ANNUAL REPORT

PACIFIC LIFE
FUNDING, LLC

Pacific Life Funding, LLC

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

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

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

Unless otherwise specified, the financial information contained in this Annual Report (1) has been prepared in accordance with accounting principles generally accepted in the United States of America (**"GAAP"**), and (2) is derived from the Company's audited GAAP consolidated financial statements, including the notes thereto, as of December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009 (the **"Audited GAAP Financial Statements"**).

Dated: April 26, 2012

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 $913 million aggregate principal amount remained outstanding as of December 31, 2011. PLF issued these instruments in a variety of currencies and with maturities that varied from one to 20 years both to institutional investors in a variety of jurisdictions and to retail investors in the United Kingdom, The Netherlands, Germany and Switzerland.

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

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

Management

The directors of PLF are Ms. Dianne 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 shareholders and the general public, and the provision of certain clerical, administrative and other services until termination of the administration agreement. The Administrator's principal office is P.O. Box 1093, Boundary Hall, Cricket Square, George Town, Grand Cayman KY1-1102, Cayman Islands. There are currently no committees of the board of directors. There are currently no existing or proposed service contracts between PLF or any subsidiary thereof and any of the directors of PLF. The directors of PLF are not currently entitled to remuneration or benefits in kind from PLF and do not currently hold any interests in the share capital of PLF.

Capitalization

The authorized share capital of PLF is US$50,000 divided into 50,000 ordinary shares of US$1.00 each, 1,000 of which have been issued. All of the issued shares of PLF are fully paid and are held by 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 December 31, 2011 prepared in conformity with GAAP. The information as of December 31, 2011 in this table is derived from the audited GAAP financial statements of PLF as of December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009.

	December 31, 2011
Debt:	
Short-term debt	–
Long-term debt	$ 913,400,720
Total Debt	913,400,720
Equity:	
Paid-in capital	1,000
Retained earnings	24,589
Accumulated other comprehensive income	–
Total Equity	25,589
Total capitalization	$ 913,426,309

Development of PLF's Business

Other than as described herein, there were no developments having a material effect on PLF or its business during the year ended December 31, 2011. In addition, other than as described herein, there have been no recent developments having a material effect on PLF or its business since December 31, 2011. As of the date of this Annual Report, there exists no condition or event that would constitute an event of default under the terms of the instruments issued by PLF that are currently outstanding.

There are currently no indications that the business of PLF will change between the date of this report and June 30, 2012.

STATEMENT OF RESPONSIBILITY

Pacific Life Funding, LLC

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

- the financial statements of PLF included in this report were prepared in accordance with U.S. GAAP and applicable law; and

- this report constitutes a review by PLF's management of the business and position of PLF during the year ended December 31, 2011, and contains a fair review of that period.

Dated: April 26, 2012

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

The selected consolidated GAAP financial information for the Company as of December 31, 2011 and 2010 (other than "life insurance in force" and "employees" included in "Other Data") and for the years ended December 31, 2011, 2010 and 2009 has been derived from the Audited GAAP Financial Statements included in this Annual Report. The selected consolidated GAAP financial information for the Company as of December 31, 2009 (other than "life insurance in force" and "employees" included in "Other Data") has been derived from the Company's audited GAAP consolidated financial statements not included in this Annual Report.

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

Certain of the Company's broker-dealer operations are classified as discontinued. Discontinued broker-dealer operations do not include the operations of Pacific Select Distributors, Inc. (**"PSD"**), a wholly owned broker-dealer subsidiary of Pacific Life, which primarily serves as the underwriter/distributor of registered investment-related products and services, principally variable life and variable annuity contracts issued by the Company, and mutual funds. In March 2007, the Company initially classified its broker-dealer subsidiaries, other than PSD, as held for sale. During 2007 and 2008, these broker-dealers were sold.

