SEMI-ANNUAL REPORT

Pacific Life Funding, LLC

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

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

Unless otherwise specified, the financial information contained in this Semi-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, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011 (the **"Audited GAAP Financial Statements"**), and the Company's unaudited GAAP condensed consolidated financial statements, including the notes thereto, as of June 30, 2014 and for the six months ended June 30, 2014 and 2013 (the **"Unaudited Quarterly GAAP Financial Statements"**).

Dated: August 29, 2014

INTERIM 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 $580 million aggregate principal amount remained outstanding as of June 30, 2014. 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 Semi-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 Farjallah and Mr. Martin Couch. Each of the directors is also an employee of MaplesFS Limited. MaplesFS 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 holders of securities 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 MaplesFS 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 June 30, 2014 prepared in conformity with GAAP. The information as of June 30, 2014 in this table is derived from the unaudited GAAP condensed financial statements of PLF as of June 30, 2014 and for the six months ended June 30, 2014 and 2013.

	June 30, 2014
Debt:	
Short-term debt	-
Long-term debt	$ 580,217,721
Total debt	580,217,721
Equity:	
Share capital	1,000
Retained earnings	24,673
Accumulated other comprehensive income	-
Total equity	25,673
Total capitalization	$ 580,243,394

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 six months ended June 30, 2014. In addition, other than as described herein, there have been no recent developments having a material effect on PLF or its business since June 30, 2014. As of the date of this Semi-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 December 31, 2014.

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 Semi-annual Report constitutes a review by PLF's management of the business and position of PLF during the six months ended June 30, 2014, and contains a fair review of that period.

Dated: August 29, 2014

s/ Martin Couch
Martin Couch
Director

/s/ Dianne Farjallah
Dianne Farjallah
Director

PACIFIC LIFE INSURANCE COMPANY

Selected Consolidated GAAP Financial Information of the Company

The following tables set forth selected consolidated GAAP financial information for the Company. You should read them in conjunction with the sections of the Semi-annual Report that follow, the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 29, 2014, and the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results may differ from such estimates. Additionally, the results for past accounting periods are not necessarily indicative of the results to be expected for any future accounting period.

The selected consolidated GAAP financial information for the Company as of June 30, 2014 (other than "life insurance in force" and "employees" included in "Other Data") and for the six months ended June 30, 2014 and 2013 has been derived from the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report.

	Six Months Ended June 30,		Years Ended December 31,		
	2014	**2013**	**2013**	**2012**	**2011**
			(in millions)		
Unaudited Consolidated Statement of Operations Data:					
Revenues:					
Policy fees and insurance premiums	$1,644	$1,661	$3,365	$3,324	$3,081
Net investment income	1,176	1,151	2,290	2,281	2,186
Net realized investment gain (loss)	(276)	393	586	(349)	(661)
Other than temporary impairments	(13)	(6)	(27)	(63)	(153)
Investment advisory fees	187	164	351	298	268
Aircraft leasing revenue	391	360	736	660	607
Other income	122	122	253	237	226
Total revenues	3,231	3,845	7,554	6,388	5,554
Benefits and Expenses:					
Policy benefits paid or provided	1,198	1,169	2,366	2,444	1,951
Interest credited to policyholder account balances	597	616	1,248	1,252	1,318
Commission expenses	210	816	1,354	648	122
Operating and other expenses	855	885	1,784	1,601	1,441
Total benefits and expenses	2,860	3,486	6,752	5,945	4,832
Income from continuing operations before provision (benefit) for income taxes	371	359	802	443	722
Provision (benefit) for income taxes	58	50	131	(67)	80
Income from continuing operations	313	309	671	510	642
Discontinued operations, net of taxes	-	-	-	-	(9)
Net income	313	309	671	510	633
Less: net income attributable to the noncontrolling interest from continuing operations	(2)	(9)	(19)	(68)	(71)
Net income attributable to the Company	$ 311	$ 300	$ 652	$ 442	$ 562

	June 30, 2014	December 31, 2013	2012	2011
		($ in millions)		
Unaudited Consolidated Statement of Financial Condition Data:				
Assets:				
Investments	$ 53,119	$ 49,860	$ 49,546	$ 45,884
Cash and cash equivalents	1,795	2,000	2,256	2,829
Restricted cash	252	314	294	280
Deferred policy acquisition costs	4,370	4,214	4,329	4,264
Aircraft leasing portfolio, net	7,486	7,296	6,760	5,845
Other assets	3,120	3,117	3,305	3,069
Separate account assets	62,277	60,864	55,302	51,450
Total assets	$ 132,419	$ 127,665	$ 121,792	$ 113,621
Liabilities and Equity				
Liabilities:				
Policyholder account balances	$ 37,783	$ 36,751	$ 34,983	$ 34,392
Future policy benefits	11,634	10,444	11,105	9,467
Debt	7,709	7,826	7,765	7,152
Other liabilities	3,186	2,932	3,069	2,633
Separate account liabilities	62,277	60,864	55,302	51,450
Total liabilities	122,589	118,817	112,224	105,094
Equity:				
Common stock	30	30	30	30
Paid-in capital	982	982	982	982
Retained earnings	7,252	6,941	6,489	6,177
Accumulated other comprehensive income	1,478	858	1,648	1,004
Total stockholder's equity	9,742	8,811	9,149	8,193
Noncontrolling interest	88	37	419	334
Total equity	9,830	8,848	9,568	8,527
Total liabilities and equity	$ 132,419	$ 127,665	$ 121,792	$ 113,621
Other Data:				
Life insurance in force	$ 301,791	$ 299,256	$ 296,620	$ 302,532
Employees	2,837	2,743	2,699	2,701

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 Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report and the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 29, 2014.

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 in the U.S. 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.

The Company's primary business operations consist of life insurance, annuities, mutual funds, aircraft leasing and reinsurance. As of June 30, 2014 and December 31, 2013 and 2012, the Company had $132.4 billion, $127.7 billion and $121.8 billion, respectively, in total assets, and total stockholder's equity of $9.7 billion, $8.8 billion and $9.1 billion, respectively. Life insurance in force was $301.8 billion, $299.3 billion and $296.6 billion as of June 30, 2014 and December 31, 2013 and 2012, respectively. Net income attributable to the Company was $311 million for the six months ended June 30, 2014 (the **"2014 Period"**), as compared to $300 million for the six months ended June 30, 2013 (the **"2013 Period"**), and $652 million for the year ended December 31, 2013 as compared to $442 million for the year ended December 31, 2012.

Pacific Life's principal administrative offices are located at 700 Newport Center Drive, Newport Beach, California, United States of America, in a 285,000 square-foot office building it owns.

Segments

The Company's primary operating segments are: Life Insurance, Retirement Solutions, Aircraft Leasing, Reinsurance and Corporate and Other.

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 and interest sensitive whole life; indexed universal life; variable universal life; survivor life; variable survivor; variable 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. As of June 30, 2014 and December 31, 2013, the Life Insurance segment represented 28% of the Company's total assets.

The Retirement Solutions segment's principal products include a diversified range of variable and fixed annuity products, mutual funds and institutional and structured products, such as structured settlement annuities and group retirement annuities, sold through multiple distribution sources. Distribution channels include independent planners, financial institutions and national/regional wirehouses. As of June 30, 2014 and December 31, 2013, this segment represented 62% and 61%, respectively, of the Company's total assets.

The Aircraft Leasing segment encompasses the operations of Aviation Capital Group Corp. (**"ACG"**), a wholly owned subsidiary of Pacific Life. This segment focuses on acquiring, leasing, managing and trading commercial jet aircraft, while also engaging in long-term aviation investments in owned aircraft, third-party aircraft management advisory services, aircraft trading activities and aircraft brokerage services. The Aircraft Leasing segment's portfolio included, as of June 30, 2014, 260 owned and managed aircraft. As of June 30, 2014 and December 31, 2013, the Aircraft Leasing segment represented 7% of the Company's total assets.

The Reinsurance segment primarily includes the domestic life portion of the Company's retrocession business (which is referred to as "**PL Retro**") and international reinsurance the Company has assumed from Pacific Life Re Limited ("**PLRL**"), a wholly owned subsidiary of Pacific LifeCorp incorporated in the United Kingdom. PL Retro assumes mortality risks from other life reinsurers, with a small amount of morbidity risk as part of larger treaties. PL Retro serves clients primarily in the U.S., Canada and Europe. PLRL provides reinsurance products and services to insurance and annuity providers in the United Kingdom and Ireland, and, through its Singapore branch, to insurers in selected Asian markets. As of June 30, 2014 and December 31, 2013, the Reinsurance segment represented 1% of the Company's total assets.

The Corporate and Other segment consists of all other assets, liabilities and activities not allocated to any other segment, and provides various corporate administrative and investment management services on behalf of the other business segments, the majority of which are allocated to the segments at cost. Additionally, the Corporate and Other segment manages the surplus assets of the Company, issues long-term and short-term debt, engages in entity level hedging activities and manages the Company's institutional investment products in addition to other Corporate activities. Discontinued operations are also included in the Corporate and Other segment.

Principal Subsidiaries and Affiliates

ACG was founded in 1989 and comprises the Company's Aircraft Leasing segment. ACG's business focuses on acquiring, managing and trading commercial jet aircraft, and leasing such aircraft to airlines worldwide. ACG is headquartered in Newport Beach, California (U.S.), and has regional offices in Seattle (U.S.), Shanghai (China), Beijing (China), Singapore and Santiago (Chile) and representatives in the United Kingdom. ACG's business is comprised of two basic components. The first component is ACG's primary focus and consists of long-term aviation investments in owned aircraft, which ACG offers to its clients worldwide under operating leases. The second component involves third-party aircraft management advisory services, aircraft trading activities and aircraft brokerage services.

Pacific Life & Annuity Company (**"PL&A**") is a stock life insurance company domiciled in Arizona and is a wholly owned subsidiary of Pacific Life. PL&A markets and distributes variable universal life, structured settlement annuities 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. Beginning in 2012, PL&A limited its offering of structured settlement annuities to annuitants in the state of New York and Pacific Life began offering structured settlement annuities that has previously been offered by PL&A to annuitants in all other states. 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.

Pacific Select Distributors, Inc. (**"PSD"**) is a registered broker-dealer and a wholly owned subsidiary of Pacific Life that serves as the underwriter and wholesale distributor of the Company's registered investment-related products and services, principally variable life and annuity contracts and retail mutual funds. The Pacific Select Fund, an investment vehicle provided to Pacific Life's variable life insurance policyholders and variable annuity contract owners, 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 its 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 that assist in providing any of the services.

Pacific Asset Holding LLC (**"PAH**") is a wholly owned subsidiary of Pacific Life that invests in commercial real estate properties and ventures, and other private equity investments.

Pacific Life Fund Advisors LLC (**"PLFA"**), a wholly owned subsidiary of Pacific Life that serves as the investment adviser for the Pacific Select Fund and the Pacific Life Funds, the investment vehicle for Pacific Life's mutual fund products. PLFA charges advisory and other fees based primarily upon the net asset value of the underlying portfolios.

Pacific Global Advisors LLC (**"PGA"**), is a wholly owned subsidiary of Pacific Life that specializes in customized investment, risk management and termination solutions for pension plans and other institutional investors.

PLRL is an indirect wholly owned subsidiary of Pacific Life Re Holdings LLC, which is a direct wholly owned subsidiary of Pacific LifeCorp. PLRL's principal products are protection and annuity products, which are provided to insurance and annuity providers in the United Kingdom and Ireland, and, through its Singapore branch, to insurers in selected Asian markets. Protection products are generally term insurance products mostly linked to home mortgages, covering death, critical illness or disability, or income protection risks all typically reinsured on a risk premium basis. Annuity products support pension funds and insurance companies to manage longevity risk, and the specific risk of higher-than-expected pension or annuity payments. PLRL's Asia branch offers protection products similar to those offered by PLRL in the United Kingdom and Ireland in selected Asian markets but with more emphasis on personal accident business.

Pacific Life Reinsurance Company II Limited ("**PLRC**"), is an exempt life reinsurance company domiciled in Barbados and wholly owned by Pacific Life. PLRC was formed to reinsure new non-U.S. life retrocession business written beginning January 1, 2013. PLRC may also reinsure non-U.S. life retrocession business that is novated in connection with the Reinsurance segment business.

Pacific Life cedes certain statutory reserves to affiliated special purpose financial insurance companies and affiliated captive reinsurance companies that are supported by a combination of cash, invested and other assets and third-party letters of credit or note facilities. As of June 30, 2014, Pacific Life's total statutory reserve credit was $1,646 million, of which $1,098 million was supported by third-party letters of credit and note facilities. As of December 31, 2013, Pacific Life's total statutory reserve credit was $1,570 million, of which $1,051 million was supported by third-party letters of credit and note facilities.

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, (3) investment advisory fees earned on separate account assets and (4) income generated from aircraft leasing. 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, interest, depreciation and other sundry expenses.

Results of Operations

Six Months Ended June 30, 2014 compared to the Six Months Ended June 30, 2013

Net income attributable to the Company was $311 million for the 2014 Period as compared to $300 million for the 2013 Period. The increase in net income was primarily the result of strong private equity investment performance and improved performance of the Company's macro hedges in 2014 in the Corporate and Other segment, higher aircraft lease revenue in the Aircraft Leasing segment due to increased number of aircraft in the portfolio and a decrease in maintenance and impairment costs and higher fee income in the Retirement Solutions segment. In March 2014, the Company made a strategic decision to terminate its macro hedge equity put options. As a result, the Company experienced lower losses with respect to these positions in the 2014 Period compared to the 2013 Period. These increases to net income attributable to the Company were partially offset by significant mark-to-market losses in the Retirement Solutions segment on rider guarantees (net of reinsurance, hedges, and deferred policy acquisition costs ("**DAC**")), due to a decrease in interest rates in the 2014 Period compared to an increase in interest rates in the 2013 Period. See the discussion of the condensed consolidated statement of operations line items below.

Policy fees and insurance premiums decreased $17 million for the 2014 Period to $1,644 million as compared to $1,661 million for the 2013 Period. Policy fees consist of cost-of-insurance charges, expense loads, surrender charges and other fees related to products. This decrease was primarily due to lower unearned revenue reserve amortization driven by lower gross profits, a decrease in surrender charges and higher ceded reinsurance premiums in the Life Insurance segment. The Retirement Solutions segment also contributed to the decrease due to lower sales of life contingent payout annuities, partially offset by higher fee income.

Net investment income increased from $1,151 million in the 2013 Period to $1,176 million in the 2014 Period. The increase in the 2014 Period as compared to the 2013 Period was primarily due to an increase in fixed maturity security investments that generated higher investment income, an increase in valuation adjustments on partnership and joint venture investments and a decrease in real estate depreciation expenses due to the disposition of various real estate assets in 2013.

Net realized investment loss for the 2014 Period amounted to $276 million compared to a net realized investment gain of $393 million for the 2013 Period. The primary reason for the change to net realized investment gain (loss) was the net losses from certain embedded derivatives related to variable annuity guaranteed living benefits in the Retirement Solutions segment, net of reinsurance, hedges and rider policy fees primarily due to lower interest rates during the 2014 Period as compared to net gains primarily from higher interest rates during the 2013 Period. These losses were partially offset by net gains in the 2014 Period as compared to the 2013 Period related to the Company's macro interest rate hedges and lower net losses with respect to Company's macro equity hedges held in the Corporate and Other segment as a result of the termination of the macro equity hedges in March 2014. See the Unaudited Quarterly GAAP Financial Statements included elsewhere in this Semi-annual Report for additional information on the components of net realized investment gain (loss).

Other than temporary impairment (**"OTTI"**) losses increased to $13 million in the 2014 Period as compared to $6 million in the 2013 Period mainly due to an accounting impairment loss in the 2014 Period on two mortgage loans as a result of a troubled debt restructuring. See the Unaudited Quarterly GAAP Financial Statements included elsewhere in this Semi-annual Report for additional information on the components of OTTI.

Investment advisory fees increased $23 million to $187 million in the 2014 Period from $164 million in the 2013 Period. This increase was primarily attributable to higher average assets under management in the Retirement Solutions segment driven by continued strong equity returns.

Aircraft leasing revenue increased $31 million to $391 million in the 2014 Period from $360 million in the 2013 Period. This increase was primarily the result of the addition of new aircraft to the consolidated portfolio.

