impact of offsetting asset and liability positions held with the same counterparty, cash collateral payables and receivables and income accruals. See Note 14.

	Asset Derivatives Estimated Fair Value December 31, 2009	Asset Derivatives Estimated Fair Value December 31, 2008		Liability Derivatives Estimated Fair Value December 31, 2009	Liability Derivatives Estimated Fair Value December 31, 2008	
	(In Millions)			*(In Millions)*		
Derivatives designated as hedging instruments:						
Foreign currency interest rate swaps	$177	$308	(1)	$230	$87	(1)
	69	146	(5)	154	423	(5)
Forward starting interest rate swap agreements	34	88	(1)		23	(1)
	8	232	(5)		45	(5)
Interest rate swaps	32	32	(1)	106	124	(1)
	13	72	(5)	152	337	(5)
Total derivatives designated as hedging instruments	333	878		642	1,039	
Derivatives not designated as hedging instruments:						
Variable annuity derivatives - interest rate swaps		232	(1)			
		140	(5)			
Variable annuity derivatives - total return swaps	6		(1)	60	33	(1)
		55	(5)	4	53	(5)
Equity put options	329	350	(1)	16		(1)
	41	587	(5)	14		(5)
Foreign currency interest rate swaps	21	1	(1)			
		15	(5)		13	(5)
Interest rate swaps	9	18	(1)	2	3	(1)
	1	11	(5)		39	(5)
Other	18	2	(1)	23	1	(1)
	26	11	(5)		38	(5)
Embedded derivatives:						
Variable annuity GLB embedded derivatives (including reinsurance contracts)	52	429	(2)	754	3,342	(3)
Synthetic GICs					3	(3)
Other				44	8	(4)
Total derivatives not designated as hedging instruments	503	1,851		917	3,533	
Total derivatives	$836	$2,729		$1,559	$4,572	

Location on the consolidated statements of financial condition:
(1) Other investments (2) Other assets (3) Future policy benefits (4) Policyholder account balances (5) Other liabilities

Net cash collateral received from counterparties was $237 million and $1,392 million as of December 31, 2009 and 2008, 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 or other liabilities. Net cash collateral pledged to counterparties was $137 million and $66 million as of December 31, 2009 and 2008, 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 investments or other liabilities. If the net estimated fair value exposure to the counterparty is positive, the amount is reflected in other investments, 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.

As of December 31, 2009 and 2008, the Company had also accepted collateral consisting of various securities with an estimated fair value of $14 million and $147 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, 2009 and 2008, zero and $15 million, respectively, of the collateral had been repledged. As of December 31, 2009 and 2008, the Company provided collateral in the form of various securities of zero and $17 million, respectively, which are included in fixed maturity securities. The counterparties are permitted by contract to sell or repledge this collateral.

The following table summarizes amounts recorded in net realized investment gain (loss) for derivatives designated as fair value hedges. Gains and losses include the changes in estimated fair value of the derivatives and the hedged items, and amounts realized on terminations. The net of the amounts presented for each year represent the ineffective portion of the hedge. The amounts presented do not include the periodic net coupon settlements of the derivatives or the coupon income (expense) related to the hedged item.

	Gain (Loss) Recognized in Income on Derivatives			Gain (Loss) Recognized in Income on Hedged Items		
	Years Ended December 31,			Years Ended December 31,		
	2009	2008	2007	2009	2008	2007
	(In Millions)			*(In Millions)*		
Derivatives in fair value hedges:						
Foreign currency interest rate swaps		($1)	($1)		$1	$2
Interest rate swaps	$97	(135)	(56)	($93)	134	56
Total	$97	($136)	($57)	($93)	$135	$58

The following table summarizes amounts recorded in the consolidated financial statements for derivatives designated as cash flow hedges. Gain and losses include the changes in estimated fair value of the derivatives and amounts realized on terminations. The amounts presented do not include the periodic net coupon settlements of the derivatives.

	Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)			Gain (Loss) Reclassified from AOCI into Income (Effective Portion)				Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion)			
	Years Ended December 31,			Years Ended December 31,				Years Ended December 31,			
	2009	2008	2007	2009	2008	2007		2009	2008	2007	
	(In Millions)			*(In Millions)*				*(In Millions)*			
Derivatives in cash flow hedges:											
Foreign currency interest rate swaps	$42	$66	($97)	($104)	($368)	($3)	[1]			$1	[1]
				9	14	18	[3]				
Forward starting interest rate swaps	(254)	336	33		4		[1]	($1)	$3	(2)	[1]
						(1)	[2]				
				(11)	(1)	(1)	[3]				
Interest rate swaps	66	(146)	(83)	9		(1)	[1]	9	(7)		[1]
					2	3	[2]				
				(18)		(3)	[3]				
Futures				1	3	4	[2]				
					(1)	(1)	[3]				
Total	($146)	$256	($147)	($114)	($347)	$15		$8	($4)	($1)	

Location on the consolidated statements of operations:
[1] Net realized investment gain (loss) [2] Net investment income [3] Interest credited to policyholder account balances

The following table summarizes amounts recorded in the consolidated financial statements for derivatives not designated as hedging instruments. Gains and losses include the changes in estimated fair value of the derivatives and amounts realized on terminations. The amounts presented do not include the periodic net coupon settlements of ($1,476) million, $639 million and ($41) million for the years ended December 31, 2009, 2008 and 2007, respectively, which are recorded in net realized investment gain (loss).