Consolidated Statements of Operations Data:	Years Ended December 31, 2011	2010	2009
		(in millions)	
Revenues:			
Policy fees and insurance premiums	$ 3,081	$ 2,367	$ 2,275
Net investment income	2,186	2,122	1,862
Net realized investment gain (loss)	(661)	(94)	153
Other than temporary impairments	(153)	(113)	(311)
Investment advisory fees	268	245	208
Aircraft leasing revenue	607	591	578
Other income	226	230	137
Total revenues	5,554	5,348	4,902
Benefits and Expenses:			
Policy benefits paid or provided	1,951	1,351	1,226
Interest credited to policyholder account balances	1,318	1,317	1,253
Commission expenses	83	831	691
Operating and other expenses	1,293	1,264	1,246
Total benefits and expenses	4,645	4,763	4,416
Income from continuing operations before provision for income taxes	909	585	486
Provision for income taxes	146	63	44
Income from continuing operations	763	522	442
Discontinued operations, net of taxes[1]	(9)	–	(20)
Net income	754	522	422
Less: net (income) loss attributable to the noncontrolling interest from continuing operations	(71)	(50)	14
Net income attributable to the Company	$ 683	$ 472	$ 436

(1) Discontinued operations primarily include the Company's broker-dealer operations. Discontinued broker-dealer operations do not include the operations of PSD. In March 2007, the Company initially classified its broker-dealer subsidiaries, other than PSD, as held for sale. During 2007 and 2008, these broker-dealers were sold.

Consolidated Statements of Financial Condition Data:	December 31, 2011	2010	2009
		($ in millions)	
Assets:			
Investments	$ 45,884	$ 44,222	$ 41,410
Cash and cash equivalents	2,829	2,270	1,919
Restricted cash	280	214	221
Deferred policy acquisition costs	5,263	4,435	4,806
Aircraft leasing portfolio, net	5,845	5,259	5,304
Other assets	3,069	2,579	2,253
Separate account assets	51,450	55,683	52,564
Total assets	$114,620	$114,662	$108,477
Liabilities and Equity:			
Liabilities:			
Policyholder account balances	$ 34,392	$ 35,076	$ 33,984
Future policy benefits	9,467	7,080	7,403
Short-term debt	–	–	105
Long-term debt	7,152	6,516	5,632
Other liabilities	2,983	2,377	1,872
Separate account liabilities	51,450	55,683	52,564
Total liabilities	105,444	106,732	101,560
Equity:			
Common stock	30	30	30
Paid-in capital	982	982	982
Retained earnings	6,896	6,359	6,037
Accumulated other comprehensive income (loss)	934	308	(363)
Total stockholder's equity	8,842	7,679	6,686
Noncontrolling interest	334	251	231
Total equity	9,176	7,930	6,917
Total liabilities and equity	$114,620	$114,662	$108,477
Other Data:			
Life insurance in force	$302,532	$221,560	$220,935
Employees	2,701	2,541	2,592

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

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

Background

Pacific Life was established in 1868 and is a Nebraska stock life insurance company that conducts business in the District of Columbia and every state except the State of New York. Pacific Life is a direct, wholly owned subsidiary of Pacific LifeCorp, a Delaware stock holding company. Pacific LifeCorp is a direct, wholly owned subsidiary of Pacific Mutual Holding Company (**"PMHC"**), a Nebraska mutual insurance holding company. PMHC and Pacific LifeCorp were created in 1997 when Pacific Life converted into a mutual insurance holding company structure. Under this mutual insurance holding company structure, certain owners of insurance policies and annuity contracts (other than funding agreements and certain other types of contracts) issued by Pacific Life are automatically members of PMHC. Members of PMHC have the right to elect the directors of PMHC, to vote on other matters coming to a vote of the members at annual and special meetings and to receive distributions of surplus in the event of the dissolution or liquidation of PMHC. Under Nebraska law and the applicable organizational and conversion documents, PMHC must at all times own at least 51% of the outstanding voting stock of Pacific LifeCorp, and Pacific LifeCorp must at all times own all of the voting stock of Pacific Life.

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

The Company's primary business operations consist of life insurance, annuities, mutual funds and aircraft leasing. As of December 31, 2011, 2010 and 2009, the Company had $114.6 billion, $114.7 billion and $108.5 billion, respectively, in total assets, and total stockholder's equity of $8.8 billion, $7.7 billion and $6.7 billion, respectively. Life insurance in force was $302.5 billion, $221.6 billion and $220.9 billion as of December 31, 2011, 2010 and 2009, respectively. Net income attributable to the Company was $683 million for the year ended December 31, 2011 as compared to $472 million for the year ended December 31, 2010 and $436 million for the year ended December 31, 2009.