Other income was $122 million in the 2014 Period and in the 2013 Period. Other income increased in the Retirement Solutions and Life Insurance segments in the 2014 Period due to increased service and other fees driven by higher average assets under management. This was offset by a decrease in the 2014 Period in the Corporate and Other segment due to a non-recurring claims settlement that took place in the 2013 Period.

Policy benefits paid or provided increased $29 million to $1,198 million for the 2014 Period from $1,169 million for the 2013 Period. This increase was primarily attributable to an increase in death benefits in the Life Insurance and Reinsurance segments, partly offset by smaller year over year reserve increases in the Retirement Solutions segment driven by lower payout annuity sales and a decrease in death benefit reserves, partially offset by an increase in institutional annuity payouts.

Interest credited to policyholder account balances decreased slightly to $597 million for the 2014 Period from $616 million for the 2013 Period. This decrease of $19 million was primarily attributable to the continued run-off of corporate products in the Corporate and Other segment. These decreases were partially offset by an increase in policyholder account values in the Life Insurance segment and an increase in the average fixed account annuity reserves in the Retirement Solutions segment.

Commission expenses for the 2014 Period decreased $606 million to $210 million compared to $816 million in the 2013 Period. Commission expenses include components of DAC and vary with the level of sales by business segment due to the mix of products, as well as the change in the embedded derivative, net of hedges and policy fees, related to variable annuity guaranteed living benefits in the Retirement Solutions segment. The decrease in commission expenses was primarily due to a decrease in DAC amortization from variable annuity guarantee living benefits net negative margins in the 2014 Period compared to higher amortization in the 2013 Period driven by positive margins. This decrease was partly offset by continued increases in the equity markets during the 2014 Period, resulting in higher trail commissions in the Retirement Solutions segment. The Life Insurance segment also contributed to part of the decrease in commission expenses due to decreased DAC amortization due to lower gross profits.

Operating and other expenses for the 2014 Period decreased by $30 million to $855 million as compared to $885 million in the 2013 Period. Operating and other expenses include components of DAC, and the amortization of DAC is dependent on various factors that affect future gross profits by business segment, including the change in the embedded derivative, net of hedges and policy fees, related to variable annuity guaranteed living benefits in the Retirement Solutions segment. The Aircraft Leasing segment had an increase of $11 million in operating expenses primarily due to increases in aircraft depreciation and interest expense, which was slightly offset by a decrease in expenses related to aircraft that are in transition between lessors, compensation expense and lower aircraft impairment expenses. Operating and other expenses in the Corporate and Other segment decreased primarily due to lower interest expense as a result of a one-time expense incurred in the first quarter of 2013 in connection with a tender offer that resulted in the retirement of $323 million of the Company's 9.25% $1.0 billion surplus notes.

The provision for income taxes for the 2014 Period amounted to $58 million compared to $50 million for the 2013 Period. This increase in tax expense was primarily due to higher taxable income in the 2014 Period. The taxes in the 2014 Period and in the 2013 Period were lower than the statutory rate primarily due to the separate account dividends received deductions, other tax credits, and the reduction of Aircraft Leasing segment deferred tax liabilities.

Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Net income attributable to the Company was $652 million during 2013 as compared to $442 million for 2012. The increase in net income was primarily the result of significant mark-to-market gains in the Retirement Solutions segment on variable annuity guaranteed living benefits, net of reinsurance, hedges and amortization of DAC resulting principally from an increase in risk free rates during 2013 and a much smaller tightening of credit spreads in 2013 compared to 2012. The Company had increased earnings from higher asset based fees in the Retirement Solutions segment and mortality gains in the Reinsurance segment, however these were partially offset by increased macro equity and interest rate hedge losses, lower realized real estate and other investment gains, and lower Aircraft Leasing segment tax benefits in 2013. See the discussion of the consolidated statement of operations line items below.

Policy fees and insurance premiums increased $41 million for 2013 to $3,365 million as compared to $3,324 million for 2012. Policy fees consist of cost-of-insurance charges, expense loads, surrender charges and other fees related to products. This increase was primarily from an increase in the percent of premium loads, cost of insurance charges and higher surrender charges in the Life Insurance segment, partially offset by lower sales of the life contingent payout annuities in the Retirement Solutions segment.

Net investment income increased slightly from $2,281 million in 2012 to $2,290 million in 2013. The increase in 2013 Period as compared to 2012 was primarily due to an increase in invested assets that generated higher investment income and income received from credit recoveries during the year.

Net realized investment gain for 2013 amounted to $586 million compared to a loss of $349 million for 2012. The primary reason for the increased net realized investment gain was significant mark-to market gains from certain embedded derivatives related to variable annuity guaranteed living benefits in the Retirement Solutions segment, net of reinsurance, hedges and rider policy fees in 2013 as compared to net losses in 2012. These net gains were partially offset by higher net losses in 2013 as compared to 2012 related to the macro equity hedges and macro interest rate hedges in the Corporate and Other segment. Additionally, realized investment gains were lower in 2013. Other derivative losses were also higher in 2013. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 29, 2014 for additional information on the components of net realized investment gain (loss).

OTTI losses decreased to $27 million in 2013 as compared to $63 million in 2012 mainly due to improvements in the overall credit environment and housing market during 2013 resulting in lower losses from the residential mortgage-backed securities ("**RMBS**") holdings from the prior year. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 29, 2014 for additional information on the components of OTTI.

Investment advisory fees increased $53 million to $351 million in 2013 from $298 million in 2012. This increase was primarily attributable to higher average assets under management and a 10 basis point increase in advisory fees from the Pacific Select Fund effective in May 2013.

Aircraft leasing revenue increased $76 million to $736 million in 2013 from $660 million in 2012. This increase was primarily the result of net aircraft additions to the consolidated portfolio.

Other income was $253 million in 2013 as compared to $237 million in 2012, an increase of $16 million primarily due to the Retirement Solutions segment from increased service fees and other miscellaneous fees driven by higher average assets under management.

Policy benefits paid or provided decreased $78 million to $2,366 million for 2013 from $2,444 million for 2012. The decrease was primarily related to the Retirement Solutions segment due to lower sales and thus smaller increases in life contingent payout annuity reserves, partially offset by an increase in death benefit payments. The decrease was also attributable to improved mortality experience by the Reinsurance segment and the natural unwind of reserves for the retrocession business. These decreases were partially offset by increased death benefits paid and a decrease in the amount of reinsurance recoveries received on the related benefits in the Life Insurance segment.

Interest credited to policyholder account balances remained consistent decreasing slightly to $1,248 million for 2013 from $1,252 million for 2012.

Commission expenses for 2013 increased $706 million to $1,354 million compared to $648 million in 2012. Commission expenses include components of DAC and vary with the level of sales by business segment due to the mix of products, as well as the change in the embedded derivative, net of hedges and policy fees, related to variable annuity guaranteed living benefits in the Retirement Solutions segment. The commission expenses increase in 2013 as compared to 2012 was due to higher rider-related gains driving DAC amortization in the Retirement Solutions segment and increased DAC amortization in the Life Insurance segment due primarily to a revision to gross profits based on experience.

Operating and other expenses for 2013 increased by $183 million to $1,784 million as compared to $1,601 million in 2012. Operating and other expenses include components of DAC, and the amortization of DAC is dependent on various factors that affect future gross profits by business segment, including the change in the embedded derivative, net of hedges and policy fees, related to variable annuity guaranteed living benefits in the Retirement Solutions segment. Retirement Solutions segment operating and other expenses increased $19 million due to higher non-deferrable acquisition costs driven by higher sales. Operating and other expenses in the Life Insurance segment increased $15 million due to increased temporary help due to staffing vacancies and increased medical fees. The Aircraft Leasing segment had an increase of $85 million in operating expenses primarily due to an increase in expenses resulting from an increase in aircraft impairment charges, higher aircraft depreciation as a result of an increase in the number of consolidated aircraft, and higher interest expense due to increased outstanding debt and lower gains from debt repurchases. Operating and other expense in the Corporate and Other segment increased $56 million primarily due to increased interest expense from a one-time cost incurred in the first quarter of 2013 in connection with a tender offer that resulted in the retirement of $323 million of the $1.0 billion outstanding of the Company's 9.25% surplus notes.

The provision (benefit) for income taxes for 2013 amounted to $131 million compared to ($67) million for 2012. This increase in tax expense was primarily due to higher taxable income in 2013 and a nonrecurring deferred tax liability basis tax benefit adjustment in the Aircraft Leasing segment in 2012. The taxes in 2013 and in 2012 were lower than the statutory rate primarily due to the separate account dividends received deductions, other tax credits, and the 2012 reduction of Aircraft Leasing segment deferred tax liabilities previously noted.

Year Ended December 31, 2012 compared to the Year Ended December 31, 2011

Net income attributable to the Company during 2012 was $442 million as compared to $562 million for 2011. The decrease in net income attributable to the Company was primarily due to higher macro equity hedge losses partially offset by higher gains from real estate sales in the Corporate and Other segment. In addition, in the Life Insurance segment, there were losses during 2012 from lower expense spreads, lower capital gains and higher reserves on secondary guarantee business. In the Retirement Solutions segment, net income was higher in 2012 due to lower net losses from certain embedded derivatives related to variable annuity guaranteed living benefits, net of reinsurance, hedges and rider policy fees in 2012 as compared to 2011, which were driven by higher market returns, lower interest rates and lower implied volatility and tightening credit spreads. In addition, 2011 included gains from dedesignated cash flow hedges (forward starting swaps) compared to losses in 2012. For more information, see the discussion of the consolidated statement of operations line items below.

Policy fees and insurance premiums for 2012 were $3,324 million compared to $3,081 million for 2011, an increase of 8%. Policy fees consist of cost-of-insurance charges, expense loads, surrender charges and other fees related to products. The Reinsurance segment had increased premiums due to the acquisition of the PL Retro business in August 2011. In addition, there was an increase in insurance premiums in 2012 as compared to 2011 resulting from the sale of life contingent payout annuities in the Retirement

Solutions segment. These increases in insurance premiums were offset somewhat by a decrease in the Life Insurance segment's policy fees principally due to decreased unearned revenue reserve amortization and lower surrender charges, partly offset by increased cost of insurance and policy charges.

Net investment income increased from $2,186 million in 2011 to $2,281 million in 2012. The increase in 2012 as compared to 2011 was primarily related to higher investment income from mortgage loan, real estate and fixed maturity investments, partially offset by lower returns from all other investments.

Net realized investment loss for 2012 amounted to $349 million compared to $661 million for 2011. The primary reason for the lower net realized investment loss was lower net losses from certain embedded derivatives related to variable annuity guaranteed living benefits in the Retirement Solutions segment, net of reinsurance, hedges and rider policy fees in 2012 as compared to 2011. These lower losses were partially offset by net losses in 2012 as compared to net gains in 2011 related to the macro equity hedges and forward starting swaps. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 29, 2014 for additional information on the components of net realized investment gain (loss).

OTTI decreased from $153 million for 2011 to $63 million in 2012 primarily from lower OTTI from the Company's RMBS and corporate securities portfolios. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 29, 2014 for additional information on the components of OTTI.

Investment advisory fees increased $30 million to $298 million in 2012 as compared to $268 million in 2011. This increase was due to increased investment fees as a result of the acquisition of PGA that occurred in July 2011 and rising mutual fund assets driven by strong mutual fund sales in 2012 by the Retirement Solutions segment.

Aircraft leasing revenue increased $53 million to $660 million in 2012 as compared to $607 million in 2011. This increase of $53 million was due to the acquisition and placement of 32 new aircraft with commercial airlines in the Aircraft Leasing segment.

Other income increased $11 million to $237 million in 2012 as compared to $226 million in 2011. The increase of $11 million was primarily due to a claims settlement and higher mutual fund related administrative and service fees driven by rising mutual fund assets and sales in the Retirement Solutions segment, partially offset by fewer sales of aircraft in 2012 in the Aircraft Leasing segment.

Policy benefits paid or provided increased $493 million to $2,444 million for 2012 as compared to $1,951 million for 2011. This increase was mainly attributable to the Company's Reinsurance segment, which also experienced a corresponding increase in insurance premiums as described above. In addition, there was an increase in life contingent payout annuity benefits and general account reserve increases in the Company's Retirement Solutions segment. The Life Insurance segment also experienced an increase primarily from increased reserves on its secondary guarantee business.

Interest credited to policyholder account balances decreased to $1,252 million for 2012 as compared to $1,318 million for 2011. This decrease was primarily the result of less interest credited as a result of declining liabilities in corporate products in the Company's Corporate and Other segment, partially offset by an increase in interest credited on larger policyholder account values in the Life Insurance segment.

Commission expenses for 2012 increased $526 million to $648 million from $122 million for 2011. Commission expenses include components of DAC. The increase in commission expenses primarily relates to DAC amortization in the Company's Retirement Solutions segment, which had negative DAC amortization in 2011, driven by net rider losses, compared to positive amortization in 2012. This was partly offset by a decrease in the Life Insurance segment as a result of decreased amortization.

Operating and other expenses in 2012 increased by $160 million to $1,601 million from $1,441 million in 2011. Operating and other expenses include components of DAC, and the amortization of DAC is dependent on various factors that affect future gross profits by business segment. The 2012 increase was primarily due to an increase in DAC amortization in the Retirement Solutions segment and higher distribution expenses. The Company's Aircraft Leasing segment had increased maintenance expense and increased depreciation of aircraft in 2012 due to an increase in the number of aircraft in its portfolio. Interest expense also increased in the Corporate and Other segment as 2011 interest expense was reduced by gains from interest rate swaps. These swaps were terminated at the end of 2011.

The benefit from income taxes for 2012 amounted to $67 million as compared to an expense of $80 million for 2011. The decrease in taxes in 2012 compared to 2011 was primarily due to a decrease in pre-tax income and a nonrecurring deferred tax liability basis adjustment. Income taxes were also lower than the statutory rate due to dividends received deductions, the transfer of aircraft to Singapore and the utilization of low income housing and foreign tax credits.

Assets

As of June 30, 2014, the Company had total assets of $132.4 billion as compared to $127.7 billion as of December 31, 2013. The Company had increases of $3.3 billion in total investments, an increase of $0.2 billion in DAC, a net increase in the aircraft leasing portfolio, net of $0.2 billion, and an increase in separate account assets of $1.4 billion, which contributed to the increase in total assets from December 31, 2013 to June 30, 2014. These increases were partially offset by a decrease of $0.2 billion in cash and cash equivalents from December 31, 2013 to June 30, 2014. See the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report for additional information.

As of December 31, 2013, the Company had total assets of $127.7 billion as compared to $121.8 billion as of December 31, 2012. The Company had an increase in separate account assets of $5.6 billion, increases of $0.3 billion in total investments and an increase in the aircraft leasing portfolio, net of $0.5 billion, which contributed to the increase in total assets from December 31, 2012 to December 31, 2013. These increases were partially offset by a decrease of $0.3 billion in cash and cash equivalents, and a decrease of $0.2 billion in other assets from December 31, 2012 to December 31, 2013. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 29, 2014 for additional information on investments.

As of December 31, 2012, the Company had total assets of $121.8 billion as compared to $113.6 billion as of December 31, 2011. This increase in total assets was partially due to an increase in separate account assets of $3.8 billion from December 31, 2011 to December 31, 2012. Total investments also increased $3.6 billion from December 31, 2011 to December 31, 2012, primarily due to increases in fixed maturity securities. The Company's aircraft leasing portfolio, net also increased by $0.9 billion from December 31, 2011 to December 31, 2012. The increase in total assets was partially offset by a $0.6 billion decrease in cash and cash equivalents.

Liabilities

As of June 30, 2014, the Company had total liabilities of $122.6 billion as compared to $118.8 billion as of December 31, 2013. This increase in total liabilities was the result of an increase in policyholder account balances of $1.0 billion, an increase of $1.2 billion in future policy benefits and an increase in separate account liabilities of $1.4 billion from December 31, 2013 to June 30, 2014. These increases were partially offset by a net decrease in debt of $0.1 billion. See the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report for additional information.

As of December 31, 2013, the Company had total liabilities of $118.8 billion as compared to $112.2 billion as of December 31, 2012. This increase in total liabilities was partially a result of an increase in separate account liabilities of $5.6 billion from December 31, 2012 to December 31, 2013. The increase in total liabilities was also due to an increase in policyholder account balances of $1.8 billion. These increases were partially offset by a decrease of $0.7 billion in future policy benefits. See the Audited GAAP

Financial Statements included in the Annual Report of PLF dated April 29, 2014 for additional information on liabilities.