	Amount of Gain (Loss) Recognized in Income on Derivatives			
	Years Ended December 31,			
	2009	2008	2007	
	(In Millions)			
Derivatives not designated as hedging instruments:				
Variable annuity derivatives - interest rate swaps	($168)	$386		(1)
Variable annuity derivatives - total return swaps	(102)	(55)	$28	(1)
Equity put options	(580)	927	55	(1)
Foreign currency interest rate swaps	(8)	12	(2)	(1)
	(1)	(1)		(2)
Interest rate swaps		(8)	2	(1)
	(1)	(9)		(2)
Other	44	(56)		(1)
Embedded derivatives:				
Variable annuity GLB embedded derivatives (including reinsurance contracts)	2,211	(2,775)	(222)	(1)
Other embedded derivatives	(14)	13	1	(1)
Total	$1,381	($1,566)	($138)	

Location on the consolidated statements of operations:
(1) Net realized investment gain (loss) (2) Interest credited to policyholder account balances

CREDIT EXPOSURE AND CREDIT RISK RELATED CONTINGENT FEATURES

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, 2009 was $126 million. The maximum exposure to any single counterparty was $41 million at December 31, 2009.

For all derivative contracts, excluding embedded derivative contracts such as variable annuity GLBs and synthetic GICs, the Company enters into master agreements that may include a termination event clause associated with Pacific Life's insurer financial strength ratings assigned by certain independent rating agencies. If Pacific Life's insurer financial strength rating falls below a specified level, as defined within each counterparty master agreement 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, 2009, Pacific Life's insurer financial strength ratings were above the specified level.

If Pacific Life's insurer financial strength rating were to fall below the next investment grade from its current standing, the counterparties to the derivative instruments could request immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit risk related contingent features that are in a liability position on December 31, 2009, is $232 million for which the Company has posted collateral of $137 million in the normal course of business. If certain of Pacific Life's insurer financial strength ratings were to fall one notch as of December 31, 2009, the Company would have been required to post an additional $14 million of collateral to its counterparties.

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, 2009, the Company has incurred losses of $4 million, included in net realized investment gain (loss), on derivative instruments due to counterparty default related to the bankruptcy of Lehman Brothers Special Finance. These losses were a result of the termination of all remaining open positions with Lehman counterparties.

11. POLICYHOLDER LIABILITIES

POLICYHOLDER ACCOUNT BALANCES

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

	December 31, 2009	December 31, 2008
	(In Millions)	
Universal life	$19,298	$18,729
Annuity and deposit liabilities	7,109	4,515
Funding agreements	5,240	7,890
GICs	2,337	1,536
Total	$33,984	$32,670

FUTURE POLICY BENEFITS

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

	December 31, 2009	December 31, 2008
	(In Millions)	
Annuity reserves	$4,960	$4,455
Variable annuity GLB embedded derivatives	754	3,342
URR	734	925
Life insurance	365	360
Closed Block liabilities	306	311
Policy benefits payable	260	433
Other	24	15
Total	$7,403	$9,841

12. 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 annuitization value after 10 years. Annuitization value is generally based on deposits adjusted for withdrawals plus a minimum return. In general, the GMIB requires contract holders to invest in an approved asset allocation strategy.

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, 2009	December 31, 2008
	($ In Millions)	
Return of net deposits		
Separate account value	$46,884	$36,672
Net amount at risk [1]	4,017	11,557
Average attained age of contract holders	61 years	61 years
Anniversary contract value		
Separate account value	$16,483	$13,465
Net amount at risk [1]	2,541	5,750
Average attained age of contract holders	63 years	62 years
Minimum return		
Separate account value	$1,241	$1,107
Net amount at risk [1]	620	898
Average attained age of contract holders	65 years	64 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, 2009	December 31, 2008
	($ In Millions)	
Separate account value	$2,675	$2,230
Average attained age of contract holders	58 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,		December 31,	
	2009	2008	2009	2008
	GMDB		GMIB	
	(In Millions)		(In Millions)	
Balance, beginning of year	$119	$48	$62	$24
Changes in reserves	(11)	119	(23)	38
Benefits paid	(108)	(48)	(1)	
Balance, end of year	$0	$119	$38	$62

Reinsurance recoverables related to GMDB reserves totaled zero and $3 million as of December 31, 2009 and 2008, respectively, which are included with other reinsurance receivables in other assets. Reinsurance recoverables related to GMIB reserves are not significant.

Variable annuity contracts with guarantees were invested in separate account investment options as follows:

	December 31, 2009	December 31, 2008
	(In Millions)	
Asset type		
Domestic equity	$25,760	$17,927
International equity	6,728	5,476
Bonds	13,775	12,182
Money market	621	1,087
Total separate account value	$46,884	$36,672

13. DEBT

Debt consists of the following:

	December 31, 2009	December 31, 2008
	(In Millions)	
Short-term debt:		
Credit facility recourse only to ACG	$105	$150
Total short-term debt	$105	$150
Long-term debt:		
Surplus notes	$1,150	$150
Fair value adjustment for derivatives and hedging activities	(13)	55
Non-recourse long-term debt:		
Debt recourse only to ACG	1,636	1,271
ACG non-recourse debt	761	687
Other non-recourse debt	121	121
ACG VIE debt (Note 4)	1,975	2,173
Other VIE debt (Note 4)	2	2
Total long-term debt	$5,632	$4,459

SHORT-TERM DEBT

ACG has a revolving credit agreement with a bank for a $105 million borrowing facility, which was entered into in May 2009. Interest is at variable rates and the facility matures in April 2010. The amount outstanding as of December 31, 2009 was $105 million, bearing an interest rate of 4.8%. As of and during the year ended December 31, 2009, ACG was in compliance with the debt covenants related to this facility. This credit facility is recourse only to ACG.

ACG had a revolving credit agreement with a bank for a $150 million borrowing facility, which was entered into in April 2008. The amount outstanding as of December 31, 2008 was $150 million, bearing an interest rate of 2.3%. This credit facility matured and was repaid in May 2009.

Pacific Life maintains a $700 million commercial paper program. There was no commercial paper debt outstanding as of December 31, 2009 and 2008. 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, 2009 and 2008. As of and during the year ended December 31, 2009, 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, 2009 and 2008.