On August 31, 2011, Pacific Life and Pacific Life Reinsurance (Barbados) Limited (**"PLRB"**), a newly formed insurer and wholly owned subsidiary of Pacific LifeCorp, acquired Manulife Financial Corporation's (**"Manulife"**) life retrocession business. On July 28, 2011, the Company acquired a pension advisory business, which began operations in a newly formed, wholly owned subsidiary of Pacific Life named Pacific Global Advisors LLC (**"PGA"**). See the Audited GAAP Financial Statements included in this Annual Report for additional information on these 2011 acquisitions.

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

Segments

The Company's primary operating segments are: Life Insurance, Retirement Solutions, Aircraft Leasing, Reinsurance (a new segment formed as a result of the acquisition of Manulife's life retrocession business) and Corporate and Other, as well as its principal subsidiaries and affiliates.

The Life Insurance segment provides a broad range of life insurance products through multiple distribution channels operating in the upper income and corporate markets. Principal products include universal life, variable universal life, survivor life, interest sensitive whole life, corporate-owned life insurance and traditional products such as whole life and term life. Distribution channels include regional life offices, marketing organizations, broker-dealer firms, wirehouses and M Financial, an association of independently owned and operated insurance and financial producers. As of December 31, 2011 and 2010, the Life Insurance segment represented 27% and 26% of the Company's total assets, respectively.

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 and national/regional wirehouses. As of December 31, 2011 and 2010, this segment represented 58% and 59% of the Company's total assets, respectively.

The Aircraft Leasing segment encompasses the operations of ACG. This segment focuses primarily on the acquisition and leasing of commercial jet aircraft to airlines worldwide, while also engaging in third-party aircraft management advisory services, aircraft trading activities and aircraft brokerage services. The Aircraft Leasing segment's portfolio included, as of December 31, 2011, 245 owned and managed aircraft. As of December 31, 2011 and 2010, the Aircraft Leasing segment represented 6% of the Company's total assets.

The Reinsurance segment primarily includes the domestic life portion of the retrocession business acquired from Manulife in 2011 and international reinsurance the Company has assumed from Pacific Life Re Limited, a wholly owned subsidiary of Pacific LifeCorp incorporated in the United Kingdom. As of December 31, 2011 and 2010, the Reinsurance segment represented 1% and 0% of the Company's total assets, respectively.

The Corporate and Other segment consists of assets and activities that 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 the operations of certain subsidiaries that do not qualify as operating segments and the elimination of intersegment transactions. Discontinued operations are also included in the Corporate and Other segment.

Principal Subsidiaries and Affiliates

ACG, which was founded in 1989, comprises the Company's Aircraft Leasing segment. Prior to December 31, 2009, ACG was a wholly owned subsidiary of Pacific LifeCorp. On December 31, 2009, Pacific LifeCorp contributed its 100% stock ownership in ACG to Pacific Life. ACG's corporate offices are located in Newport Beach, California. ACG also maintains offices in Seattle (United States), Shanghai (China), Singapore, and Santiago (Chile). ACG's business is comprised of two basic components. The first component consists of the acquisition and leasing of commercial jet aircraft to airlines worldwide. The second component involves third-party aircraft management advisory services, aircraft trading activities and aircraft brokerage services.

Pacific Life & Annuity Company (**"PL&A"**), a wholly owned subsidiary of Pacific Life, markets and distributes variable universal life insurance, 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 the State of New York. Additionally, PL&A has been deemed to be commercially domiciled in the State of New York and subject to certain requirements under the State of New York insurance law that do not otherwise apply to the State of New York-licensed insurers domiciled outside the State of New York.

PSD is a registered broker-dealer and the underwriter and wholesale distributor of certain of the Company's investment-related products and services, principally variable life and annuity contracts and retail mutual funds. Pacific Select Fund, the investment vehicle provided to the Company'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 their variable contract owners. These services may include, but are not limited to, payment of compensation to broker-dealers, including PSD itself, and other financial institutions and organizations which assist in providing any of the services.