As of December 31, 2012, the Company had total liabilities of $112.2 billion as compared to $105.1 billion as of December 31, 2011. This increase in total liabilities was primarily a result of an increase in separate account liabilities of $3.8 billion from December 31, 2011 to December 31, 2012. Future policy benefits also increased $1.6 billion from December 31, 2011 to December 31, 2012. Debt increased by $0.6 billion primarily due to the issuance of debt by the Aircraft Leasing segment.

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 $205 million during the 2014 Period as compared to a decrease of $943 million during the 2013 Period and decreased $256 million during 2013 as compared to a decrease of $573 million during 2012 and an increase of $559 million during 2011.

Net cash provided by operating activities was $1,666 million during the 2014 Period as compared to $1,505 million in the 2013 Period, and was $3,478 million during 2013, $3,555 million during 2012 and $3,589 million during 2011. 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 used in investing activities was $2,111 million during the 2014 Period as compared to $2,186 million during the 2013 Period, and was $3,917 million during 2013, $3,905 million during 2012 and $1,195 million in 2011. Net cash used in investing activities was relatively consistent in the 2014 Period as compared to the 2013 Period. Purchases and sales of fixed maturity and equity securities were higher in the 2014 Period as compared to the 2013 Period. Repayments of mortgage loans were also higher in the 2014 Period as compared to the 2013 Period. Net cash used in investing activities was slightly higher in 2013 as compared to 2012 primarily due to higher maturities and repayments of fixed maturity and equity securities, partially offset by lower sales of fixed maturity and equity securities in 2013 as compared to 2012. Net cash used in investing activities was higher in 2012 as compared to 2011 primarily due to higher purchases and lower sales of fixed maturity and equity securities, lower repayments of mortgage loans, and net cash outflows for collateral received or pledged as compared to net cash inflows in 2011, partially offset by lower fundings of mortgage loans and real estate and higher proceeds from sale of real estate. 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 and seeks to ensure that sufficient marketable assets and other sources of liquidity are in place to provide for large unexpected demands for cash. Discrepancies between the timing of financial statement preparation and the timing of reinvestment activity sometimes result in the presentation of levels of short-term investments that are not typical of day-to-day operations. These short-term investments are considered cash equivalents.

Net cash provided by (used in) financing activities was $240 million during the 2014 Period as compared to ($262) million during the 2013 Period, and was $183 million during 2013, ($223) million during 2012 and ($1,835) million in 2011. Net cash was used in financing activities in the 2013 Period as opposed to provided by financing activities in the 2014 Period as a result of higher deposits and lower withdrawals of policyholder account balances in the 2013 Period, the partial retirement of the Company's $1.0 billion surplus notes in the 2013 Period and higher dividends paid in the 2013 Period to Pacific LifeCorp, partially offset by more cash provided by a greater amount of long-term debt issued in the 2013 Period as compared to the 2014 Period. The increase in cash provided by financing activities from 2012 to 2013 was due to higher policyholder account balance deposits, lower policyholder account balance withdrawals and a larger amount of long-term debt issued. This was partially offset by the change in short-term debt, the partial retirement of the Company's $1.0 billion surplus notes and higher dividends paid to Pacific LifeCorp. The decline in net cash used in financing activities for 2012 as compared to 2011 primarily related to higher policyholder account balance deposits and lower withdrawals.

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 2013 statutory results, Pacific Life could pay $515 million in ordinary dividends or distributions during 2014, 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. During the 2014 Period and the 2013 Period, Pacific Life paid cash dividends as determined on a statutory accounting basis to Pacific LifeCorp of zero and $200 million, respectively. During 2013, 2012 and 2011, Pacific Life paid dividends as determined on a statutory accounting basis to Pacific LifeCorp of $200 million, $133 million and $125 million, respectively.

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. In addition, the Company monitors ACG's liquidity requirements for future commitments to purchase aircraft. ACG meets its liquidity needs to fund future aircraft commitments by accessing the debt and capital markets through various channels, including the domestic U.S. bank loan market, the issuance of asset-backed debt instruments, European Export Credit Agency (“**European ECA**”) and U.S. Export-Import Bank (“**Ex-Im Bank**”) guaranteed loans and the issuance of various corporate debt instruments. See the discussion below for more information about ACG's sources of liquidity.

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

	June 30, 2014		December 31, 2013	
	Amount	% of Total	Amount	% of Total
	($ in millions)			
Subject to discretionary withdrawal:				
With fair value adjustment	$ 5,772	9%	$ 5,463	8%
At book value less current surrender charge of 5% or more	1,030	1%	1,150	1%
At fair value	51,814	73%	50,798	74%
Total with adjustment or at fair value	58,616	83%	57,411	83%
At book value without adjustment	5,008	7%	4,668	7%
Not subject to discretionary withdrawal	7,081	10%	6,940	10%
Total (gross)	70,705	100%	69,019	100%
Reinsurance ceded	12		13	
Total (net)	$ 70,693		$ 69,006	

As noted in the table above, as of June 30, 2014 and December 31, 2013, only 7% of these liabilities were subject to withdrawal at book value without adjustment. The other 93% of these liabilities as of June 30, 2014 and December 31, 2013 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.

Pacific Life 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%. All future payments of interest and principal on these surplus notes can be made only with the prior approval of the Nebraska Department of Insurance ("**NE DOI**").

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%. In January 2013, the Company, with the approval of the NE DOI, exercised its early settlement right for its 9.25% surplus notes and repurchased and retired $323 million of the original $1 billion outstanding. The partial retirement of the 9.25% surplus notes was accounted for as an extinguishment of debt and the related amortization of deferred gains of $112 million and the premium paid of $155 million were recognized in interest expense during 2013. As of June 30, 2014 and December 31, 2013, Pacific Life had $677 million of these surplus notes outstanding. 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 NE DOI for such optional redemption and all future payments of interest and principal on these surplus notes can be made only with the prior approval of the NE DOI.

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 NE DOI 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%. All future payments of interest and principal on the internal surplus note can be made only with the prior approval of the NE DOI. The internal surplus note matures on February 5, 2020.

In January 2013, Pacific LifeCorp issued $500 million of senior notes at a fixed interest rate of 5.125%, maturing on January 30, 2043. Interest is payable semiannually on January 30 and July 30. 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. Also, in January 2013, the NE DOI approved the issuance of an internal surplus note by Pacific Life to Pacific LifeCorp for $500 million. Pacific Life is required to pay Pacific LifeCorp interest on the internal surplus note semiannually on January 25 and July 25 at a fixed annual rate of 5.125%. All future payments of interest and principal on the internal surplus note can be made only with the prior approval of the NE DOI. The internal surplus note matures on January 25, 2043. Pacific Life used the proceeds from the issuance of this internal surplus note primarily for the repurchase of a portion of its 9.25% surplus notes discussed above.

The Company's principal source of liquidity to meet unexpected cash outflows is its portfolio of liquid assets, which includes short-term money market investments and public bonds. As discussed in more detail above, as a matter of policy, the Company includes provisions in many of its products that reduce the likelihood of withdrawal. A substantial portion of its liabilities is not subject to surrender, or can be surrendered only after deduction of a charge or market value adjustment.

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 June 30, 2014 and December 31, 2013 and 2012. 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 November 2016. This facility had no debt outstanding as of June 30, 2014 and December 31, 2013 and 2012. As of June 30, 2014 and December 31, 2013 and 2012, and for the six months ended June 30, 2014 and years ended December 31, 2013 and 2012, Pacific Life was in compliance with its debt covenants related to this credit facility.

PL&A maintains reverse purchase lines of credit with various financial institutions. These borrowings are at variable rates of interest based on collateral and market conditions. There was no debt outstanding in connection with these lines of credit as of June 30, 2014 and December 31, 2013 and 2012.

Pacific Life is a member of the Federal Home Loan Bank ("**FHLB**") of Topeka. Pacific Life is eligible to receive advances from the FHLB of Topeka based on a percentage of Pacific Life's statutory general account assets provided it has sufficient available eligible collateral and is in compliance with the FHLB of Topeka requirements, debt covenant restrictions and insurance law and regulations. The Company had estimated available eligible collateral of $810 million as of June 30, 2014. There was no debt outstanding with the FHLB of Topeka as of June 30, 2014 and December 31, 2013 and 2012.

PL&A is a member of the FHLB of San Francisco. PL&A is eligible to receive advances from the FHLB of San Francisco based on a percentage of PL&A's statutory capital and surplus provided it has sufficient available eligible collateral and is in compliance with the FHLB of San Francisco requirements and insurance law and regulations. PL&A had estimated available eligible collateral of $68 million as of June 30, 2014. As of June 30, 2014 and December 31, 2013 and 2012, PL&A had no debt outstanding with the FHLB of San Francisco.

Two key elements of ACG's financing strategy are its continued development of a diverse array of financing options and the issuance of debt with maturities appropriate for its long-lived aircraft assets and leases. ACG historically has had access, and expects to continue to have access, to multiple sources of financing, including bank financings, the ABS market, private debt placements in the unsecured debt market and debt guaranteed by Ex-Im Bank and the European ECAs. ACG has revolving credit agreements with banks for an aggregate of $1,095 million borrowing capacity. Interest on these loans is at variable rates, payable monthly. The facilities expire on various dates from January 2016 through October 2017. There was $178 million, $20 million and $292 million outstanding in connection with ACG's revolving credit agreements as of June 30, 2014 and December 31, 2013 and 2012, respectively. This credit facility is recourse only to ACG. In June 2014, ACG received a commitment from several Japanese banks for a loan facility denominated in Japanese Yen with a USD equivalent of approximately $125 million. ACG has not drawn on the loan facility as of June 30, 2014. This loan facility is recourse only to ACG.

Dividends and Distributions from Subsidiaries

The subsidiaries of Pacific Life can provide other sources of liquidity through the payment of distributions and dividends. Dividends received from subsidiaries of Pacific Life have been nominal during the past few years.

The payment of dividends and other distributions by PL&A to Pacific Life is subject to restrictions set forth in the insurance laws of the State of Arizona. 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 greater 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 2013 statutory results, PL&A could pay $47 million in dividends to Pacific Life in 2014 without prior regulatory approval. PL&A did not pay any dividends to Pacific Life during the six months ended June 30, 2014 or during the year ended December 31, 2012. During the year ended December 31, 2013, PL&A paid a dividend to Pacific Life of $35 million.

General

The Company believes that its 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.

Prospects for the Remainder of 2014

While results for the six months ended June 30, 2014 are in line with the Company’s forecasts, there can be no assurance that these results will be indicative of the Company’s performance during the remaining six months of 2014 or for the entire fiscal year of 2014 and provide no guarantee of future performance where actual results may differ materially.

Even though the Company believes its investment portfolio is diversified, future stress in the financial markets and recessionary global economic conditions could impact the Company. Debt issuances in prior years may not be indicative of the Company’s ability to access capital markets in the future.

Negative market conditions may limit the Company’s ability to refinance existing credit facilities and access the capital necessary to grow the business. The Company’s business, results of operations, financial condition, and cash flows could be materially adversely affected by future disruptions in the financial markets. Fluctuations in the fixed income or equity markets could result in investment losses that impact the Company’s consolidated financial condition and results of operations through realized and unrealized losses.

State insurance regulators in the U.S. continually reexamine existing laws and regulations, and may adopt changes as a result of recent turmoil in the financial markets that would place additional regulatory burdens on the Company. The Company cannot predict whether these state-based initiatives will be proposed and promulgated, or what impact, if any, such initiatives could have on the Company’s business, results of operations and financial condition.

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:

- difficult economic conditions and volatility in the equity and credit markets and the global economy;
- changes in the valuation of derivatives relating to, and fluctuation in reserves held in respect of, guaranteed minimum benefit riders;
- changes in interest rates;
- changes in capital and credit market conditions, including the effectiveness of governmental and regulatory measures in the U.S. and elsewhere in stabilizing such markets;
- losses due to defaults by others, including issuers of investment securities or reinsurance and derivative counterparties;
- requirements to post collateral or make payments related to declines in value of specified assets, including in connection with declines in estimated fair value of fixed maturity securities, cash or cash equivalents posted as collateral under derivative contracts in the ordinary course of business, funding agreements and certain indebtedness;
- adverse legislative or regulatory developments;
- changes to the calculation of statutory reserves and impact of the National Association of Insurance Commissioners ("**NAIC**") Model Regulation "Valuation of Life Insurance Policies" ("**Regulation XXX**") and Actuarial Guidance 38;
- new accounting rules or changes to existing accounting rules;
- the NAIC's and regulators' increased focus on life insurers' use of captive reinsurance companies and the effect that changes in insurance laws may have in affecting the Company's use of captive reinsurance companies in the future;
- downgrades or potential downgrades in Pacific Life's ratings;
- strong competition in the Company's business;
- changes in tax laws and the interpretation thereof;
- significant market valuation fluctuations of any of the Company's investments that are relatively illiquid;
- performance of the Company's investment portfolio, which could suffer reduced returns or losses adversely affecting its profitability, capitalization and liquidity;
- subjectivity 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 or retrocessional coverage;

- 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;

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

- lower demand for aircraft or the availability of credit to ACG;

- the uncertain financial condition of aircraft and engine manufacturers;

- the impaired financial condition and liquidity of ACG's lessees and defaults under ACG's leases;

- the inability of ACG to recover its investment in aircraft returned or off-lease through re-leasing or selling;

- the impact on ACG of high concentrations of particular models of aircraft;

- the advent of superior aircraft technology or introduction of new lines of aircraft on ACG;

- the inability to attract and retain key personnel;

- the occurrence of events that would require the acceleration of the amortization of DAC;

- 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;

- exposure to unidentified or unanticipated risks;

- foreign currency risk;

- a computer system failure or security breach; and

- global climate changes.

Recently Adopted Accounting Pronouncements

For a discussion of recently adopted accounting pronouncements, see the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report.

Legal Proceedings

The Company is a respondent in a number of legal proceedings, some of which involve allegations for extra-contractual damages. Although the Company is confident of its position in these matters, success is not a certainty and 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 condensed consolidated financial position. The Company believes adequate provision has been made in its condensed consolidated financial statements for all probable and estimable losses for litigation and indemnification claims against the Company. For a further discussion, see the Unaudited Quarterly GAAP Financial Statements included in this Semi-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. Pacific Life's financial strength ratings and outlook as of the date of this Semi-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	A+ (Strong)	Fifth highest of 21 ratings	Stable
Fitch Ratings	A+ (Strong)	Fifth highest of 21 ratings	Stable
A.M. Best Company, Inc.	A+ (Superior)	Second highest of 16 ratings	Stable

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 June 30, 2014, the Company had approximately 2,800 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, United States of America, in a 285,000 square-foot office building it owns. The Company also owns and 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. 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

Unaudited GAAP Condensed Financial Statements of Pacific Life Funding, LLC as of June 30, 2014 and for the six months ended June 30, 2014 and 2013

Unaudited GAAP Condensed Consolidated Financial Statements of Pacific Life Insurance Company and Subsidiaries as of June 30, 2014 and December 31, 2013 and for the six months ended June 30, 2014 and 2013

Pacific Life Funding, LLC

CONDENSED BALANCE SHEET

(Expressed in United States Dollars)
(Unaudited)

(In Thousands)	June 30, 2014
ASSETS	
Cash and cash equivalents	$26
Funding Agreements	580,218
Accrued interest receivable	9,288
TOTAL ASSETS	$589,532
LIABILITIES AND MEMBER'S EQUITY	
Liabilities:	
Notes payable	$580,218
Accrued interest payable	9,288
TOTAL LIABILITIES	589,506
Member's Equity:	
Share capital	1
Retained earnings	25
TOTAL MEMBER'S EQUITY	26
TOTAL LIABILITIES AND MEMBER'S EQUITY	$589,532

See Notes to Condensed Financial Statements

Pacific Life Funding, LLC

CONDENSED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

(Expressed in United States Dollars)
(Unaudited)

(In Thousands)	Six Months Ended June 30, 2014	2013
REVENUES		
Interest on Funding Agreements	$12,949	$20,655
Foreign exchange gain on Funding Agreements	9,396	0
Foreign exchange gain on notes payable	0	48,353
TOTAL REVENUES	22,345	69,008
EXPENSES		
Interest on notes payable	12,949	20,655
Foreign exchange loss on Funding Agreements	0	48,353
Foreign exchange loss on notes payable	9,396	0
TOTAL EXPENSES	22,345	69,008
NET INCOME	$0	$0
RETAINED EARNINGS, BEGINNING OF PERIOD	$25	$25
Net income	0	0
RETAINED EARNINGS, END OF PERIOD	$25	$25

See Notes to Condensed Financial Statements

Pacific Life Funding, LLC

CONDENSED STATEMENTS OF CASH FLOWS
(Expressed in United States Dollars)
(Unaudited)

(In Thousands)	Six Months Ended June 30, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$0	$0
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in accrued interest receivable	11,070	2,472
Change in accrued interest payable	(11,070)	(2,472)
NET CASH PROVIDED BY OPERATING ACTIVITIES	0	0
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of Funding Agreements	33,219	3,349
NET CASH PROVIDED BY INVESTING ACTIVITIES	33,219	3,349
CASH FLOWS FROM FINANCING ACTIVITIES		
Redemption of notes payable	(33,219)	(3,349)
NET CASH USED IN FINANCING ACTIVITIES	(33,219)	(3,349)
NET CHANGE IN CASH AND CASH EQUIVALENTS	0	0
Cash and cash equivalents, beginning of period	26	26
CASH AND CASH EQUIVALENTS, END OF PERIOD	$26	$26
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$24,019	$23,127

See Notes to Condensed Financial Statements

NOTES TO CONDENSED FINANCIAL STATEMENTS
(Expressed in United States Dollars)
(Unaudited)

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. MaplesFS 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 information set forth in the accompanying condensed balance sheet as of June 30, 2014 and the accompanying condensed statements of operations and retained earnings and cash flows for the six months ended June 30, 2014 and 2013 is unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted. The information presented reflects all adjustments, including normal recurring adjustments that, in the opinion of management, are necessary to present fairly the financial position and results of operations of the Company for the periods indicated. Results of operations for the interim periods presented are not necessarily indicative of the results of operations for the full year.