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, 2009 and 2008. The Company had $127 million and $1.0 billion of additional funding capacity from eligible collateral as of December 31, 2009 and 2008, respectively.

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 $102 million. Of this amount, half, or $51 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, 2009 and 2008, PL&A had no debt outstanding with the FHLB of San Francisco.

LONG-TERM DEBT

In June 2009, Pacific Life issued $1.0 billion of surplus notes at a fixed interest rate of 9.25%, maturing on June 15, 2039. Interest is payable semiannually on June 15 and December 15. Pacific Life may redeem the 9.25% surplus notes at its option, subject to the approval of the Nebraska Director of Insurance for such optional redemption. The 9.25% 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 9.25% surplus notes can be made only with the prior approval of the Nebraska Director of Insurance. The Company entered into interest rate swaps converting $650 million of these surplus notes to variable rate notes based upon the London InterBank Offered Rate (LIBOR). The interest rate swaps were designated as fair value hedges of these surplus notes and the changes in fair value of the hedged surplus notes associated with changes in interest rates are reflected as an adjustment to their carrying amount. This adjustment to the carrying amount of the surplus notes, which decreased long-term debt by $35 million as of December 31, 2009, is offset by a fair value adjustment which has also been recorded for the interest rate swap derivative instruments.

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 7.9% surplus notes may not be redeemed at the option of Pacific Life or any holder of the surplus notes. The 7.9% 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 7.9% surplus notes can be made only with the prior approval of the Nebraska Director of Insurance. The Company entered into interest rate swaps converting these surplus notes to variable rate notes based upon the LIBOR. The interest rate swaps were designated as fair value hedges of these surplus notes and the changes in fair value of the hedged surplus notes associated with changes in interest rates are reflected as an adjustment to their carrying amount. This adjustment to the carrying amount of the surplus notes, which increased long-term debt by $22 million and $55 million as of December 31, 2009 and 2008, respectively, is offset by a fair value adjustment which has also been recorded for the interest rate swap derivative instruments.

ACG enters into various term loans with third-parties. Interest on these loans is payable monthly, quarterly or semi-annually and ranged from 0.3% to 6.8% as of December 31, 2009 and from 1.7% to 6.8% as of December 31, 2008. As of December 31, 2009, $1,636 million was outstanding on these loans with maturities ranging from 2010 to 2021. Principal payments due over the next twelve months are $297 million. As of December 31, 2008, $1,271 million was outstanding on these loans. These loans are recourse only to ACG.

ACG enters into various acquisition facilities and bank loans to acquire aircraft. Interest on these facilities and loans accrues at variable rates, is payable monthly and ranged from 1.6% to 3.2% as of December 31, 2009 and from 2.0% to 3.0% as of December 31, 2008. As of December 31, 2009, $761 million was outstanding on these facilities and loans with maturities ranging from 2010 to 2014. As of December 31, 2008, $687 million was outstanding on these facilities and loans. These facilities and loans are non-recourse to the Company.

ACG had a loan with Pacific Asset Funding, LLC, a wholly owned subsidiary of Pacific LifeCorp, for $50 million, which was entered into in April 2009. Interest was at variable rates and the loan was repaid in November 2009.

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 ranged from 5.8% to 6.2% as of December 31, 2009 and 2008. As of December 31, 2009 and 2008, there was $87 million outstanding on these loans with maturities ranging from 2010 to 2012. Principal payments due over the next twelve months are $32 million. 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 ranged from 1.4% and 2.0% as of December 31, 2009 and 2.6% to 3.6% as of December 31, 2008. As of December 31, 2009 and 2008, there was $34 million outstanding on these loans with maturities ranging from 2010 to 2011. Principal payments due over the next twelve months are $26 million. All of these loans are secured by real estate properties and are non-recourse to the Company.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Codification's Fair Value Measurements and Disclosures Topic 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 highly 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 tables present, by fair value hierarchy level, the Company's financial assets and liabilities that are carried at fair value as of December 31, 2009 and 2008.

	Level 1	Level 2	Level 3	Gross Derivatives Fair Value	Netting Adjustments [1]	Total
			(In Millions)			
December 31, 2009:						
Assets:						
U.S. Treasury securities and obligations of U.S. government authorities and agencies		$109	$6			$115
Obligations of states and political subdivisions		565	34			599
Foreign governments		323	108			431
Corporate securities		15,566	2,287			17,853
RMBS		1,510	3,650			5,160
CMBS		852	327			1,179
Collateralized debt obligations		8	104			112
Other asset-backed securities		355	235			590
Total fixed maturity securities		19,288	6,751			26,039
Perpetual preferred securities		205	70			275
Other equity securities	$3					3
Total equity securities	3	205	70			278
Trading securities [2]	92	85	29			206
Cash equivalents	1,714					1,714
Other investments			163			163
Derivatives		369	467	$836	($595)	241
Separate account assets [3]	52,305	116	101			52,522
Total	$54,114	$20,063	$7,581	$836	($595)	$81,163
Liabilities:						
Derivatives		$645	$914	$1,559	($595)	$964
Total		$645	$914	$1,559	($595)	$964

	Level 1	Level 2	Level 3	Gross Derivatives Fair Value	Netting Adjustments (1)	Total
				(In Millions)		
December 31, 2008:						
Assets:						
U.S. Treasury securities and obligations of U.S. government authorities and agencies		$117				$117
Obligations of states and political subdivisions		369				369
Foreign governments		223	$22			245
Corporate securities		12,274	2,243			14,517
RMBS		1,577	3,355			4,932
CMBS		899	201			1,100
Collateralized debt obligations		20	104			124
Other asset-backed securities		328	210			538
Total fixed maturity securities		15,807	6,135			21,942
Perpetual preferred securities		202	12			214
Other equity securities		2				2
Total equity securities		204	12			216
Trading securities (2)		17	97			114
Cash equivalents	$2,597					2,597
Other investments			150			150
Derivatives		1,294	1,435	$2,729	($656)	2,073
Separate account assets (3)	41,145	275	61			41,481
Total	$43,742	$17,597	$7,890	$2,729	($656)	$68,573
Liabilities:						
Derivatives		$1,095	$3,477	$4,572	($656)	$3,916
Total		$1,095	$3,477	$4,572	($656)	$3,916

(1) Netting adjustments represent the impact of offsetting asset and liability positions held with the same counterparty as permitted by guidance for offsetting in the Codification's Derivatives and Hedging Topic.