The Company's former broker-dealer operations have been reflected as discontinued operations in the Audited GAAP Financial Statements included in this Annual Report. In March 2007, the Company classified its broker-dealer subsidiaries, other than PSD, as held for sale. During 2008 and 2007, these broker-dealers were sold. Discontinued operations do not include the operations of PSD.

Pacific Asset Holding LLC (**"PAH"**), a wholly owned subsidiary of Pacific Life, holds certain other investments, primarily private equity and real estate holdings.

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

PGA, a wholly owned subsidiary of Pacific Life, acquired a pension advisory business in 2011. PGA's primary business objective is to provide advisory services to employee benefit plans.

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

Year Ended December 31, 2011 compared to the Year Ended December 31, 2010

Net income attributable to the Company increased $211 million from $472 million in 2010 to $683 million in 2011. This increase is primarily related to higher net income of $219 million in the Corporate and Other segment, which increased from a net loss of ($145) million in 2010 to net income of $74 million in 2011, principally due to higher hedging gains, offset by lower net investment income in the segment. Net income attributable to the Company from the other business segments combined decreased $8 million from $617 million in 2010 to $609 million in 2011. For more information, see the discussion of the consolidated statement of operations line items below.

Policy fees and insurance premiums increased $714 million in 2011 to $3,081 million as compared to $2,367 million in 2010. Policy fees consist of cost-of-insurance charges, expense loads, surrender charges and other fees related to products. The Retirement Solutions segment had an increase of $436 million, principally from sales of a new product and higher retail contract fees. Also contributing to the increase was an increase in insurance premiums of $188 million in the Reinsurance segment, primarily due to the Manulife life retrocession business acquired in 2011. Policy fees and insurance premiums increased $90 million for the Life Insurance segment, primarily from higher policy charges.

Net investment income increased slightly from $2,122 million in 2010 to $2,186 million in 2011. The increase in 2011 as compared to 2010 was primarily related to higher investment income from mortgage loan and real estate investments and higher returns from partnership and joint venture investments, partially offset by lower investment income from fixed maturity securities and other investments.

Net realized investment gain (loss) for 2011 amounted to ($661) million compared to ($94) million for 2010. This increase in net realized investment losses of $567 million was primarily related to higher losses of $1,219 million from the negative mark-to-market of certain embedded derivatives and hedges related to variable annuity guaranteed living benefits, net of policy fees, in the Retirement Solutions segment, which increased from a loss of $141 million in 2010 to a loss of $1,360 million in 2011, primarily from lower interest rates. Partially offsetting these losses was a $294 million gain from the Company’s equity put option hedges, which increased from a loss of $159 million in 2010 to a gain of $135 million in 2011. In addition, the Company experienced higher gains on forward starting interest rate swaps and foreign currency and interest rate swaps, which combined for an increase of $358 million in 2011. See the Audited GAAP Financial Statements included elsewhere in this Annual Report for additional information on the components of net realized investment gain (loss).

Other than temporary impairments (**“OTTI”**), increased to $153 million in 2011 as compared to $113 million in 2010, primarily from higher OTTI of $38 million related to residential mortgage-backed securities. See the Audited GAAP Financial Statements included elsewhere in this Annual Report for additional information on the components of OTTI.

Investment advisory fees increased $23 million to $268 million in 2011 from $245 million in 2010. This increase was primarily attributable to fees earned in 2011 related to the PGA acquisition and higher advisory fees earned by the Retirement Solutions segment on higher average separate account assets under management.

Aircraft leasing revenue increased $16 million to $607 million in 2011 from $591 million in 2010. This increase was primarily the result of an increase in operating lease revenue due to the addition of aircraft to the portfolio, partially offset by lower lease rates on certain existing aircraft and an increase in the number of aircraft in transition.

Other income was $226 million in 2011 as compared to $230 million in 2010. Other income for the Aircraft Leasing segment decreased due to higher maintenance reserve liabilities released in 2010, partially offset by higher gains from aircraft sales. Additionally, the Retirement Solutions segment had higher service and other fees. These asset-based fees are calculated on average separate account assets, which, as described above, increased in 2011 as compared to 2010.