The Company’s financial statements have been prepared in accordance with accounting principles generally accepted in U.S. GAAP. According to the European Commission Decision 2006/891/ED of 4 December 2006, third country issuers may prepare their annual and semi-annual financial statements in accordance with U.S. GAAP finding it equivalent to International Financial Reporting Standards (IFRS). The Company's functional currency is the dollar of the United States of America.

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

The Company has evaluated events subsequent to June 30, 2014 through August 20, 2014, the date the condensed financial statements were available to be issued.

3. TRANSACTIONS WITH AFFILIATES

The Funding Agreements, included on the condensed balance sheet, were purchased from Pacific Life. In addition, the Company has an agreement in which certain general operating and administrative expenses of the Company are paid directly by Pacific Life. During the six months ended June 30, 2014 and 2013, Pacific Life paid $72 thousand and $78 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 July 2014 to February 2021.

The following schedule details the notes payable outstanding as of June 30, 2014. The detail schedule for the Funding Agreements is not included, but would contain similar information, except that the schedule would reflect the investments related to the Instruments.

4. FUNDING AGREEMENTS/NOTES PAYABLE (CONTINUED)

June 30, 2014:

Issue	Currency	Principal Denominated in Currency of Issuance *(In Thousands)*	Maturity	Interest Rate	Principal	Cumulative Foreign Currency Translation *($ In Thousands)*	Carrying Value
Series 66 Tranche 1	HKD	160,000	7/31/2014	5.00 %	$20,600	$44	$20,644
Series 67 Tranche 1	GBP	200,000	1/20/2015	5.13 %	375,000	(33,032)	341,968
Series 68 Tranche 1	HKD	200,000	1/26/2015	4.28 %	25,664	141	25,805
Series PLF012 Tranche 1	EUR	10,000	3/15/2015	3.80 %	12,860	832	13,692
Series 39 Tranche 1	GBP	25,000	12/7/2015	5.81 %	35,500	7,246	42,746
Series PLF031 Tranche 1	EUR	1,350	12/15/2015	3.80 %	1,580	269	1,849
Series PLF019 Tranche 1	EUR	5,016	6/15/2017	4.00 %	6,340	527	6,867
Series 11 Tranche 1	EUR	36,500	3/12/2019	4.70 %	40,880	9,094	49,974
Series 36 Tranche 1	EUR	29,000	9/29/2020	3 mth EURIBOR + .37%	25,418	14,287	39,705
Series 40 Tranche 1	EUR	27,000	2/5/2021	3 mth EURIBOR + .43%	25,313	11,655	36,968
TOTAL					$569,155	$11,063	$580,218

5. 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 June 30, 2014, one thousand ordinary shares had been issued at par to MaplesFS Limited.

Pacific Life Insurance Company and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

(In Millions)	June 30, 2014	December 31, 2013
ASSETS		
Investments:		
Fixed maturity securities available for sale, at estimated fair value	$35,518	$32,466
Equity securities available for sale, at estimated fair value	137	137
Mortgage loans	8,486	8,454
Policy loans	7,098	7,155
Other investments (includes VIE assets of $113 and $81)	1,880	1,648
TOTAL INVESTMENTS	53,119	49,860
Cash and cash equivalents (includes VIE assets of $0 and $8)	1,795	2,000
Restricted cash (includes VIE assets of $126 and $194)	252	314
Deferred policy acquisition costs	4,370	4,214
Aircraft leasing portfolio, net (includes VIE assets of $935 and $1,398)	7,486	7,296
Other assets (includes VIE assets of $17 and $22)	3,120	3,117
Separate account assets	62,277	60,864
TOTAL ASSETS	$132,419	$127,665
LIABILITIES AND EQUITY		
Liabilities:		
Policyholder account balances	$37,783	$36,751
Future policy benefits	11,634	10,444
Debt (includes VIE debt of $467 and $659)	7,709	7,826
Other liabilities (includes VIE liabilities of $200 and $280)	3,186	2,932
Separate account liabilities	62,277	60,864
TOTAL LIABILITIES	122,589	118,817
Commitments and contingencies (Note 15)		
Stockholder's Equity:		
Common stock - $50 par value; 600,000 shares authorized, issued and outstanding	30	30
Paid-in capital	982	982
Retained earnings	7,252	6,941
Accumulated other comprehensive income	1,478	858
Total Stockholder's Equity	9,742	8,811
Noncontrolling interest	88	37
TOTAL EQUITY	9,830	8,848
TOTAL LIABILITIES AND EQUITY	$132,419	$127,665

The abbreviation VIE above means variable interest entity.

See Notes to Condensed Consolidated Financial Statements

Pacific Life Insurance Company and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In Millions)	Six Months Ended June 30, 2014	2013
REVENUES		
Policy fees and insurance premiums	$1,644	$1,661
Net investment income	1,176	1,151
Net realized investment gain (loss)	(276)	393
OTTI, consisting of $13 and $7 in total, net of $0 and $1 recognized in OCI	(13)	(6)
Investment advisory fees	187	164
Aircraft leasing revenue	391	360
Other income	122	122
TOTAL REVENUES	3,231	3,845
BENEFITS AND EXPENSES		
Policy benefits paid or provided	1,198	1,169
Interest credited to policyholder account balances	597	616
Commission expenses	210	816
Operating and other expenses	855	885
TOTAL BENEFITS AND EXPENSES	2,860	3,486
INCOME BEFORE PROVISION FOR INCOME TAXES	371	359
Provision for income taxes	58	50
Net income	313	309
Less: net income attributable to the noncontrolling interest	(2)	(9)
NET INCOME ATTRIBUTABLE TO THE COMPANY	$311	$300

The abbreviation OTTI above means other than temporary impairment losses.

The abbreviation OCI above means other comprehensive income (loss).

See Notes to Condensed Consolidated Financial Statements

Pacific Life Insurance Company and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Six Months Ended June 30,	
(In Millions)	2014	2013
NET INCOME	$313	$309
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) on securities:		
Unrealized holding gain (loss) arising during period	639	(615)
Reclassification adjustment for gain included in net income	(18)	(35)
Unrealized gain (loss) on securities	621	(650)
Foreign currency translation adjustments		2
Other	(1)	
Other comprehensive income (loss)	620	(648)
Comprehensive income (loss)	933	(339)
Less: comprehensive income attributable to the noncontrolling interest	(2)	(11)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO THE COMPANY	$931	($350)

See Notes to Condensed Consolidated Financial Statements

Pacific Life Insurance Company and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)

(In Millions)	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income: Unrealized Gain (Loss) On Derivatives and Securities Available for Sale, Net	Accumulated Other Comprehensive Income: Other, Net	Total Stockholder's Equity	Noncontrolling Interest	Total Equity
BALANCES, JANUARY 1, 2013	$30	$982	$6,489	$1,661	($13)	$9,149	$419	$9,568
Comprehensive income (loss):								
Net income			300			300	9	309
Other comprehensive income (loss)				(650)		(650)	2	(648)
Total comprehensive income (loss)						(350)	11	(339)
Dividend to parent			(200)			(200)		(200)
Change in equity of noncontrolling interest							(29)	(29)
Deconsolidation of Investment Funds (Note 5)							(372)	(372)
BALANCES, JUNE 30, 2013	$30	$982	$6,589	$1,011	($13)	$8,599	$29	$8,628
BALANCES, JANUARY 1, 2014	$30	$982	$6,941	$865	($7)	$8,811	$37	$8,848
Comprehensive income:								
Net income			311			311	2	313
Other comprehensive income (loss)				621	(1)	620		620
Total comprehensive income						931	2	933
Change in equity of noncontrolling interest							49	49
BALANCES, JUNE 30, 2014	$30	$982	$7,252	$1,486	($8)	$9,742	$88	$9,830

See Notes to Condensed Consolidated Financial Statements

Pacific Life Insurance Company and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In Millions)	Six Months Ended June 30, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$313	$309
Adjustments to reconcile net income to net cash provided by operating activities:		
Net accretion on fixed maturity securities	(44)	(41)
Depreciation and amortization	217	215
Deferred income taxes	53	46
Net realized investment (gain) loss	276	(393)
Other than temporary impairments	13	6
Net change in deferred policy acquisition costs	(291)	341
Interest credited to policyholder account balances	597	616
Net change in future policy benefits and other insurance liabilities	709	371
Other operating activities, net	(83)	35
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,760	1,505
CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed maturity and equity securities available for sale:		
Purchases	(3,611)	(3,107)
Sales	914	665
Maturities and repayments	1,101	1,237
Repayments of mortgage loans	598	487
Fundings of mortgage loans and real estate	(695)	(613)
Net change in policy loans	58	36
Change in restricted cash	62	(9)
Terminations of derivative instruments, net	(71)	(12)
Proceeds from nonhedging derivative settlements	33	52
Payments for nonhedging derivative settlements	(201)	(344)
Net change in cash collateral received or pledged	96	(132)
Purchases of and advance payments on aircraft leasing portfolio	(512)	(703)
Other investing activities, net	23	257
NET CASH USED IN INVESTING ACTIVITIES	(2,205)	(2,186)

(Continued)

See Notes to Condensed Consolidated Financial Statements

Pacific Life Insurance Company and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In Millions)	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
(Continued)		
CASH FLOWS FROM FINANCING ACTIVITIES		
Policyholder account balances:		
Deposits	$2,891	$2,766
Withdrawals	(2,580)	(3,012)
Net change in short-term debt	158	191
Issuance of long-term debt	25	825
Partial retirement of surplus notes		(478)
Payments of long-term debt	(303)	(327)
Dividend to parent		(200)
Other financing activities, net	49	(27)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	240	(262)
Net change in cash and cash equivalents	(205)	(943)
Cash and cash equivalents, beginning of period	2,000	2,256
CASH AND CASH EQUIVALENTS, END OF PERIOD	$1,795	$1,313
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Income taxes (received) paid, net	($257)	$57
Interest paid	$161	$131

See Notes to Condensed Consolidated Financial Statements

1. 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. Pacific Life and its subsidiaries and affiliates have primary business operations consisting of life insurance, annuities, mutual funds, aircraft leasing and reinsurance.

2. BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The information set forth in the accompanying condensed consolidated statements of financial condition as of June 30, 2014 and the accompanying condensed consolidated statements of operations, comprehensive income (loss), equity and cash flows for the six months ended June 30, 2014 and 2013 is unaudited and has been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim reporting. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The information presented reflects all adjustments, including normal recurring adjustments that, in the opinion of management, are necessary to present fairly the financial position and results of operations of Pacific Life Insurance Company and subsidiaries (the Company) for the periods indicated. Results of operations for the interim periods presented are not necessarily indicative of the results of operations for the full year. The condensed consolidated statement of financial condition as of December 31, 2013 was derived from the audited consolidated financial statements as of and for the year ended December 31, 2013. Therefore, the information included in these unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements as of and for the year ended December 31, 2013.

The accompanying condensed consolidated financial statements of the Company include the accounts of Pacific Life and its majority owned and controlled subsidiaries and the variable interest entities (VIEs) in which the Company is the primary beneficiary. All significant intercompany transactions and balances have been eliminated.

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 critical, as they involve a higher degree of judgment and are subject to a significant degree of variability:

- The fair value of financial investments in the absence of quoted market values
- Other than temporary impairment losses (OTTI) of investments
- Application of 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 policy benefits
- Accounting for income taxes
- Accounting for reinsurance transactions
- Litigation and other contingencies

Certain reclassifications have been made to the 2013 condensed consolidated financial statements to conform to the 2014 financial statement presentation.

The Company has evaluated events subsequent to June 30, 2014 through August 27, 2014, the date the condensed consolidated financial statements were available to be issued, and has concluded that no events have occurred subsequent to June 30, 2014 that require disclosure or adjustment to the condensed consolidated financial statements.

3. NEW ACCOUNTING PRONOUNCEMENT

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENT

Effective January 1, 2013, the Company adopted Accounting Standards Update (ASU) 2011-11 as modified by ASU 2013-01 issued by the Financial Accounting Standards Board (FASB), which modifies the Accounting Standards Codification's (Codification) Balance Sheet Topic. This new guidance clarifies the scope of disclosures about offsetting assets and liabilities. The Company adopted this new guidance as of January 1, 2013 and applied it retrospectively. This ASU required additional financial statement disclosures and had no impact on the Company's condensed consolidated financial statements.

4. 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 Nebraska Department of Insurance (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 the valuation of investments and certain assets and accounting for deferred income taxes on a different basis.

The Company had two permitted practices approved by the Director of the NE DOI. Under the first permitted practice, the Company utilized book value accounting for certain guaranteed separate account funding agreements. The underlying separate account assets were recorded at book value instead of at fair value as required by National Association of Insurance Commissioners (NAIC) *Accounting Practices and Procedures Manual* (NAIC SAP). During 2014, the outstanding separate account funding agreements were called and the related separate accounts were closed. As of December 31, 2013, the underlying separate account assets had unrealized gains of $7 million. The permitted practice relating to the separate account funding agreements is considered terminated as of June 30, 2014. The second permitted practice, as of June 30, 2014, is transitional in nature and runs for the period beginning January 1, 2014 through December 30, 2014. This permitted practice will allow the Company time to bring its Working Capital Finance Programs into full compliance with Statutory Accounting Principles (SSAP) No. 105, *Working Capital Finance Investments*. As of June 30, 2014 and December 31, 2013, admitted Working Capital Finance Investments totaled $100 million and $146 million, respectively. As of December 31, 2013, a prior permitted practice relating to Working Capital Finance Notes expired on January 1, 2014 with the issuance of SSAP No. 105.

The NE DOI has a prescribed accounting practice for certain synthetic guaranteed interest contract (GIC) reserves that differs from NAIC SAP. The NE DOI reserve method is based on an annual accumulation of 30% of the contract fees on synthetic GICs and is subject to a maximum of 150% of the annualized contract fees. This reserve amounted to $58 million and $54 million as of June 30, 2014 and December 31, 2013, respectively, and has been recorded by Pacific Life. The NAIC SAP basis for this reserve equals the excess, if any, of the value of guaranteed contract liabilities over the market value of the assets in the segregated portfolio less deductions based on asset valuation reserve factors. As of June 30, 2014 and December 31, 2013, the reserve for synthetic GICs using the NAIC SAP basis was zero.

STATUTORY NET INCOME AND SURPLUS

Statutory net income of Pacific Life was $110 million and $305 million for the six months ended June 30, 2014 and 2013, respectively. Statutory capital and surplus of Pacific Life was $6,851 million and $6,503 million as of June 30, 2014 and December 31, 2013, respectively.