(2) Trading securities are presented in other investments in the consolidated statements 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 guidance in the Codification's Financial Services – Insurance Topic for accounting and reporting of certain non traditional long-duration contracts and separate accounts. Separate account assets as presented in the table above differ from the amounts presented in the consolidated statements of financial condition because cash and receivables for securities are not subject to the guidance under the Codification's Fair Value Measurements and Disclosures Topic.

FAIR VALUE MEASUREMENT

The Codification's Fair Value Measurements and Disclosures Topic 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 other 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, and estimated projected cash flows that incorporate significant inputs such as defaults and delinquency rates, severity, subordination, vintage and prepayment speeds.

For non-agency RMBS backed by prime, sub-prime and Alt-A collateral, the Company has determined that there has been a significant decrease in the volume and level of transaction activity indicating the need for a valuation technique not solely based on observable transactions and/or quoted market prices. As permitted by guidance in the Codification's Fair Value Measurements and Disclosures Topic beginning March 31, 2009, the Company determines the estimated fair value for these assets utilizing an internally developed weighting of valuations derived from internal pricing models and independent pricing services. This approach utilizes multiple valuation techniques incorporating an income approach (maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs) and a market approach (based on data provided by independent pricing services) producing a result more representative of an investment's fair value as compared to a single valuation technique. The income approach incorporates cash flows for each investment adjusted for expected losses assuming various interest rate and housing price-level scenarios. The adjusted cash flows are discounted using a risk premium that market participants would demand given the risk in the modeled cash flows. The risk premium utilized is reflective of an orderly transaction between market participants under current market conditions and includes considerations such as liquidity and structure risk. These internally generated prices are then reviewed in conjunction with prices obtained from multiple independent pricing services. The internally generated prices are weighted with the prices obtained from independent pricing services, with consideration given to the relative range of values that are most representative of fair value under current conditions. These securities have been classified as Level 3 financial assets.

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. 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 investments are classified as Level 1.

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 investments are classified as Level 3 assets.

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, 2009, 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 the Codification's Fair Value Measurements and Disclosures Topic, a credit valuation analysis 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 (nonperformance risk), and was determined to be immaterial as of December 31, 2009.

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.

VARIABLE ANNUITY GLB EMBEDDED DERIVATIVES

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

The Company's fair value is calculated as an aggregation 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.

- Behavior Risk Margin: This component adds a margin that market participants would require for the risk that the Company's assumptions about policyholder behavior used in the fair value model could differ from actual experience.

- Mortality Risk Margin: 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.

- Credit Standing Adjustment: 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).

SEPARATE ACCOUNT ASSETS

Separate account assets are primarily invested in mutual funds, but also have investments in fixed maturity and short-term securities. Separate account assets are valued in the same manner, and using the same pricing sources and inputs, as the fixed maturity and equity securities available for sale of the Company. Mutual funds are included in Level 1. Most fixed maturity securities are included in Level 2. Level 3 assets include any investments where fair value is based on management assumptions or obtained from independent third-parties and fair value measurement inputs are not sufficiently transparent.

LEVEL 3 RECONCILIATION

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

	January 1, 2009	Total Gains or Losses Included in Earnings	Total Gains or Losses Included in OCI	Transfers In and/or Out of Level 3	Purchases, Sales, Issuances, and Settlements	December 31, 2009	Unrealized Gains (Losses) Still Held [1]
				(In Millions)			
Assets:							
U.S. Treasury securities and obligations of U.S. government authorities and agencies				$6		$6	
Obligations of states and political subdivisions			($3)	7	$30	34	
Foreign governments	$22	$2	5	71	8	108	
Corporate securities	2,243	(28)	644	(974)	402	2,287	($5)
RMBS	3,355	(115)	437	427	(454)	3,650	
CMBS	201	1	26	60	39	327	
Collateralized debt obligations	104	(67)	71		(4)	104	
Other asset-backed securities	210	2	10	42	(29)	235	
Total fixed maturity securities	6,135	(205)	1,190	(361)	(8)	6,751	(5)
Perpetual preferred securities	12	(17)	12	(5)	68	70	
Other equity securities		1	4	(28)	23		
Total equity securities	12	(16)	16	(33)	91	70	
Trading securities	97			(51)	(17)	29	2
Other investments	150		24		(11)	163	
Derivatives, net	(2,042)	1,504	1		90	(447)	1,597
Separate account assets[2]	61	6		20	14	101	12
Total	$4,413	$1,289	$1,231	($425)	$159	$6,667	$1,606

	January 1, 2008	Total Gains or Losses Included in Earnings	Included in OCI	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:							
Foreign governments	$32		($7)		($3)	$22	
Corporate securities	1,505	$2	(329)	$733	332	2,243	($16)
RMBS	431	(1)	(168)	3,025	68	3,355	
CMBS	434		(40)	(141)	(52)	201	
Collateralized debt obligations	230	(90)	(35)		(1)	104	
Other asset-backed securities	242	(4)	(16)	(11)	(1)	210	
Total fixed maturity securities	2,874	(93)	(595)	3,606	343	6,135	(16)
Perpetual preferred securities	46	(33)			(1)	12	
Other equity securities	4	(4)					
Total equity securities	50	(37)			(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	$3,339	($1,987)	($726)	$3,662	$125	$4,413	($1,874)

[1] Represents the net amount of total gains or losses for the period, recorded in earnings, attributable to the change in unrealized gains (losses) relating to assets and liabilities classified as Level 3 that are still held as of December 31, 2009 and 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.