Policy benefits paid or provided increased $600 million to $1,951 million for 2011 from $1,351 million for 2010. The increase was primarily related to $420 million of higher policy benefits in the Retirement Solutions segment, principally from higher reserves. Also contributing to the increase was an increase in policy benefits in the Reinsurance segment of $183 million, primarily due to the Manulife life retrocession business acquired in 2011.

Interest credited to policyholder account balances was $1,318 million for 2011 compared to $1,317 million for 2010. This slight increase of $1 million was attributable to an increase in the Retirement Solutions segment's average fixed account liability balances, and an increase in the Life Insurance segment's policyholder account values, partially offset by a decrease in crediting rates and a decrease in the Corporate and Other segment's institutional investment products resulting from liability maturities.

Commission expenses for 2011 decreased $748 million to $83 million compared to $831 million in 2010. Commission expenses include components of deferred policy acquisition costs (**"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 related to variable annuity guaranteed living benefits and hedges, in the Retirement Solutions segment. The decrease in commission expenses in 2011, as compared to 2010, was primarily related to the Retirement Solutions segment, which allocated negative DAC amortization to commission expenses, driven by variable annuity guaranteed living benefit embedded derivative and hedge losses in 2011 and the Company's change in accounting method relating to the DAC amortization method effective October 1, 2011. Partially offsetting this decrease was a net increase for the Life Insurance segment's higher DAC amortization. See the Audited GAAP Financial Statements included elsewhere in this Annual Report for additional information on the Company's change in accounting method relating to DAC amortization.

Operating and other expenses for 2011 increased by $29 million compared to 2010, from $1,264 million to $1,293 million. 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 related to variable annuity guaranteed living benefits and hedges, in the Retirement Solutions segment. The Retirement Solutions segment had lower operating expenses of $171 million, primarily resulting from negative DAC amortization allocated to operating expenses, driven by variable annuity guaranteed living benefit embedded derivative and hedge losses in 2011 and the Company's change in accounting method relating to the DAC amortization method effective October 1, 2011. See the Audited GAAP Financial Statements included elsewhere in this Annual Report for additional information on the Company's change in accounting method relating to DAC amortization. Operating and other expenses from the other business segments combined increased $200 million in 2011 as compared to 2010. During 2011, the Life Insurance segment had an increase in operating expenses of $55 million primarily due to higher DAC amortization and increased premium taxes. The Aircraft Leasing segment had an increase of $69 million in operating expenses primarily due to higher aircraft maintenance expenses, aircraft depreciation, operating lease expenses and interest expense. The Reinsurance segment's operating expenses were $18 million higher due to the Manulife life retrocession business acquired in 2011.

The provision for income taxes for 2011 amounted to $146 million compared to $63 million for 2010. The taxes in 2011 and in 2010 were lower than the statutory rate primarily due to the separate account dividends received deductions. See the Audited GAAP Financial Statements included elsewhere in this Annual Report for additional information on income taxes.

Year Ended December 31, 2010 compared to the Year Ended December 31, 2009

Net income attributable to the Company was $472 million for the year ended December 31, 2010 as compared to $436 million for the year ended December 31, 2009. The increase in net income was attributable to higher asset-based fees in the Retirement Solutions segment, higher realized investment gains in the Life Insurance segment and higher net income from the Aircraft Leasing segment. In addition, lower put option hedging losses and higher net investment income from the Corporate and Other segment contributed to the increase in net income. These increases were partially offset by mark-to-market losses on rider guarantees, net of hedges, in 2010 compared to a net gain in 2009, higher amortization of DAC in the Retirement Solutions segment and higher net death claims in the Life Insurance segment. See the discussion of the consolidated statement of operations line items below.

Policy fees and insurance premiums increased $92 million for 2010 to $2,367 million as compared to $2,275 million for 2009. Policy fees consist of cost-of-insurance charges, expense loads, surrender charges and other fees related to products. This increase was primarily due to higher retail contract fees resulting from higher average separate account assets under management and higher rider fees collected in the Retirement Solutions segment. This increase was also attributable to an increase in policy charges in the Life Insurance segment, partially offset by decreases in premiums.