AFFILIATED REINSURANCE

Pacific Life cedes certain statutory reserves to affiliated special purpose financial insurance companies and affiliated captive reinsurance companies that are supported by a combination of cash, invested and other assets and third-party letters of credit or note facilities. As of June 30, 2014, Pacific Life's total statutory reserve credit was $1,646 million, of which $1,098 million was supported by third-party letters of credit and note facilities. As of December 31, 2013, Pacific Life's total statutory reserve credit was $1,570 million, of which $1,051 million was supported by third-party letters of credit and note facilities.

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 June 30, 2014 and December 31, 2013, Pacific Life, Pacific Life & Annuity Company (PL&A), an Arizona domiciled life insurance company, Pacific Alliance Reinsurance Company of Vermont (PAR Vermont), and Pacific Baleine Reinsurance Company (PBRC) all exceeded the minimum risk-based capital requirements. PAR Vermont and PBRC are Vermont based special purpose financial insurance companies subject to regulatory supervision by the Vermont Department of Financial Regulation (Vermont Department). PL&A, PAR Vermont and PBRC are wholly owned subsidiaries of Pacific Life and accredited authorized reinsurers in Nebraska.

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 2013 statutory results, Pacific Life could pay $515 million in dividends in 2014 to Pacific LifeCorp without prior approval from the NE DOI, subject to the notification requirement. During the six months ended June 30, 2014 and 2013, Pacific Life paid cash dividends to Pacific LifeCorp of zero and $200 million, respectively.

The payment of dividends by PL&A to Pacific Life is subject to restrictions set forth in the State of Arizona insurance laws. These laws require (i) notification to the Arizona Department of Insurance (AZ DOI) for the declaration and payment of any dividend and (ii) approval by the AZ DOI for accumulated dividends within the preceding twelve months that exceed the greater of 10% of statutory surplus as regards to policyholders as of the preceding December 31 or statutory net gain from operations for the preceding twelve months ended December 31. Based on these restrictions and 2013 statutory results, PL&A could pay $47 million in dividends to Pacific Life in 2014 without prior regulatory approval. No dividends were paid during the six months ended June 30, 2014 and 2013. In December 2013, PL&A paid a dividend to Pacific Life of $35 million.

5. VARIABLE INTEREST ENTITIES

The Company evaluates its interests in VIEs on an ongoing basis and consolidates those VIEs in which it has a controlling financial interest and is thus deemed to be the primary beneficiary. A controlling financial interest has both of the following characteristics: (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and (ii) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Creditors or beneficial interest holders of VIEs, where the Company is the primary beneficiary, have no recourse against the Company in the event of default by these VIEs.

The following table presents, as of June 30, 2014 and December 31, 2013, (i) the consolidated assets, consolidated liabilities and maximum exposure to loss relating to VIEs, which the Company has consolidated because it is the primary beneficiary or (ii) the net carrying amount of and maximum exposure to loss relating to VIEs in which the Company holds a significant variable interest, but has not consolidated because it is not the primary beneficiary *(In Millions)*:

	Consolidated VIEs			Non-consolidated VIEs	
June 30, 2014:	Consolidated Assets	Consolidated Liabilities	Maximum Exposure to Loss	Net Carrying Amount	Maximum Exposure to Loss
Aircraft securitizations	$1,078	$667	$432		
Sponsored investment funds	113		113		
Other				$99	$99
Asset-backed securities				53	53
Total	$1,191	$667	$545	$152	$152
December 31, 2013:					
Aircraft securitizations	$1,614	$939	$698		
Sponsored investment funds	89		89		
Other				$88	$88
Asset-backed securities				67	67
Total	$1,703	$939	$787	$155	$155

AIRCRAFT SECURITIZATIONS

Aviation Capital Group Corp. (ACG) is a wholly owned subsidiary of Pacific Life engaged in the acquisition and leasing of commercial aircraft. During each of the years 2000, 2003 and 2005, ACG sponsored financial asset securitizations secured by aircraft. Each of these transactions was classified as a VIE as the total equity investment at risk was insufficient to finance its activities without additional subordinated support. ACG receives ongoing compensation for its role as the remarketing and administrative agent and for various aircraft-related services.

During 2014, all of the outstanding debt associated with the securitization sponsored in 2003 was retired. Absent the cash flow requirements associated with the debt, the total equity at risk is sufficient to finance the activities of the 2003 securitization and it no longer qualifies as a VIE. However, the Company consolidates the assets and liabilities of the 2003 securitization, as a wholly owned subsidiary of ACG.

The 2000 and 2005 securitization transactions continue to individually meet the definition of a VIE. ACG is the primary beneficiary of the 2005 securitization because it owns 100% of the equity and has a controlling financial interest in this VIE. As such, the 2005 securitization is included in the condensed consolidated financial statements of the Company. The Company does not consolidate the 2000 securitization because ACG is not the primary beneficiary. As of June 30, 2014 and December 31, 2013, the Company's carrying amount of the 2000 securitization was zero and thus its maximum exposure to loss was zero.

SPONSORED INVESTMENT FUNDS

The Company has undertaken an initiative leveraging internal expertise to bring new investment strategies/products to sophisticated institutional investors and qualified institutional buyers. Structured as limited partnerships, the Company has provided the initial cash and noncash investments to seed these products for the purpose of refining the investment strategies and developing a performance history. Based on the design and operation of the limited partnership arrangements, the Company concluded that these legal entities are subject to consolidation under the variable interest rules and that the Company is the primary beneficiary. It is anticipated that the Company will continue to maintain a controlling interest in some, but not all, of the limited partnerships. The Company will reevaluate its standing as the primary beneficiary on a quarterly basis. The Company's unfunded commitment to the limited partnerships was $121 million and $94 million as of June 30, 2014 and December 31, 2013, respectively.

OTHER

Other consists primarily of limited partnerships (the Funds) which invest in private equity investments. Prior to June 30, 2013, the Company consolidated the Funds as the primary beneficiary since it held a controlling financial interest in the Funds. As of June 30, 2013, the Company determined itself not to be the primary beneficiary since it no longer held a controlling financial interest in the Funds. As such, the Funds were no longer included in the consolidated financial statements on a prospective basis. No gain or loss was recognized on the deconsolidation of the Funds as the underlying assets were carried at fair value. After the deconsolidation the Company's investment in the Funds is accounted for under the equity method and reported in other investments. 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 interests. As of June 30, 2014 and December 31, 2013, the maximum exposure to loss for the retained interest was $70 million and $61 million, respectively, and the Company's unfunded commitment to the Funds was $53 million and $63 million, respectively.

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 since it does not have the power to direct their financial activities. Therefore, the Company does not consolidate these entities. The investments are reported as fixed maturity securities available for sale.

OTHER NON-CONSOLIDATED VIEs

As part of normal investment activities, the Company will make passive investments in structured securities and limited partnerships for which it is not the sponsor. The structured security investments include residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), collateralized debt obligations, and other asset-backed securities which are reported in fixed maturities securities available for sale. The limited partnership investments include private equity funds and real estate funds which are reported in other investments. For these investments, the Company determined it is not the primary beneficiary due to the relative size of the Company's investment in comparison to the original amount issued by the VIEs. In addition, the Company does not have the authority to direct the activities of these VIEs that most significantly impact the VIEs economic performance. The Company's maximum exposure to loss is limited to the amount of its carrying value. See Note 7 for the carrying amount and estimated fair value of the structured security investments. The Company's carrying value of limited partnerships was $786 million and $796 million as of June 30, 2014 and December 31, 2013, respectively. The Company's unfunded commitment to the limited partnerships was $344 million and $333 million as of June 30, 2014 and December 31, 2013, respectively.

6. DEFERRED POLICY ACQUISITION COSTS

Components of the DAC asset are as follows:

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
	(In Millions)	
Balance, January 1	$4,214	$4,329
Additions:		
Capitalized during the period	306	289
Amortization:		
Allocated to commission expenses	(14)	(626)
Allocated to operating expenses	(1)	(4)
Total amortization	(15)	(630)
Allocated to OCI	(135)	197
Balance, June 30	$4,370	$4,185

During the six months ended June 30, 2014, the Company revised certain assumptions used to develop estimated gross profits (EGPs) for its products subject to DAC amortization. This resulted in a decrease of $36 million in DAC amortization expense for the six months ended June 30, 2014 and an increase of $88 million in DAC amortization expense for the six months ended June 30, 2013.

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 capitalized sales inducement balance included in the DAC asset was $633 million and $621 million as of June 30, 2014 and 2013, respectively.

7. 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 of fixed maturity securities represents amortized cost adjusted for OTTI recognized in earnings and terminated fair value hedges. The net carrying amount of equity securities represents cost adjusted for OTTI. See Note 11 for information on the Company's estimated fair value measurements and disclosure.

	Net Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In Millions)			
June 30, 2014:				
U.S. Government	$47	$8		$55
Obligations of states and political subdivisions	850	135		985
Foreign governments	633	69	$2	700
Corporate securities	26,766	2,545	97	29,214
RMBS	2,986	180	56	3,110
CMBS	666	32	3	695
Collateralized debt obligations	53	17		70
Other asset-backed securities	619	70		689
Total fixed maturity securities	$32,620	$3,056	$158	$35,518
Perpetual preferred securities	$129	$13	$10	$132
Other equity securities		5		5
Total equity securities	$129	$18	$10	$137

	Net Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In Millions)			
December 31, 2013:				
U.S. Government	$79	$5	$1	$83
Obligations of states and political subdivisions	854	63	18	899
Foreign governments	672	48	12	708
Corporate securities	24,603	1,692	425	25,870
RMBS	3,311	166	72	3,405
CMBS	733	20	18	735
Collateralized debt obligations	68	15		83
Other asset-backed securities	624	61	2	683
Total fixed maturity securities	$30,944	$2,070	$548	$32,466
Perpetual preferred securities	$130	$17	$15	$132
Other equity securities		5		5
Total equity securities	$130	$22	$15	$137

The Company has investments in perpetual preferred securities that are issued primarily by European financial institutions. The net carrying amount and estimated fair value of the available for sale perpetual preferred securities was $240 million and $248 million, respectively, as of June 30, 2014. Included in these amounts are perpetual preferred securities carried in trusts with a net carrying amount and estimated fair value of $111 million and $116 million, respectively, that are held in fixed maturity securities and included in the tables above in corporate securities.

The net carrying amount and estimated fair value of fixed maturity securities available for sale as of June 30, 2014, 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		Estimated Fair Value
		Gains	Losses	
		(In Millions)		
Due in one year or less	$1,079	$39	$1	$1,117
Due after one year through five years	5,812	647	5	6,454
Due after five years through ten years	12,466	841	50	13,257
Due after ten years	8,939	1,230	43	10,126
	28,296	2,757	99	30,954
Mortgage-backed and asset-backed securities	4,324	299	59	4,564
Total fixed maturity securities	$32,620	$3,056	$158	$35,518

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 investments, which include equity securities available for sale and cost method investments.

	Total		
	Number	Estimated Fair Value	Gross Unrealized Losses
		(In Millions)	
June 30, 2014:			
Foreign governments	4	$29	$2
Corporate securities	330	3,349	97
RMBS	79	711	56
CMBS	11	111	3
Total fixed maturity securities	424	4,200	158
Perpetual preferred securities	5	43	10
Other investments	4	5	1
Total other investments	9	48	11
Total	433	$4,248	$169

	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)*	
June 30, 2014:						
Foreign governments				4	$29	$2
Corporate securities	70	$514	$11	260	2,835	86
RMBS	16	111	2	63	600	54
CMBS				11	111	3
Total fixed maturity securities	86	625	13	338	3,575	145
Perpetual preferred securities				5	43	10
Other investments				4	5	1
Total other investments	-	-	-	9	48	11
Total	86	$625	$13	347	$3,623	$156

	Total		
	Number	Estimated Fair Value	Gross Unrealized Losses
		(In Millions)	
December 31, 2013:			
U.S. Government	2	$31	$1
Obligations of states and political subdivisions	14	184	18
Foreign governments	20	171	12
Corporate securities	733	7,308	425
RMBS	141	1,109	72
CMBS	29	405	18
Other asset-backed securities	23	122	2
Total fixed maturity securities	962	9,330	548
Perpetual preferred securities	5	39	15
Other investments	5	11	1
Total other investments	10	50	16
Total	972	$9,380	$564

	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, 2013:						
U.S. Government	2	$31	$1			
Obligations of states and political subdivisions	13	158	13	1	$26	$5
Foreign governments	19	147	11	1	24	1
Corporate securities	656	6,567	343	77	741	82
RMBS	72	462	8	69	647	64
CMBS	25	377	15	4	28	3
Other asset-backed securities	23	122	2			
Total fixed maturity securities	810	7,864	393	152	1,466	155
Perpetual preferred securities				5	39	15
Other investments				5	11	1
Total other investments	-	-	-	10	50	16
Total	810	$7,864	$393	162	$1,516	$171

The Company has evaluated fixed maturity securities and other investments with gross unrealized losses and has determined that the unrealized losses are temporary. The Company does not intend to sell the investments and it is more likely than not that the Company will not be required to sell the investments before recovery of their net carrying amounts.

The table below presents non-agency RMBS and CMBS by investment rating from independent rating agencies and vintage year of the underlying collateral as of June 30, 2014.

Rating	Net Carrying Amount	Estimated Fair Value	Rating as % of Net Carrying Amount	Vintage Breakdown 2004 and Prior	2005	2006	2007	2008 and Thereafter
	($ In Millions)							
Prime RMBS:								
AAA	$53	$52	3%					3%
AA	16	17	1%	1%				
A	35	36	2%	2%				
BAA	179	190	12%	10%	2%			
BA and below	1,252	1,285	82%	15%	38%	24%	5%	
Total	$1,535	$1,580	100%	28%	40%	24%	5%	3%
Alt-A RMBS:								
AAA	$3	$3	1%	1%				
AA	28	30	5%	4%	1%			
A	2	2	0%					
BAA	55	59	9%	6%	3%			
BA and below	506	481	85%	13%	16%	25%	31%	
Total	$594	$575	100%	24%	20%	25%	31%	0%
Sub-prime RMBS:								
AAA	$15	$15	6%	6%				
A	16	16	6%	6%				
BAA	22	21	9%	9%				
BA and below	195	190	79%	68%	9%	1%	1%	
Total	$248	$242	100%	89%	9%	1%	1%	0%
CMBS:								
AAA	$138	$144	21%	4%				17%
AA	178	192	27%	8%				19%
A	230	234	34%					34%
BAA and below	120	125	18%					18%
Total	$666	$695	100%	12%	0%	0%	0%	88%

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 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.

Pacific Life is a member of the Federal Home Loan Bank (FHLB) of Topeka. As of June 30, 2014, no assets are pledged as collateral. As of June 30, 2014, the Company holds FHLB of Topeka stock with an estimated fair value of $1 million and is recorded in other investments.

PL&A is a member of the FHLB of San Francisco. As of June 30, 2014, no assets are pledged as collateral. As of June 30, 2014, PL&A holds FHLB of San Francisco stock with an estimated fair value of $5 million and is recorded in other investments.