The Company did not have any nonfinancial assets or liabilities measured at fair value on a nonrecurring basis resulting from impairments as of December 31, 2009. The Company has not made any changes in the valuation methodologies for nonfinancial assets and liabilities.

The carrying amount and estimated fair value of the Company's financial instruments that are not carried at fair value under the Codification's Financial Instruments Topic are as follows:

	December 31, 2009		December 31, 2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In Millions)			
Assets:				
Mortgage loans	$6,577	$6,660	$5,622	$5,645
Policy loans	6,509	6,509	6,920	6,920
Other invested assets	196	185	305	334
Restricted cash	221	221	227	227
Liabilities:				
Funding agreements and GICs[1]	7,572	8,093	9,419	10,136
Annuity and deposit liabilities	7,109	7,109	4,515	4,515
Short-term debt	105	105	150	150
Long-term debt	5,632	5,806	4,459	4,373

(1) Balance excludes embedded derivatives that are included in the fair value hierarchy level tables above.

The following methods and assumptions were used to estimate the fair value of these financial instruments as of December 31, 2009 and 2008:

MORTGAGE LOANS

The estimated fair value of the mortgage loan portfolio is determined by discounting the estimated future cash flows, using current rates that are applicable to similar credit quality, property type 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

Included in other invested assets are private equity investments in which the estimated fair value of private equity investments is based on the ownership percentage of the underlying equity of the investments.

RESTRICTED CASH

The carrying values approximate fair values 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.

ANNUITY AND DEPOSIT LIABILITIES

The estimated fair value of annuity and deposit 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.

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.

15. OTHER COMPREHENSIVE INCOME (LOSS)

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

	Years Ended December 31,		
	2009	2008	2007
		(In Millions)	
Unrealized gain (loss) on derivatives and securities available for sale, net:			
Gross holding gain (loss):			
Securities available for sale	$2,601	($3,870)	($239)
Derivatives	(146)	256	(147)
Income tax (expense) benefit	(861)	1,269	135
Reclassification adjustment - realized (gain) loss:			
Sale of securities available for sale	251	458	(21)
Derivatives	25	(4)	(15)
Income tax expense (benefit)	(98)	(159)	12
Allocation of holding (gain) loss to DAC	(415)	356	(24)
Allocation of holding (gain) loss to future policy benefits	85	(119)	(15)
Income tax expense (benefit)	113	(83)	14
Cumulative effect of adoption of new accounting principle	(263)		
Income tax expense	93		
Unrealized gain (loss) on derivatives and securities available for sale, net	1,385	(1,896)	(300)
Other, net:			
Holding gain (loss) on interest in PIMCO and other security	22	(24)	5
Income tax (expense) benefit	(8)	9	(1)
Reclassification of realized gain on sale of interest in PIMCO		(109)	
Income tax on realized gain		42	
Net unrealized gain (loss) on interest in PIMCO and other security	14	(82)	4
Cumulative effect of adoption of new accounting principle, net of tax			(20)
Other, net of tax	33	(15)	
Other, net	47	(97)	(16)
Total other comprehensive income (loss), net	$1,432	($1,993)	($316)

16. 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 guidance in the Codification's Financial Services – Insurance Topic for accounting and reporting of certain non traditional long-duration contracts and separate accounts. 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 and irrevocable letters of credit (LOC) held in trust accounts with Pacific Life as beneficiary provide security for statutory reserve credits taken by Pacific Life. Pacific LifeCorp guarantees the obligations of PAR Bermuda and PAR Vermont under the LOC agreement.

The Company 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 these 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. Effective January 1, 2009, all but one reinsurance treaty terminated for new business, reducing the quota share to 15%. The final treaty terminated for new business issued after March 31, 2009. Variable annuity business ceded prior to these dates continues to be reinsured.

Reinsurance receivables and payables generally include amounts related to claims, reserves and reserve related items. Reinsurance receivables were $404 million and $839 million as of December 31, 2009 and 2008, respectively. Reinsurance payables were $37 million and $38 million as of December 31, 2009 and 2008, 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,		
	2009	2008	2007
	(In Millions)		
Direct premiums	$666	$410	$271
Reinsurance ceded[1]	(323)	(291)	(274)
Reinsurance assumed	60 [2]	53	53
Insurance premiums	$403	$172	$50

[1] Included are $21 million, $13 million and $12 million of reinsurance ceded to PAR Bermuda for the years ended December 31, 2009, 2008 and 2007, respectively.

[2] Included are $4 million of assumed premiums from Pacific Life Re, a wholly owned subsidiary of Pacific LifeCorp.

17. EMPLOYEE BENEFIT PLANS

PENSION PLANS

Prior to December 31, 2007, Pacific Life provided a defined benefit pension plan (ERP) 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.

The Company amended the ERP to terminate effective December 31, 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.

In September 2009, the Company received regulatory approval to commence the final termination of the ERP and payment of plan benefits to the participants. The Company completed the final distribution of plan assets to participants in December 2009. The Company recognized settlement costs of $5 million in 2008 and recognized the final settlement costs for the ERP totaling $72 million in 2009.

Pacific Life also maintains supplemental employee retirement plans (SERPs) for certain eligible employees. As of December 31, 2009 and 2008, the projected benefit obligation was $37 million and $32 million, respectively. The fair value of plan assets as of December 31, 2009 and 2008 was zero. The net periodic benefit expense of the SERPs was $4 million, $5 million and $6 million for the years ended December 31, 2009, 2008 and 2007, respectively.

The following table sets forth the benefit obligations, plan assets and funded status of the defined benefit plans:

	December 31, 2009		December 31, 2008	
	ERP	SERP	ERP	SERP
	(In Millions)		*(In Millions)*	
Defined benefit plans:				
Benefit obligation, end of year		$37	$198	$32
Fair value of plan assets, end of year	$26		242	
Over (under) funded status, end of year	$26	($37)	$44	($32)

The Company incurred a net pension expense of $79 million, $8 million and $9 million for the years ended December 31, 2009, 2008 and 2007, respectively, as detailed in the following table:

	Year Ended December 31, 2009		Year Ended December 31, 2008		Year Ended December 31, 2007	
	ERP	SERP	ERP	SERP	ERP	SERP
	(In Millions)		*(In Millions)*		*(In Millions)*	
Components of the net periodic pension expense:						
Service cost - benefits earned during the year		$2		$2		$2
Interest cost on projected benefit obligation	$12	2	$12	2	$14	2
Expected return on plan assets	(12)		(14)		(16)	
Settlement costs	72		5		4	
Amortization of net obligations and prior service cost	3			1	2	1
Net periodic pension expense	$75	$4	$3	$5	$4	$5

Significant plan assumptions:

	December 31, 2009		December 31, 2008	
	ERP	SERP	ERP	SERP
Weighted-average assumptions used to determine benefit obligations:				
Discount rate	6.35%	6.30%	6.35%	6.30%
Salary rate	N/A	4.50%	N/A	4.50%

	Years Ended December 31,		
	2009	2008	2007
Weighted-average assumptions used to determine the ERP's net periodic benefit expense:			
Discount rate	6.30%	6.25%	5.75%
Expected long-term return on plan assets	N/A	5.25%	6.13%

The salary rate used to determine the net periodic benefit expense for the SERP was 4.5% for the years ended December 31, 2009, 2008 and 2007.

Pacific Life expects to contribute $3 million to the SERP in 2010. The expected benefit payments are as follows for the years ending December 31 *(In Millions)*:

2010	2011	2012	2013	2014	2015-2019
$3	$3	$3	$3	$3	$15

RETIREMENT INCENTIVE SAVINGS PLAN

Pacific Life provides a Retirement Incentive Savings Plan (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. Contributions made by the Company to the RISP amounted to $26 million, $29 million and $25 million for the years ended December 31, 2009, 2008 and 2007, respectively, and are included in operating expenses.

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, 2009, 2008 and 2007 was $1 million. As of December 31, 2009 and 2008, the accumulated benefit obligation was $19 million and $18 million, respectively. The fair value of the plan assets as of December 31, 2009 and 2008 was zero.

The discount rate used in determining the accumulated postretirement benefit obligation was 5.50% and 6.35% for 2009 and 2008, respectively.

Benefit payments for the year ended December 31, 2009 amounted to $3 million. The expected benefit payments are as follows for the years ending December 31 *(In Millions)*:

2010	2011	2012	2013	2014	2015-2019
$3	$4	$4	$4	$4	$24

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.

18. INCOME TAXES

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

	Years Ended December 31,		
	2009	2008	2007
	(In Millions)		
Current	($407)	$196	$43
Deferred	451	(511)	86
Provision (benefit) for income taxes from continuing operations	44	(315)	129
Provision (benefit) for income taxes on discontinued operations	(11)	(3)	18
Total	$33	($318)	$147

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,		
	2009	2008	2007
	(In Millions)		
Provision (benefit) for income taxes at the statutory rate	$170	($199)	$292
Separate account dividends received deduction	(93)	(107)	(103)
Low income housing and foreign tax credits	(19)	(31)	(33)
Other	(14)	22	(27)
Provision (benefit) for income taxes from continuing operations	$44	($315)	$129

Upon adoption of new guidance to the Codification's Income Taxes Topic relating to the accounting for uncertainty in income taxes on January 1, 2007, 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 separate account Dividends Received Deductions (DRD).

During the year ended December 31, 2008, the Company's tax contingency related to the accounting for uncertainty in income taxes increased by $402 million for a tax position for which there was uncertainty about the timing, but not the deductibility, of certain tax deductions. Since the benefits of the tax position were not being claimed on an original return and the Company did not receive cash, interest or penalties were not accrued. Due to the nature of deferred tax accounting, the tax position does not have an impact on the annual effective tax rate.

The $434 million tax contingency related to the accounting for uncertainty in income taxes was decreased by $420 million as a result of events that occurred during the year ended December 31, 2009. The Company effectively settled $18 million of the gross uncertain tax position related to DRD, which resulted in the realization of $9 million of tax benefits. The Company also resolved the uncertain tax accounting position on certain tax deductions resulting in a $402 million decrease. The provision for income taxes from continuing operations has also been reduced by $10 million for additional interest income resulting from favorable tax settlements.

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
Additions and deletions	(420)
Balance at December 31, 2009	$14

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

During the years ended December 31, 2009, 2008 and 2007, the Company paid an immaterial amount of interest and penalties to state tax authorities.

The net deferred tax (liability) asset, included in other liabilities and other assets as of December 31, 2009 and 2008, respectively, is comprised of the following tax effected temporary differences:

	December 31, 2009	December 31, 2008
	(In Millions)	
Deferred tax assets:		
Policyholder reserves	$724	$1,274
Investment valuation	283	271
Tax net operating loss carryforward	249	168
Tax credit carryforward	214	122
Deferred compensation	45	42
Maintenance reserves	38	46
Dividends to policyholders	8	8
Other	25	27
Total deferred tax assets	1,586	1,958
Deferred tax liabilities:		
DAC	(1,313)	(1,222)
Depreciation	(563)	(458)
Reinsurance	(77)	(74)
Hedging	(44)	(14)
Partnership income	(28)	(65)
Retirement benefits		(18)
Other	(41)	(43)
Total deferred tax liabilities	(2,066)	(1,894)
Net deferred tax asset (liability) from continuing operations	(480)	64
Unrealized loss on derivatives and securities available for sale	101	947
Unrealized loss on interest in PIMCO and other security		8
Deferred taxes on cumulative changes in accounting principles	120	27
Minimum pension liability and other adjustments	(10)	8
Net deferred tax asset (liability)	($269)	$1,054

The tax net operating loss carryforwards relate to Federal tax losses incurred in 1998 through 2008 with a 20-year carryforward for non-life losses and a 15-year carryforward for life losses, and California tax losses incurred in 2004 through 2008 with a ten-year carryforward.