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

	Six Months Ended June 30,	
	2014	2013
	(In Millions)	
Fixed maturity securities	$797	$765
Equity securities	3	24
Mortgage loans	217	207
Real estate	54	64
Policy loans	102	101
Partnerships and joint ventures	75	65
Other	5	7
Gross investment income	1,253	1,233
Investment expense	77	82
Net investment income	$1,176	$1,151

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

	Six Months Ended June 30,	
	2014	2013
	(In Millions)	
Fixed maturity securities:		
Gross gains on sales	$32	$33
Gross losses on sales	(8)	(1)
Total fixed maturity securities	24	32
Equity securities:		
Gross gains on sales	7	34
Total equity securities	7	34
Trading securities	8	(4)
Real estate		7
Variable annuity guaranteed living benefit embedded derivatives	(285)	712
Variable annuity guaranteed living benefit policy fees	99	127
Variable annuity derivatives - total return swaps	(82)	(251)
Variable annuity derivatives - futures	(38)	
Fixed indexed annuity embedded derivatives	(12)	(2)
Fixed indexed annuity derivatives - futures	10	
Equity put options	(32)	(214)
Synthetic GIC policy fees	22	21
Foreign currency and interest rate swaps	19	(76)
Indexed universal life embedded derivatives	(65)	(68)
Indexed universal life derivatives - call options	56	68
Other	(7)	7
Total	($276)	$393

The table below summarizes the OTTI by investment type:

	Recognized in Earnings	Included in OCI	Total
	(In Millions)		
Six months ended June 30, 2014:			
Mortgage loans	$13		$13
Total OTTI	$13	-	$13
Six months ended June 30, 2013:			
Corporate securities	$2		$2
RMBS	4	$1	5
Total OTTI - fixed maturity securities	$6	$1	$7

The table below details the amount of OTTI attributable to credit losses recognized in earnings for which a portion was recognized in OCI:

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
	(In Millions)	
Cumulative credit loss, January 1	$217	$240
Additions for credit impairments recognized on:		
Securities not previously other than temporarily impaired		2
Securities previously other than temporarily impaired		2
Total additions	-	4
Reductions for credit impairments previously recognized on:		
Securities due to an increase in expected cash flows and time value of cash flows	(3)	(2)
Securities sold	(4)	(8)
Total subtractions	(7)	(10)
Cumulative credit loss, June 30	$210	$234

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

	Gross Unrealized Losses		
	OTTI Investments	Non-OTTI Investments	Total
		(In Millions)	
June 30, 2014:			
Foreign governments		$2	$2
Corporate securities		97	97
RMBS	$43	13	56
CMBS		3	3
Total fixed maturity securities	$43	$115	$158
Perpetual preferred securities		$10	$10
Total equity securities	-	$10	$10

	Gross Unrealized Losses		
	OTTI Investments	Non-OTTI Investments	Total
		(In Millions)	
December 31, 2013:			
U.S. Government		$1	$1
Obligations of states and political subdivisions		18	18
Foreign governments		12	12
Corporate securities		425	425
RMBS	$53	19	72
CMBS		18	18
Other asset-backed securities		2	2
Total fixed maturity securities	$53	$495	$548
Perpetual preferred securities		$15	$15
Total equity securities	-	$15	$15

Trading securities, included in other investments, totaled $203 million and $188 million as of June 30, 2014 and December 31, 2013, respectively. The cumulative net unrealized gains on trading securities held as of June 30, 2014 and December 31, 2013 were $20 million and $13 million, respectively. Net unrealized gains (losses) recognized in net realized investment gain (loss) on trading securities still held at the reporting date were $6 million and ($7) million as of June 30, 2014 and 2013, respectively.

Mortgage loans totaled $8,486 million and $8,454 million as of June 30, 2014 and December 31, 2013, respectively. Mortgage loans are collateralized by commercial properties primarily located throughout the U.S. As of June 30, 2014, $1,560 million, $1,275 million, $1,094 million, $1,044 million and $943 million were located in California, Washington, District of Columbia, Texas and New York, respectively. As of June 30, 2014, $245 million and $231 million were located in Canada and the United Kingdom (UK), respectively.

As of June 30, 2014, there were seven mortgage loans in the amount of $104 million that were considered impaired and an impairment loss of $15 million was recognized during the six months ended June 30, 2014 as the fair value of the underlying collateral of two of these loans was lower than their carrying value. See Note 11. No impairment loss was recorded on the other loans since the estimated fair value of the collateral was greater than the carrying amount. As of June 30, 2013, there were two loans in the amount of $6 million that were considered impaired. Since the estimated fair value of the collateral on these loans were greater than the carrying amount of the loans, no impairment loss was recorded. As of June 30, 2014, there was no single mortgage loan investment that exceeded 10% of stockholder's equity. The Company did not have any mortgage loans with accrued interest more than 180 days past due as of June 30, 2014 and 2013.

Real estate investments totaled $273 million and $227 million as of June 30, 2014 and December 31, 2013, respectively, and are included in other investments. There were no real estate write-downs during the six months ended June 30, 2014 and 2013.

8. AIRCRAFT LEASING PORTFOLIO, NET

Aircraft leasing portfolio, net, consists of the following:

	June 30, 2014	December 31, 2013
	(In Millions)	
Aircraft	$7,937	$6,857
Aircraft consolidated from VIEs	1,415	2,227
	9,352	9,084
Accumulated depreciation	1,866	1,788
Aircraft leasing portfolio, net	$7,486	$7,296

As of June 30, 2014 and December 31, 2013, aircraft with a carrying amount of $4,651 million and $4,103 million, respectively, were assigned as collateral to secure debt (Notes 5 and 10).

During the six months ended June 30, 2014 and 2013, ACG recognized aircraft impairments of $11 million and $14 million, respectively, which are included in operating and other expenses.

During the six months ended June 30, 2014 and 2013, ACG recognized gains (losses) on the sale of aircraft of $1 million and ($2) million, respectively, which are included in other income. Aircraft held for sale totaled $143 million and $94 million as of June 30, 2014 and December 31, 2013, respectively, and are included in aircraft leasing portfolio, net.

See Note 15 for future aircraft purchase commitments.

9. DERIVATIVES AND HEDGING ACTIVITIES

The Company primarily utilizes derivative instruments to manage its exposure to interest rate risk, foreign currency risk, credit risk, and equity risk. Derivative instruments are also used to manage the duration mismatch of assets and liabilities. The Company utilizes a variety of derivative instruments including swaps, futures 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 the Company to recognize all derivative instruments as either assets or liabilities at estimated fair value in its condensed consolidated statements of financial condition. 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 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 Company offers a rider on certain variable annuity contracts that guarantees net principal over a ten-year holding period, as well as riders on certain variable annuity contracts that guarantee a minimum withdrawal benefit over specified periods, subject to certain restrictions. These variable annuity guaranteed living benefits (GLBs) are considered embedded derivatives and are recorded in future policy benefits.

GLBs on variable annuity contracts issued between January 1, 2007 and March 31, 2009 are partially reinsured by third party reinsurers. 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 as a component of net reinsurance recoverable in other assets or net reinsurance payable in other liabilities. The Company also reinsures certain variable annuity contracts with guaranteed minimum benefits to an affiliated reinsurer.

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) and the EAFE Index (Europe, Australia, Asia and Far East) and exchange-traded equity futures to economically hedge the equity risk of the guarantees in its variable annuity products. The total return swaps provide periodic payments to the Company in exchange for the total return of the S&P 500 and changes in fair value of the EAFE indices in the form of a payment or receipt, depending on whether the return relative to the indices on trade date is positive or negative, respectively. In exchange-traded futures transactions, the Company agrees to purchase or sell a specified number of contracts, the values of which are determined by the different classes of equity securities, and to post variation margin on a daily basis in an amount equal to the difference in the daily market value of those contracts. The Company enters into exchange-traded futures with regulated futures commission merchants that are members of the exchange. The Company also utilizes interest rate swaps to manage interest rate risk in variable annuity GLBs.

The Company offers a fixed indexed annuity product where interest is credited to the policyholder’s account balance based on equity index changes. A policyholder may allocate the contract’s net accumulated value to one or a combination of the following: fixed return account at a guaranteed interest rate to be no less than 1% for a specified period of time, one or two year S&P 500 indexed account with caps, or one or two year global index account with caps. The indexed products contain embedded derivatives and are recorded in future policy benefits. The Company utilizes exchange-traded equity futures to hedge the credit paid to the policyholder on the underlying equity index.

The Company uses equity put options to hedge equity and credit risks. These equity put options involve the exchange of either an upfront payment or periodic fixed rate payments for the return, at the end of the option agreement, of the equity index below a specified strike price.

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. 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.

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 or floating 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, Canadian Dollar, Japanese Yen, and Singapore Dollar.

Interest rate swaps are used by the Company primarily to reduce market risk from changes in interest rates and other interest rate exposure arising from duration mismatches between assets and liabilities. These agreements involve the exchange, at specified intervals, of interest payments resulting from the difference between fixed rate and floating rate interest amounts calculated by reference to an underlying notional amount. Generally, no cash is exchanged at the outset of the contract and no principal payments are made by either party.

The Company offers indexed universal life (IUL) insurance products, which credit the price return of an underlying index to the policyholder's 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 S&P 500 indexed account currently capped at 9% to 12%, one year global index account currently capped at 12%, two year S&P 500 index account currently capped at 32%, or five year S&P 500 indexed account. The indexed products contain embedded derivatives and are recorded in policyholder account balances.

The Company utilizes call options (IUL derivatives) to hedge the credit paid to the policy on the underlying index for its IUL insurance products. These options are contracts to buy the index at a predetermined time at a contracted price. The contracts will be net settled in cash based on differentials in the index at the time of exercise and the strike price subject to a cap, net of option premium and the settlements will be recognized in net realized investment gain (loss).

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

	Notional Amount	
	June 30, 2014	December 31, 2013
	(In Millions)	
Variable annuity GLB embedded derivatives	$34,802	$35,920
Variable annuity derivatives - total return swaps	1,387	1,471
Variable annuity derivatives - futures	472	416
Variable annuity derivatives - interest rate swaps	135	132
Fixed indexed annuity embedded derivatives	1,361	1,071
Fixed indexed annuity derivatives - futures	122	
Equity put options		2,889
Synthetic GICs	21,748	21,698
Foreign currency and interest rate swaps	3,190	3,254
IUL embedded derivatives	2,038	1,675
IUL derivatives - call options	2,061	1,617
Other	319	330

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 in the condensed 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. Notional amounts for variable annuity GLB embedded derivatives represents deposits into variable annuity contracts covered by embedded derivative riders as a measurement of volume. 13.2% and 13.0% of these notional amounts are reinsured by third-party reinsurers as of June 30, 2014 and December 31, 2013, respectively. 4.1% of these notional amounts are reinsured by an affiliated reinsurer as of June 30, 2014 and December 31, 2013.

The following table summarizes amounts recognized in net realized investment gain (loss) 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 payments and amortization of $180 million and $308 million for the six months ended June 30, 2014 and 2013, respectively, which are recognized in net realized investment gain (loss).

	Amount of Gain (Loss) Recognized in Income on Derivatives	
	Six Months Ended June 30,	
	2014	2013
	(In Millions)	
Variable annuity derivatives - total return swaps	$27	($10)
Equity put options	(23)	(160)
Foreign currency and interest rate swaps [1]	26	(140)
IUL derivatives - call options	93	93
Other		3
Embedded derivatives:		
Variable annuity GLB embedded derivatives	(285)	712
Fixed indexed annuity embedded derivatives	(12)	(2)
IUL embedded derivatives	(65)	(68)
Other	(3)	1
Total	($242)	$429

[1] Includes foreign currency transaction gains and (losses) for foreign currency interest rate swaps.

DERIVATIVES DESIGNATED AS CASH FLOW HEDGES

The Company primarily uses interest rate swaps to manage its exposure to variability in cash flows due to changes in benchmark interest rates. These cash flows include those associated with existing liabilities. The maximum length of time over which the Company is hedging its exposure to variability in future cash flows for forecasted transactions did not exceed 7 years.

The Company had outstanding derivatives designated as cash flow hedges with notional amounts for interest rate swaps of $666 million and $818 million as of June 30, 2014 and December 31, 2013, respectively. The Company had gains recognized in OCI for changes in estimated fair value for derivatives designated as cash flow hedges for interest rate swaps of $10 million and $28 million for the six months ended June 30, 2014 and 2013, respectively. These amounts do not include the periodic net settlements of the derivatives. For the six months ended June 30, 2014 and 2013, all of the hedged forecasted transactions for outstanding cash flow hedges were determined to be probable of occurring.

When a derivative is designated as a cash flow hedge, the effective portion of changes in the estimated fair value of the derivative is recognized in OCI and reclassified to earnings when the hedged item affects earnings, and the ineffective portion of changes in the estimated fair value of the derivative is recognized in net realized investment gain (loss). For the six months ended June 30, 2014 and 2013, there was no hedge ineffectiveness related to cash flow hedges.

Amounts reclassified from accumulated OCI (AOCI) to earnings resulting from the discontinuance of cash flow hedges due to forecasted cash flows that were no longer probable of occurring were zero for the six months ended June 30, 2014 and 2013. Over the next twelve months, the Company anticipates that $3 million of deferred losses on derivative instruments in AOCI will be reclassified to earnings consistent with when the hedged forecasted transaction affects earnings.

CONDENSED CONSOLIDATED FINANCIAL STATEMENT IMPACT

Derivative instruments are recorded on the Company's condensed consolidated statements of financial condition at estimated 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 estimated 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 11.

	Asset Derivatives Estimated Fair Value		Liability Derivatives Estimated Fair Value	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
	(In Millions)		*(In Millions)*	
Derivatives designated as hedging instruments:				
Interest rate swaps			$29	$39 (5)
Total derivatives designated as hedging instruments	-	-	29	39
Derivatives not designated as hedging instruments:				
Variable annuity derivatives - total return swaps			9	5 (1)
			7	42 (5)
Variable annuity derivatives - interest rate swaps			9	9 (1)
				8 (5)
Equity put options				20 (1)
				83 (5)
Foreign currency and interest rate swaps	$44	$30 (1)	58	27 (1)
	35	58 (5)	115	182 (5)
IUL derivatives - call options	115	67 (1)		
	59	94 (5)		
Other		1 (5)		
Embedded derivatives:				
Variable annuity GLB embedded derivatives (including reinsurance contracts)	78	(2)	727	355 (3)
				4 (2)
				5 (5)
Fixed indexed annuity embedded derivatives			86	61 (3)
IUL embedded derivatives			245	220 (4)
Other			5	2 (5)
Total derivatives not designated as hedging instruments	331	250	1,261	1,023
Total derivatives	$331	$250	$1,290	$1,062

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

Cash collateral received from counterparties was $93 million and $47 million as of June 30, 2014 and December 31, 2013, 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. Cash collateral pledged to counterparties was $57 million and $107 million as of June 30, 2014 and December 31, 2013, 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. Net exposure to the counterparty is calculated as the estimated fair value of all derivative positions with the counterparty, net of income or expense accruals and cash collateral paid or received. If the net exposure to the counterparty is positive, the amount is reflected in other investments, whereas, if the net exposure to the counterparty is negative, the estimated fair value is included in other liabilities.

As of June 30, 2014 and December 31, 2013, the Company had also accepted collateral, consisting of various securities, with an estimated fair value of $6 million and $12 million, respectively, which are held in separate custodial accounts and are not recorded in the condensed consolidated statements of financial condition. The Company is permitted by contract to sell or repledge this collateral and as of June 30, 2014 and December 31, 2013, none of the collateral had been repledged. As of June 30, 2014 and December 31, 2013, the Company provided collateral in the form of various securities with an estimated fair value of $5 million, which are included in fixed maturity securities. The counterparties are permitted by contract to sell or repledge this collateral.

OFFSETTING ASSETS AND LIABILITIES

The following table reconciles the net amount of derivative assets and liabilities reported in the condensed consolidated statements of financial condition (excluding embedded derivatives) subject to master netting arrangements after the offsetting of collateral. Gross amounts include income or expense accruals. Gross amounts offset include cash collateral received or pledged limited to the gross estimated fair value of recognized derivative assets or liabilities, net of accruals. Excess cash collateral received or pledged is not included in the tables due to the foregoing limitation. Gross amounts not offset include securities received or pledged as collateral.

	Gross Amounts of Recognized Assets/Liabilities (1)	Gross Amounts Offset	Net Amounts	Gross Amounts Not Offset - Asset Collateral	Net Amounts
			(In Millions)		
June 30, 2014:					
Derivative assets	$218	($200)	$18	($6)	$12
Derivative liabilities	238	(142)	96		96
December 31, 2013:					
Derivative assets	$235	($215)	$20	($12)	$8
Derivative liabilities	430	(268)	162		162

(1) As of June 30, 2014 and December 31, 2013, derivative assets include expense accruals of $35 million and $14 million, respectively, and derivative liabilities include expense accruals of $11 million and $15 million, respectively.
(2) As of June 30, 2014 and December 31, 2013, the Company received excess cash collateral of $1 million and $5 million, respectively, which is not included in the table and provided no excess cash collateral.

CREDIT EXPOSURE AND CREDIT RISK RELATED CONTINGENT FEATURES

The Company is exposed to credit-related losses in the event of nonperformance by counterparties to over the counter (OTC) derivatives. The Company attempts to manage credit risk 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.

For OTC derivative transactions, the Company enters into legally enforceable master agreements which provide for the netting of payments and receipts with a single counterparty. The net position with each counterparty is calculated as the aggregate estimated fair value of all derivative instruments with each counterparty, net of income or expense accruals and collateral paid or received. These master agreements also include collateral arrangements with derivative counterparties, which require both the pledge and acceptance of collateral when the net estimated fair value of the underlying derivatives reaches a pre-determined threshold.

Credit exposure is measured on a counterparty basis as the net positive aggregate estimated fair value, net of accrued income or expenses and collateral received, if any. The credit exposure for OTC derivatives as of June 30, 2014 was $12 million. The maximum exposure to any single counterparty was $7 million at June 30, 2014. All of the Company's credit exposure from derivative contracts is with investment grade counterparties.

The Company’s collateral arrangements include credit-contingent provisions that provide for a reduction of collateral thresholds in the event of downgrades in the credit ratings of the Company and/or the counterparty. If these financial strength ratings were to fall below a specific investment grade credit rating, the counterparties to the derivative instruments could request immediate and ongoing full collateralization on derivative instruments in net liability positions. The aggregate estimated fair value of all derivative instruments with credit risk related contingent features that are in a liability position on June 30, 2014, is $64 million for which the Company has posted collateral of $34 million. If certain of the Company's financial strength ratings were to fall one notch as of June 30, 2014, the Company would not be required to post any additional collateral to its counterparties.

The OTC master agreements may include a termination event clause associated with financial strength ratings assigned by certain independent rating agencies. If these financial strength ratings were to fall below a specified level, as defined within each counterparty master agreement or, in most cases, if one of the rating agencies ceased to provide a financial strength rating, the counterparty could terminate the master agreement with payment due based on the estimated fair value of the underlying derivatives. As of June 30, 2014, the Company's financial strength ratings were above the specified level.

10. DEBT

Debt consists of the following:

	June 30, 2014	December 31, 2013
	(In Millions)	
Short-term debt:		
Credit facility recourse only to ACG	$178	$20
Total short-term debt	$178	$20
Long-term debt:		
Surplus notes	$1,771	$1,771
Deferred gains from derivative hedging activities	283	287
Non-recourse long-term debt:		
Debt recourse only to ACG	4,584	4,665
ACG non-recourse debt	320	333
Other non-recourse debt	106	91
ACG VIE debt (Note 5)	467	659
Total long-term debt	$7,531	$7,806

SHORT-TERM DEBT

Pacific Life maintains a $700 million commercial paper program. There was no commercial paper debt outstanding as of June 30, 2014 and December 31, 2013. In addition, Pacific Life has a bank revolving credit facility of $400 million maturing in November 2016 that serves as a back-up line of credit for the commercial paper program. This facility had no debt outstanding as of June 30, 2014 and December 31, 2013. As of and during the six months ended June 30, 2014, Pacific Life was in compliance with the debt covenants related to these facilities.

PL&A maintains reverse repurchase lines of credit with various financial institutions. These borrowings are at variable rates of interest based on collateral and market conditions. There was no debt outstanding in connection with these lines of credit as of June 30, 2014 and December 31, 2013.

Pacific Life is eligible to receive advances from the FHLB of Topeka based on a percentage of Pacific Life’s statutory general account assets provided it has sufficient available eligible collateral and is in compliance with the FHLB of Topeka requirements, debt covenant restrictions and insurance laws and regulations. The Company had estimated available eligible collateral of $810 million as of June 30, 2014. The Company had no debt outstanding with the FHLB of Topeka as of June 30, 2014 and December 31, 2013.

PL&A is eligible to receive advances from the FHLB of San Francisco based on a percentage of PL&A's statutory capital and surplus provided it has sufficient available eligible collateral and is in compliance with the FHLB of San Francisco requirements and insurance laws and regulations. PL&A had estimated available eligible collateral of $68 million as of June 30, 2014. PL&A had no debt outstanding with the FHLB of San Francisco as of June 30, 2014 and December 31, 2013.

As of June 30, 2014, ACG has revolving credit agreements with banks totaling $1,095 million borrowing capacity. There was $178 million and $20 million outstanding in connection with these revolving credit agreements as of June 30, 2014 and December 31, 2013, respectively. Interest on these loans is payable monthly and was 1.9% as of June 30, 2014 and December 31, 2013. The facilities expire at various dates ranging from January 2016 through October 2017. These credit agreements are recourse only to ACG.

In June 2014, ACG received a commitment from several Japanese banks for a loan facility denominated in Japanese Yen with a USD equivalent of approximately $125 million. ACG has not drawn on the loan facility as of June 30, 2014. This loan facility is recourse only to ACG.

LONG-TERM DEBT

On January 22, 2013, Pacific Life, with the approval of the NE DOI, exercised its early settlement right for its 9.25% surplus notes and repurchased and retired $323 million of the original $1 billion outstanding. The partial retirement of the 9.25% surplus notes was accounted for as an extinguishment of debt and the related amortization of deferred gains (see below) of $112 million and the premium paid of $155 million were recognized in interest expense during the year ended December 31, 2013. As of June 30, 2014 and December 31, 2013, Pacific Life had $677 million of surplus notes outstanding 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 NE DOI 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 NE DOI. Pacific Life had entered into interest rate swaps converting the 9.25% surplus notes to variable rate notes. The interest rate swaps were designated as fair value hedges of these surplus notes. During the year ended December 31, 2011, the interest rate swaps were terminated and deferred gains of $364 million as of the termination date were recorded as an increase to the carrying amount of these surplus notes and will be amortized as a reduction to interest expense over the remaining life of these surplus notes using the effective interest method. The resulting effective interest rate of these surplus notes is 6.4%. Total unamortized deferred gains were $237 million and $239 million as of June 30, 2014 and December 31, 2013, respectively.

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 NE DOI. Pacific Life had entered into interest rate swaps converting these surplus notes to variable rate notes. The interest rate swaps were designated as fair value hedges of these surplus notes and the changes in estimated fair value of the hedged surplus notes associated with changes in interest rates were reflected as an adjustment to their carrying amount. During the year ended December 31, 2011, the interest rate swaps were terminated and the fair value adjustment as of the termination date, which increased the carrying value by $56 million, will be amortized over the remaining life of these surplus notes using the effective interest method. The resulting effective interest rate of these surplus notes is 4.0%. Total unamortized deferred gains were $46 million and $48 million as of June 30, 2014 and December 31, 2013, respectively.

The NE DOI 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%. All future payments of interest and principal on the internal surplus note can be made only with the prior approval of the NE DOI. The internal surplus note matures on February 5, 2020.

In January 2013, the NE DOI approved the issuance of an internal surplus note by Pacific Life to Pacific LifeCorp for $500 million with net cash proceeds of $494 million. The original issue discount of $6 million will be amortized over the life of the internal surplus note. Pacific Life is required to pay Pacific LifeCorp interest on the internal surplus note semiannually on January 25 and July 25 at a fixed annual rate of 5.125%. All future payments of interest and principal on the internal surplus note can be made only with the prior approval of the NE DOI. The internal surplus note matures on January 25, 2043.

ACG enters into various secured loans that are guaranteed by the U.S. Export-Import bank or by the European Export Credit Agencies. Interest on these loans is payable quarterly and ranged from 0.4% to 4.1% as of June 30, 2014 and 0.5% to 4.2% as of December 31, 2013. As of June 30, 2014, $1,595 million was outstanding on these loans with maturities ranging from 2016 to 2024. As of December 31, 2013, $1,682 million was outstanding on these loans. These loans are recourse only to ACG.

ACG enters into various senior unsecured notes and loans with third-parties. Interest on these notes and loans is payable quarterly or semi-annually and ranged from 2.0% to 7.2% as of June 30, 2014 and December 31, 2013. As of June 30, 2014, $2,989 million was outstanding on these notes and loans with maturities ranging from 2014 to 2023. As of December 31, 2013, $2,983 million was outstanding on these notes and loans. These notes and loans are recourse only to ACG.

ACG has an acquisition facility to acquire aircraft. Interest on this facility accrues at variable rates, is payable monthly and was 3.5% as of June 30, 2014 and was 3.6% as of December 31, 2013. As of June 30, 2014, $320 million was outstanding on this facility that matures in 2017. As of December 31, 2013, $333 million was outstanding on this facility. This facility is non-recourse to the Company.

Certain subsidiaries of Pacific Asset Holding LLC (PAH), a wholly owned subsidiary of Pacific Life, enters into various real estate property related loans with various third-parties. Interest on these loans accrues at fixed and variable rates and is payable monthly. Fixed rates ranged from 3.6% to 5.4% as of June 30, 2014 and December 31, 2013. The variable rate was 2.4% as of June 30, 2014 and December 31, 2013. As of June 30, 2014 and December 31, 2013, there was $106 million and $91 million, respectively, outstanding on these loans with maturities during 2015 through 2019. All of these loans are secured by real estate properties and are non-recourse to the Company.

11. ESTIMATED 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 estimated fair value for financial assets and financial liabilities that are carried at estimated fair value. The determination of estimated fair value requires the use of observable market data when available. 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 in inactive markets; and model-derived valuations for which all significant inputs are observable market data. Level 2 instruments include most fixed maturity securities that are valued 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 not market observable. Level 3 instruments include less liquid securities, such as certain private placement securities and variable annuity GLB embedded derivatives that require significant management assumptions or estimation in the fair value measurement.

The following tables present, by estimated fair value hierarchy level, the Company's financial assets and liabilities that are carried at estimated fair value as of June 30, 2014 and December 31, 2013.

	Level 1	Level 2	Level 3	Gross Derivatives Estimated Fair Value	Netting Adjustments [1]	Total
				(In Millions)		
June 30, 2014:						
Assets:						
U.S. Government		$55				$55
Obligations of states and political subdivisions		957	$28			985
Foreign governments		643	57			700
Corporate securities		27,467	1,747			29,214
RMBS		3,048	62			3,110
CMBS		685	10			695
Collateralized debt obligations			70			70
Other asset-backed securities		339	350			689
Total fixed maturity securities	-	33,194	2,324	-	-	35,518
Perpetual preferred securities		132				132
Other equity securities			5			5
Total equity securities	-	132	5	-	-	137
Trading securities	$78	116	9			203
Other investments	2	91	5			98
Derivatives:						
Foreign currency and interest rate swaps		79		$79	($102)	(23)
Equity derivatives			174	174	(68)	106
Embedded derivatives			78	78		78
Total derivatives	-	79	252	331	(170)	161
Separate account assets [2]	61,918	116	193			62,227
Total	$61,998	$33,728	$2,788	$331	($170)	$98,344
Liabilities:						
Derivatives:						
Foreign currency and interest rate swaps		$211		$211	($102)	$109
Equity derivatives			$16	16	(68)	(52)
Embedded derivatives			1,063	1,063		1,063
Total	-	$211	$1,079	$1,290	($170)	$1,120

	Level 1	Level 2	Level 3	Gross Derivatives Estimated Fair Value	Netting Adjustments [1]	Total
			(In Millions)			
December 31, 2013:						
Assets:						
U.S. Government		$83				$83
Obligations of states and political subdivisions		852	$47			899
Foreign governments		631	77			708
Corporate securities		24,221	1,649			25,870
RMBS		3,312	93			3,405
CMBS		725	10			735
Collateralized debt obligations			83			83
Other asset-backed securities		369	314			683
Total fixed maturity securities	-	30,193	2,273	-	-	32,466
Perpetual preferred securities		132				132
Other equity securities			5			5
Total equity securities	-	132	5	-	-	137
Trading securities	$74	111	3			188
Other investments	2	28	12			42
Derivatives:						
Foreign currency and interest rate swaps		88		$88	($94)	(6)
Equity derivatives			161	161	(119)	42
Embedded derivatives				-	(4)	(4)
Other		1		1	(1)	-
Total derivatives	-	89	161	250	(218)	32
Separate account assets [2]	60,542	107	174			60,823
Total	$60,618	$30,660	$2,628	$250	($218)	$93,688
Liabilities:						
Derivatives:						
Foreign currency and interest rate swaps		$265		$265	($94)	$171
Equity derivatives			$150	150	(119)	31
Embedded derivatives			647	647	(4)	643
Other				-	(1)	(1)
Total	-	$265	$797	$1,062	($218)	$844

[1] Netting adjustments represent the impact of offsetting asset and liability positions on the condensed consolidated statements of financial condition held with the same counterparty as permitted by guidance for offsetting in the Codification's Derivatives and Hedging Topic.

[2] Separate account assets are measured at estimated 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 estimated 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 tables above differ from the amounts presented in the condensed consolidated statements of financial condition because cash and receivables for securities, and investment income due and accrued are not subject to the guidance under the Codification's Fair Value Measurements and Disclosures Topic.

LEVEL 3 RECONCILIATION

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

	January 1, 2014	Total Gains or Losses Included in Earnings	Total Gains or Losses Included in OCI	Transfers Into Level 3 (1)	Transfers Out of Level 3 (1)	Purchases	Sales	Settlements	June 30, 2014
					(In Millions)				
Obligations of states and political subdivisions	$47		$2		($21)				$28
Foreign governments	77		4	$1	(37)	$15		($3)	57
Corporate securities	1,649	$20	57	73	(131)	174	($10)	(85)	1,747
RMBS	93				(47)	19		(3)	62
CMBS	10								10
Collateralized debt obligations	83	2	2					(17)	70
Other asset-backed securities	314	2	8	14	(12)	56		(32)	350
Total fixed maturity securities	2,273	24	73	88	(248)	264	(10)	(140)	2,324
Other equity securities	5								5
Total equity securities	5	-	-	-	-	-	-	-	5
Trading securities	3					11	(5)		9
Other investments	12					1		(8)	5
Derivatives, net:									
Equity derivatives	11	96						51	158
Embedded derivatives	(647)	(363)				(61)		86	(985)
Total derivatives	(636)	(267)	-	-	-	(61)	-	137	(827)
Separate account assets (2)	174	7		1	(1)	26	(14)		193
Total	$1,831	($236)	$73	$89	($249)	$241	($29)	($11)	$1,709

		Total Gains or Losses		Transfers	Transfers				
	January 1, 2013	Included in Earnings	Included in OCI	Into Level 3 (1)	Out of Level 3 (1)	Purchases	Sales	Settlements	June 30, 2013
					(In Millions)				
Obligations of states and political subdivisions	$32		($7)	$38	($3)				$60
Foreign governments	58		(3)					($2)	53
Corporate securities	2,213	$4	(52)	237	(590)	$196	($33)	(92)	1,883
RMBS	8			1	(8)	13		(1)	13
CMBS	26		(1)	7	(24)			(2)	6
Collateralized debt obligations	117	2	5					(27)	97
Other asset-backed securities	367	2	(5)	7	(34)	55		(15)	377
Total fixed maturity securities	2,821	8	(63)	290	(659)	264	(33)	(139)	2,489
Perpetual preferred securities	17	32	(6)				(43)		-
Other equity securities	4		1						5
Total equity securities	21	32	(5)	-	-	-	(43)	-	5
Trading securities	51							(14)	37
Other investments	12								12
Derivatives, net:									
Equity derivatives	173	(95)						11	89
Embedded derivatives	(1,628)	641				(43)		47	(983)
Other	(23)	11							(12)
Total derivatives	(1,478)	557	-	-	-	(43)	-	58	(906)
Separate account assets (2)	128	6				20	(13)		141
Total	$1,555	$603	($68)	$290	($659)	$241	($89)	($95)	$1,778

(1) Transfers in and/or out are recognized at the end of each quarter.
(2) Included in earnings of separate account assets are realized/unrealized gains (losses) that are offset by corresponding amounts in separate account liabilities, which results in a net zero impact on earnings for the Company.

During the six months ended June 30, 2014 and 2013, transfers out of Level 3 were generally due to the use of market observable inputs in valuation methodologies, including the utilization of pricing service information. The transfers into Level 3 were primarily attributable to the decreased availability of market observable inputs to estimate fair value. During the six months ended June 30, 2014 and 2013, the Company did not have any significant transfers between Levels 1 and 2.

Amounts included in earnings of Level 3 financial assets and liabilities are as follows:

Six months ended June 30, 2014:	Net Investment Income	Net Realized Investment Gain (Loss)	OTTI	Operating and Other Expenses	Total
			(In Millions)		
Corporate securities	$14	$6			$20
Collateralized debt obligations	2				2
Other asset-backed securities	2				2
Total fixed maturity securities	18	6	-	-	24
Equity derivatives		96			96
Embedded derivatives		(363)			(363)
Total derivatives	-	(267)	-	-	(267)
Separate account assets		7			7
Total	$18	($254)	-	-	($236)

Six months ended June 30, 2013:	Net Investment Income	Net Realized Investment Gain (Loss)	OTTI	Operating and Other Expenses	Total
			(In Millions)		
Corporate securities	$5	$2	($3)		$4
Collateralized debt obligations	2				2
Other asset-backed securities	2				2
Total fixed maturity securities	9	2	(3)	-	8
Perpetual preferred trading securities		32			32
Total equity securities	-	32	-	-	32
Equity derivatives		(95)			(95)
Embedded derivatives		641			641
Other		1		$10	11
Total derivatives	-	547	-	10	557
Separate account assets		6			6
Total	$9	$587	($3)	$10	$603

The table below represents the net amount of total gains or losses for the period, attributable to the change in unrealized gains (losses) relating to assets and liabilities classified as Level 3 that were still held at the end of the reporting period.