The Codification's Income Taxes Topic 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 the Company's deferred tax assets will be realized through future taxable income and the reversal of deferred tax liabilities.

The Company files income tax returns in U.S. Federal and various state jurisdictions. The Company is under continuous audit by the IRS and is audited periodically by some state taxing authorities. The IRS has completed audits of the Company's tax returns through the tax years ended December 31, 2005 and has commenced audits for tax years 2006, 2007 and 2008. The State of California recently concluded audits for tax years 2003 and 2004 without a material assessment. The Company does not expect the Federal and state audits to result in any material assessments.

19. SEGMENT INFORMATION

The Company has four operating segments: Life Insurance, Investment Management, Annuities & Mutual Funds and Aircraft Leasing. 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 provides a broad range of life insurance products through multiple distribution channels operating in the upper income and corporate markets. Principal products include UL, VUL, survivor life, interest sensitive whole life, corporate-owned life insurance and traditional products such as whole life and term life. Distribution channels include regional life offices, marketing organizations, broker-dealer firms, wirehouses and M Financial, an association of independently owned and operated insurance and financial producers.

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 principal products include GICs, synthetic GICs, funding agreement-backed notes issued to institutional investors via medium-term note programs or to the FHLB of Topeka, as well as structured settlement annuities issued in conjunction with personal injury awards and group retirement annuities sold to pension plans.

The Annuities & Mutual Funds segment's principle products include variable and fixed annuities, and mutual funds, and are offered through multiple distribution sources. Distribution channels include independent planners, financial institutions and national/regional wirehouses.

The Aircraft Leasing segment (Note 9) offers aircraft leasing to the airline industry throughout the world and provides brokerage and asset management services to other third-parties.

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 (loss) and assets as it uses to measure its consolidated net income (loss) 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, excluding Aircraft Leasing, 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, 2009 and 2008, the Company had foreign investments with an estimated fair value of $7.2 billion and $5.8 billion, respectively. Aircraft leased to foreign customers were $5.0 billion and $4.8 billion as of December 31, 2009 and 2008, respectively. Revenues derived from any customer did not exceed 10% of consolidated total revenues for the years ended December 31, 2009, 2008 and 2007.

The following is segment information as of and for the year ended December 31, 2009:

	Life Insurance	Investment Management	Annuities & Mutual Funds	Aircraft Leasing	Corporate and Other	Total
			(In Millions)			
REVENUES						
Policy fees and insurance premiums	$1,063	$628	$581		$3	$2,275
Net investment income	892	759	278	$1	(68)	1,862
Net realized investment gain (loss)		55	313	7	(222)	153
OTTIs	(63)	(176)	(16)		(56)	(311)
Investment advisory fees	18		190			208
Aircraft leasing revenue				578		578
Other income	10		112	13	2	137
Total revenues	1,920	1,266	1,458	599	(341)	4,902
BENEFITS AND EXPENSES						
Interest credited	681	379	193			1,253
Policy benefits	363	903	(40)			1,226
Commission expenses	353	18	320			691
Operating expenses	290	26	273	59	134	782
Depreciation of aircraft				227		227
Interest expense				182	55	237
Total benefits and expenses	1,687	1,326	746	468	189	4,416
Income (loss) from continuing operations before provision (benefit) for income taxes	233	(60)	712	131	(530)	486
Provision (benefit) for income taxes	66	(24)	151	39	(188)	44
Income (loss) from continuing operations	167	(36)	561	92	(342)	442
Discontinued operations, net of taxes					(20)	(20)
Net income (loss)	167	(36)	561	92	(362)	422
Less: net (income) loss attributable to the noncontrolling interest from continuing operations				(9)	23	14
Net income (loss) attributable to the Company	$167	($36)	$561	$83	($339)	$436
Total assets	$28,589	$13,256	$57,903	$6,091	$2,638	$108,477
DAC	1,865	59	2,882			4,806
Separate account assets	5,590	67	46,907			52,564
Policyholder and contract liabilities	21,133	12,526	7,728			41,387
Separate account liabilities	5,590	67	46,907			52,564

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

	Life Insurance	Investment Management	Annuities & Mutual Funds	Aircraft Leasing	Corporate and Other	Total
REVENUES			(In Millions)			
Policy fees and insurance premiums	$943	$363	$691			$1,997
Net investment income	855	876	178		$85	1,994
Net realized investment gain (loss)	24	51	(768)		(56)	(749)
OTTIs	(69)	(398)	(30)	($3)	(80)	(580)
Realized investment gain on interest in PIMCO					109	109
Investment advisory fees	22		233			255
Aircraft leasing revenue				571		571
Other income	11		117	38	1	167
Total revenues	1,786	892	421	606	59	3,764
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	40	78	732
Depreciation of aircraft				208		208
Interest expense				221	17	238
Total benefits and expenses	1,564	1,176	1,029	469	95	4,333
Income (loss) from continuing operations before provision (benefit) for income taxes	222	(284)	(608)	137	(36)	(569)
Provision (benefit) for income taxes	61	(103)	(329)	48	8	(315)
Income (loss) from continuing operations	161	(181)	(279)	89	(44)	(254)
Discontinued operations, net of taxes					(6)	(6)
Net income (loss)	161	(181)	(279)	89	(50)	(260)
Less: net (income) loss attributable to the noncontrolling interest from continuing operations				(8)	11	3
Net income (loss) attributable to the Company	$161	($181)	($279)	$81	($39)	($257)
Total assets	$26,695	$15,155	$45,285	$5,400	$2,633	$95,168
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 for the year ended December 31, 2007:

	Life Insurance	Investment Management	Annuities & Mutual Funds	Aircraft Leasing	Corporate and Other	Total
REVENUES			(In Millions)			
Policy fees and insurance premiums	$777	$224	$779			$1,780
Net investment income	803	905	186	$9	$217	2,120
Net realized investment gain (loss)	4	115	(99)	17	32	69
OTTIs	(3)	(95)				(98)
Investment advisory fees	29		298			327
Aircraft leasing revenue				535		535
Other income	9		84	50	4	147
Total revenues	1,619	1,149	1,248	611	253	4,880
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	49	88	769
Depreciation of aircraft				189		189
Interest expense				261	16	277
Total benefits and expenses	1,387	1,084	972	499	104	4,046
Income from continuing operations before provision (benefit) for income taxes	232	65	276	112	149	834
Provision (benefit) for income taxes	58	12	(6)	32	33	129
Income from continuing operations	174	53	282	80	116	705
Discontinued operations, net of taxes					11	11
Net income	174	53	282	80	127	716
Less: net income attributable to the noncontrolling interest from continuing operations				(2)	(36)	(38)
Net income attributable to the Company	$174	$53	$282	$78	$91	$678

20. 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 $244 million, $287 million and $337 million for the years ended December 31, 2009, 2008 and 2007, 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, $7 million and $7 million for the years ended December 31, 2009, 2008 and 2007, 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 years ended December 31, 2009 and 2008, PSD received $86 million and $100 million, respectively, 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 19).

As discussed in Note 16, NLGR benefits are reinsured with PAR Bermuda and PAR Vermont.

ACG has derivative swap contracts with Pacific LifeCorp as the counterparty. The notional amounts total $2.0 billion and $1.8 billion as of December 31, 2009 and 2008, respectively. The estimated fair values of the derivatives were net liabilities of $48 million and $106 million as of December 31, 2009 and 2008, respectively.

21. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

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

Years Ending December 31:	
2010	$1,005
2011 through 2014	494
2015 and thereafter	91
Total	$1,590

The Company leases office facilities under various operating leases, which in most, but not all cases, are noncancelable. Rent expense, which is included in operating and other expenses, in connection with these leases was $8 million, $10 million and $13 million for the years ended December 31, 2009, 2008 and 2007, respectively. In connection with the sale of a block of business in 2005, PL&A is contingently liable until March 31, 2013 for certain future rent and expense obligations, not to exceed $15 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:	
2010	$8
2011 through 2014	20
2015 and thereafter	2
Total	$30

As of December 31, 2009, ACG has commitments with major aircraft manufacturers to purchase aircraft at an estimated delivery price of $6,370 million with delivery from 2010 through 2017. Such purchase commitments may be funded:

- up to $635 million in less than one year,
- an additional $2,325 million in one to three years,
- an additional $2,116 million in three to five years, and
- an additional $1,021 million thereafter.

As of December 31, 2009, deposits related to these agreements totaled $273 million and are included in other assets.

In connection with an acquisition in 2005, ACG assumed residual value support agreements with expiration dates ranging from 2011 to 2015. The gross remaining residual value exposure under these agreements was $99 million as of December 31, 2009 and 2008. As of December 31, 2009, the Company has estimated that it has no measurable liability under the remaining residual value guarantee agreements.

In connection with the reinsurance of NLGR benefits from Pacific Life to PAR Bermuda and PAR Vermont (Note 16), PAR Bermuda and PAR Vermont entered into a three year letter of credit agreement with a group of banks in April 2009. This agreement allows for the issuance of letters of credit with an expiration date of March 2012 to PAR Bermuda and PAR Vermont for up to a combined total amount of $650 million. As of December 31, 2009, a $340 million letter of credit had been issued from this facility for PAR Bermuda. In addition, a letter of credit issued for PAR Vermont totaled $52 million as of December 31, 2009. Pacific LifeCorp guarantees the obligations of PAR Bermuda and PAR Vermont under the letter of credit agreement.

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. Initial distributions were made to eligible class members in the first quarter of 2008 with subsequent annual distributions for four years thereafter.

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 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 is on the IRS' priority guidance plan. Although no guidance has been issued, if the IRS ultimately adopts the 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. 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.

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 the ACG Trust II securitization (Note 4), Pacific Life is contingently obligated to purchase certain notes from ACG Trust II 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, 2009, the maximum potential amount of this future investment commitment was $100 million.

The Asset Purchase Agreements of Aviation Trust, ACG Trust II and ACG Trust III (Note 4) provide that Pacific LifeCorp will guarantee the performance of certain obligations of ACG, as well as provide certain indemnifications, and that Pacific Life will assume certain obligations of ACG arising from the breach of certain representations and warranties under the Asset Purchase Agreements. Management believes that obligations, if any, related to these guarantees are not likely to have a material adverse effect on the Company's consolidated financial statements. The financial debt obligations of Aviation Trust, ACG Trust II and ACG Trust III are non-recourse to the Company and are not guaranteed by the Company.

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 10 for discussion of contingencies related to derivative instruments.

See Note 18 for discussion of other contingencies related to income taxes.

22. SUBSEQUENT EVENTS

The Company has evaluated events subsequent to December 31, 2009 and through March 4, 2010, the date the consolidated financial statements were available to be issued. The Company has not evaluated subsequent events after that date for presentation in these consolidated financial statements.

As of January 1, 2010, the Board of Directors of Pacific LifeCorp and Pacific Life authorized a cash capital contribution to ACG in the amount of $350 million, which could be made up to March 31, 2010.

Effective January 1, 2010, the Investment Management segment's products were moved into other segments of the Company. Structured settlement and group retirement annuities were moved to the Annuities & Mutual Fund segment and the other institutional investment products became part of the Corporate and Other segment.