	Six Months Ended June 30,	
	2014	2013
	(In Millions)	
Trading securities [1]		$1
Derivatives, net: [1]		
Equity derivatives	$97	(66)
Embedded derivatives	(356)	662
Total derivatives	(259)	596
Separate account assets [2]	7	6
Total	($252)	$603

(1) Amounts are recognized in net realized investment gain (loss).

(2) Included in earnings of separate account assets are realized/unrealized gains (losses) that are offset by corresponding amounts in separate account liabilities, which results in a net zero impact on earnings for the Company.

The following table presents certain quantitative information on significant unobservable inputs used in the fair value measurement for Level 3 assets and liabilities as of June 30, 2014 (*$ In Millions*).

	Estimated Fair Value Asset (Liability)	Predominant Valuation Method	Significant Unobservable Inputs	Range (Weighted Average)
Obligations of states and political subdivisions	$28	Discounted cash flow	Spread [1]	319-350 (340)
Foreign governments	57	Discounted cash flow	Spread [1]	150-232 (196)
		Market pricing	Quoted prices [2]	113
Corporate securities	1,747	Discounted cash flow	Spread [1]	30-691 (213)
		Collateral value [3]	Collateral value	45-116 (84)
		Market pricing	Quoted prices [2]	81-115 (102)
		Cap at call price	Call price	106
RMBS	62	Market pricing	Quoted prices [2]	66-104 (77)
CMBS	10	Discounted cash flow	Prepayment rate	0%
			Default rate	1%
			Severity	30%
			Spread [1]	115-524 (208)
Collateralized debt obligations	70	Market pricing	Quoted prices [2]	18-90 (87)
Other asset-backed securities	350	Discounted cash flow	Spread [1]	47-426 (118)
		Market pricing	Quoted prices [2]	72-120 (101)
		Cap at call price	Call price	100
Other equity securities	5	Market comparable companies	EBITDA [4] multiple	4X
Trading securities	9	Market pricing	Quoted prices [2]	100-108 (102)
Other investments	5	Redemption value [5]	Redemption value	100
Equity derivatives	158	Option pricing model	Equity volatility	14% - 57%
Embedded derivatives	(985)	Option pricing techniques	Equity volatility	14% - 57%
			Mortality:	
			Ages 0-40	0.01% - 0.07%
			Ages 41-60	0.06% - 0.49%
			Ages 61-120	0.44% - 100%
			Mortality improvement	0% - 1.50%
			Withdrawal utilization	0% - 80%
			Lapse rates	1% - 100%
			Credit standing adjustment	0.32% - 1.20%
Separate account assets	193	Net asset value		
Total	$1,709			

(1) Range and weighted average are presented in basis points over the benchmark interest rate curve and include adjustments attributable to illiquidity premiums, expected duration, structure and credit quality.
(2) Independent third-party quotations were used in the determination of estimated fair value.
(3) Valuation based on the Company's share of estimated fair values of the underlying assets held in the trusts.
(4) The abbreviation EBITDA means earnings before interest, taxes, depreciation and amortization.
(5) Represents FHLB common stock that is valued at the contractual amount that will be received upon redemption.

NONRECURRING FAIR VALUE MEASUREMENTS

Certain assets are measured at estimated fair value on a nonrecurring basis and are not included in the tables presented above. The amounts below relate to certain investments measured at estimated fair value during the period and still held at the reporting date.

	Six Months Ended June 30, 2014			Six Months Ended June 30, 2013		
	Carrying Value Prior to Measurement	Estimated Fair Value After Measurement	Impairment	Carrying Value Prior to Measurement	Estimated Fair Value After Measurement	Impairment
			(In Millions)			
Mortgage loans	$57	$42	($15)			
Aircraft	89	78	(11)	$142	$128	($14)

MORTGAGE LOANS

The impairment loss (gross of reinsurance of $2 million) in 2014 related to two loans that had a carrying value prior to measurement of $57 million and are still held as mortgage loans as of June 30, 2014. The estimated fair value after measurement was based on the underlying real estate collateral net of estimated costs to sell. These loans were classified as Level 3 assets.

AIRCRAFT

ACG evaluates carrying values of aircraft quarterly or based upon changes in market and other physical and economic conditions that indicate the carrying amount of the aircraft may not be recoverable. ACG will record impairments to recognize a loss in the value of aircraft when management believes that, based on future undiscounted estimated cash flows, the recoverability of ACG's investment in an aircraft has been impaired. The fair value is based on the present value of the future cash flows, which can include contractual lease payments, projected future lease payments, projected sales prices as well as disposition value. The disposition value reflects an aircraft's estimated residual value or estimated sales price. The cash flows are based on unobservable inputs and have been classified as Level 3.

The Company did not have any other nonfinancial assets or liabilities measured at fair value on a nonrecurring basis resulting from impairments as of June 30, 2014 and 2013. The Company has not made any changes in the valuation methodologies for nonfinancial assets and liabilities.

12. INCOME TAXES

The provision for income taxes is as follows:

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
	(In Millions)	
Current	$5	$4
Deferred	53	46
Total	$58	$50

A reconciliation of the provision for income taxes based on the Federal corporate statutory tax rate of 35% to the provision for income taxes reflected in the condensed consolidated statements of operations is as follows:

	Six Months Ended June 30,	
	2014	2013
	(In Millions)	
Provision for income taxes at the statutory rate	$130	$126
Separate account dividends received deduction	(34)	(40)
Singapore Transfer	(24)	(20)
Low income housing and foreign tax credits	(10)	(11)
Other	(4)	(5)
Provision for income taxes	$58	$50

As of June 30, 2014 and December 31, 2013, the Company had no unrecognized tax benefits. The Company does not expect any material changes in unrecognized tax benefits during the next twelve months.

ACG transfers aircraft assets and related liabilities to foreign subsidiaries in Singapore (collectively referred to as the Singapore Transfer). The Singapore Transfer decreased the provision for income taxes for the six months ended June 30, 2014 and 2013 by $24 million and $20 million, respectively, primarily due to the reversal of deferred tax liabilities related to basis differences in the aircraft assets transferred. U.S. income taxes have not been recognized on the excess of the amount for financial reporting over the tax basis of investments in foreign subsidiaries that are essentially permanent in duration. This amount becomes taxable upon a repatriation of assets from the subsidiary or a sale or liquidation of the subsidiary.

PMHC files income tax returns in U.S. Federal and various state jurisdictions. PMHC is under continuous audit by the Internal Revenue Service (IRS) and is audited periodically by some state taxing authorities. The IRS has completed audits of PMHC's tax returns through the tax year ended December 31, 2008, and is auditing PMHC's tax returns for the tax years ended December 31, 2009 and 2010. The State of California is auditing tax year 2009. The Company does not expect the Federal and California audits to result in any material assessments.

13. SEGMENT INFORMATION

The Company has four operating segments: Life Insurance, Retirement Solutions, Aircraft Leasing, and Reinsurance. 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 primarily the upper income and corporate markets. Principal products include universal life, IUL, 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, an association of independently owned and operated insurance, and financial producers.

The Retirement Solutions segment's principal products include variable and fixed annuity products, mutual funds, and structured settlement and group retirement annuities, which are offered through multiple distribution channels. Distribution channels include independent planners, financial institutions, national/regional wirehouses and a network of structured settlement brokers.

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

The Reinsurance segment primarily includes the domestic and international retrocession business, which assumes mortality risks from other life reinsurers. The domestic and international retrocession business serves clients primarily in the U.S., Canada and Europe.

The Corporate and Other segment consists of assets and activities, which support the Company's operating segments. Included in these support activities is the management of investments, certain entity level hedging activities and other expenses and other assets not directly attributable to the operating segments. The Corporate and Other segment also includes several operations that do not qualify as operating segments and the elimination of intersegment transactions.

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).

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

The Company generates the majority of its revenues and net income from customers located in the U.S. As of June 30, 2014 and December 31, 2013, the Company had foreign investments with an estimated fair value of $10.8 billion and $9.8 billion, respectively. Aircraft leased to foreign customers was $6.6 billion and $6.5 billion as of June 30, 2014 and December 31, 2013, respectively. Revenues derived from any customer did not exceed 10% of consolidated total revenues for the six months ended June 30, 2014 and 2013.

The following is segment information as of and for the six months ended June 30, 2014:

	Life Insurance	Retirement Solutions	Aircraft Leasing	Reinsurance	Corporate and Other	Total
			(In Millions)			
REVENUES						
Policy fees and insurance premiums	$523	$864		$257		$1,644
Net investment income	529	525	$1	6	$115	1,176
Net realized investment gain (loss)	(2)	(302)		(1)	29	(276)
OTTI	(3)	(5)			(5)	(13)
Investment advisory fees	14	154			19	187
Aircraft leasing revenue			391			391
Other income	10	99	8	4	1	122
Total revenues	1,071	1,335	400	266	159	3,231
BENEFITS AND EXPENSES						
Policy benefits	307	680		211		1,198
Interest credited	394	171			32	597
Commission expenses	111	90		9		210
Operating expenses	164	217	60	17	41	499
Depreciation of aircraft			168			168
Interest expense	3		124		61	188
Total benefits and expenses	979	1,158	352	237	134	2,860
Income before provision (benefit) for income taxes	92	177	48	29	25	371
Provision (benefit) for income taxes	27	25	(9)	10	5	58
Net income	65	152	57	19	20	313
Less: net income attributable to the noncontrolling interest			(1)		(1)	(2)
Net income attributable to the Company	$65	$152	$56	$19	$19	$311
Total assets	$36,871	$81,902	$8,605	$708	$4,333	$132,419
DAC	1,196	3,118		56		4,370
Separate account assets	7,264	55,013				62,277
Policyholder and contract liabilities	26,030	21,984		412	991	49,417
Separate account liabilities	7,264	55,013				62,277

The following is segment information for the six months ended June 30, 2013:

	Life Insurance	Retirement Solutions	Aircraft Leasing	Reinsurance	Corporate and Other	Total
			(In Millions)			
REVENUES						
Policy fees and insurance premiums	$557	$879		$225		$1,661
Net investment income	519	501	$4	7	$120	1,151
Net realized investment gain (loss)	16	651		1	(275)	393
OTTI	(4)	(1)			(1)	(6)
Investment advisory fees	12	131			21	164
Aircraft leasing revenue			360			360
Other income	6	92	6	2	16	122
Total revenues	1,106	2,253	370	235	(119)	3,845
BENEFITS AND EXPENSES						
Policy benefits	279	735		155		1,169
Interest credited	388	166			62	616
Commission expenses	156	651		9		816
Operating expenses	164	201	73	14	57	509
Depreciation of aircraft			160			160
Interest expense			108		108	216
Total benefits and expenses	987	1,753	341	178	227	3,486
Income (loss) before provision (benefit) for income taxes	119	500	29	57	(346)	359
Provision (benefit) for income taxes	36	131	(12)	20	(125)	50
Net income (loss)	83	369	41	37	(221)	309
Less: net income attributable to the noncontrolling interest					(9)	(9)
Net income (loss) attributable to the Company	$83	$369	$41	$37	($230)	$300
The following is segment information as of December 31, 2013:						
Total assets	$35,640	$78,415	$8,569	$635	$4,406	$127,665
DAC	1,210	2,948		56		4,214
Separate account assets	7,024	53,840				60,864
Policyholder and contract liabilities	25,411	20,008		370	1,406	47,195
Separate account liabilities	7,024	53,840				60,864

14. TRANSACTIONS WITH AFFILIATES

Pacific Life Fund Advisors LLC, a wholly owned subsidiary of Pacific Life, 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. 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 $197 million and $172 million for the six months ended June 30, 2014 and 2013, respectively.

Additionally, the Pacific Select Fund and Pacific Life Funds have service and other plans whereby the funds pay Pacific Select Distributors, Inc. (PSD), a wholly owned broker-dealer subsidiary of Pacific Life, 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 annuity and life insurance 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 six months ended June 30, 2014 and 2013, PSD received $68 million and $64 million, respectively, in service and other fees from the Pacific Select Fund and Pacific Life Funds, which are recorded in other income.

ACG has derivative swap contracts with Pacific LifeCorp as the counterparty. The notional amounts total $1.0 billion and $1.1 billion as of June 30, 2014 and December 31, 2013, respectively. The estimated fair values of the derivatives were net liabilities of $65 million and $77 million as of June 30, 2014 and December 31, 2013, respectively.

15. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

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

Twelve Months Ending June 30:	
2015	$983
2016 through 2017	760
2018 through 2019	243
2020 and thereafter	32
Total	$2,018

As of June 30, 2014, ACG has commitments with major aircraft manufacturers and other third-parties to purchase aircraft at an estimated delivery price of $6,867 million with delivery from 2014 through 2021. These purchase commitments may be funded:

- up to $640 million in less than one year,
- an additional $1,037 million in one to three years,
- an additional $2,310 million in three to five years, and
- an additional $2,393 million thereafter.

As of June 30, 2014, deposits related to these agreements totaled $487 million and are included in other assets.

Pacific Life has reinsurance agreements with Pacific Life Reinsurance (Barbados) Ltd. (PLRB), an exempt life reinsurance company domiciled in Barbados and wholly owned by Pacific LifeCorp. The underlying reinsurance is comprised of coinsurance and yearly renewable term (YRT) treaties. Pacific Life retroceded the majority of the underlying YRT U.S. treaties on a 100% coinsurance with funds withheld basis to PLRB (PLRB Agreement). The PLRB Agreement is accounted for under deposit accounting for U.S. GAAP and as reinsurance under statutory accounting principles. The statutory accounting reserve credit is supported by cash, funds withheld at Pacific Life and a $430 million letter of credit issued to PLRB by highly rated third-party banks for the benefit of Pacific Life. In connection with the acquisition and reinsurance arrangements between Pacific Life and PLRB, Pacific LifeCorp entered into a capital maintenance agreement and has also agreed to honor PLRB's obligations to the letter of credit provider in the event of default.

The Company entered into an agreement with Pacific Life Re Limited (PLR), an affiliate of the Company and wholly owned subsidiary of Pacific LifeCorp, to guarantee the performance of reinsurance obligations of PLR. This guarantee is secondary to a guarantee provided by Pacific LifeCorp and would only be triggered in the event of nonperformance by both PLR and Pacific LifeCorp. Management believes that any additional obligations, if any, related to the guarantee agreement are not likely to have a material adverse effect on the Company's condensed consolidated financial statements. For the six months ended June 30, 2014 and 2013, Pacific Life earned $3 million and $2 million, respectively, under the agreement for its guarantee.

On January 1, 2013, Pacific Life entered into an agreement with Pacific Life Reinsurance Company II Limited (PLRC), an exempt life reinsurance company domiciled in Barbados and wholly owned by Pacific Life, to guarantee the performance of reinsurance obligations of PLRC. PLRC will pay Pacific Life a fee for its guarantee.

CONTINGENCIES - LITIGATION

The Company is a respondent in a number of legal proceedings, some of which involve allegations for extra-contractual damages. Although the Company is confident of its position in these matters, success is not a certainty and 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 condensed consolidated financial statements. The Company believes adequate provision has been made in its condensed consolidated financial statements for all probable and estimable losses for litigation claims against the Company.

CONTINGENCIES - IRS REVENUE RULING

In 2007, the IRS issued Revenue Ruling 2007-54, which provided the IRS' interpretation of tax law regarding the computation of the Dividends Received Deductions (DRD) and 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. The IRS issued Revenue Ruling 2014-7 that superseded Revenue Ruling 2007-54 and Revenue Ruling 2007-61. This ruling holds that the IRS will not address this issue through regulation, but defer to legislative action. Depending on legislative action, the Company could lose a substantial amount of DRD tax benefits, which could have a material adverse effect on the Company's condensed consolidated financial statements.

CONTINGENCIES - OTHER

In the course of its business, the Company provides certain indemnifications related to 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 condensed 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.

The Asset Purchase Agreements of the ACG VIE securitizations (Note 5) 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 condensed consolidated financial statements. The financial debt obligations of the ACG VIE securitizations are non-recourse to the Company and are not guaranteed by the Company.

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

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

See Note 12 for discussion of other contingencies related to income taxes.