Net investment income increased from $1,862 million in 2009 to $2,122 million in 2010, an increase of 14%. The increase was primarily due to the growth in invested assets (fixed maturity securities and mortgage loans) as well as higher returns from private equity (partnerships and joint ventures).

Net realized investment gain (loss) for 2010 amounted to ($94) million compared to $153 million for 2009. The increase in net realized investment loss of $247 million was primarily related to a $440 million negative change in the mark-to-market of certain embedded derivatives related to variable annuity guaranteed living benefits in the Retirement Solutions segment, net of hedges and policy fees, which decreased from a gain of $299 million in 2009 to a loss of $141 million in 2010. Partially offsetting this loss was higher realized gains from the sales of investments of $132 million and lower hedging losses in the Corporate and Other segment of $100 million in 2010 as compared to 2009. See the Audited GAAP Financial Statements included elsewhere in this Annual Report for additional information on the components of net realized investment gain (loss).

OTTI decreased to $113 million in 2010 as compared to $311 million in 2009. See the Audited GAAP Financial Statements included elsewhere in this Annual Report for additional information on the components of OTTI.

Investment advisory fees increased $37 million to $245 million in 2010 from $208 million in 2009. This increase was primarily attributable to the increase in advisory fees earned on assets under management in the separate accounts. Separate account assets increased by $3.1 billion from $52.6 billion as of December 31, 2009 to $55.7 billion as of December 31, 2010.

Aircraft leasing revenue increased $13 million to $591 million in 2010 from $578 million in 2009. This increase of $13 million was primarily the result of an increase from additional aircraft that were put in service during 2009 and 2010, partially offset by a decline in revenue due to an increase in the number of aircraft sold and non-earning aircraft during 2010, as well as declines in revenues earned from floating rate leases, which are correlated with certain benchmark interest rates.

Other income was $230 million in 2010 as compared to $137 million in 2009. Other income was higher in 2010 as compared to 2009 primarily due to higher service fee revenue earned by the Retirement Solutions segment. These asset-based fees are calculated on separate account assets, which, as described above, increased in 2010 as compared to 2009. The increase is also attributable to the Aircraft Leasing segment’s release of maintenance reserve liabilities and increased gains on sales of aircraft.

Policy benefits paid or provided increased $125 million to $1,351 million for 2010 from $1,226 million for 2009. The increase was primarily related to net increases in reserves in the Retirement Solutions segment and higher net death claims in the Life Insurance segment.

Interest credited to policyholder account balances increased slightly to $1,317 million for 2010 from $1,253 million for 2009. This increase of $64 million was attributable to an increase in the Retirement Solutions segment’s average fixed account balances, and an increase in the Life Insurance segment’s policyholder account values, partially offset by a decrease in crediting rates and a decrease in the Corporate and Other segment’s institutional investment products resulting from liability maturities.

Commission expenses for 2010 increased $140 million to $831 million compared to $691 million in 2009. 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 related to variable annuity guaranteed living benefits, net of hedges and policy fees, in the Retirement Solutions segment. The commission expenses in the Retirement Solutions segment were the primary reason for the increase in 2010 as compared to 2009 due to higher DAC amortization.

Operating and other expenses for 2010 increased slightly by $18 million compared to 2009, from $1,246 million to $1,264 million. 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 related to variable annuity guaranteed living benefits, net of hedges and policy fees, in the Retirement Solutions segment. During 2010, the Retirement Solutions segment had higher operating expenses of $54 million primarily related to an increase in DAC amortization primarily driven by positive gross margins. Partially offsetting this increase was the Corporate and Other segment's decrease of $83 million primarily due to the termination of the employee's retirement plan in 2009. In addition, depreciation of aircraft, which is included in operating and other expenses, increased $14 million in 2010 due to the addition of aircraft in 2009 and 2010, partially offset by a reduction in aircraft resulting from aircraft sales. Also included in operating and other expenses is interest expense that increased $29 million in 2010 as compared to 2009 due to the issuance by Pacific Life of $1.0 billion of surplus notes to third-party investors in June 2009 and the issuance of a $450 million internal surplus note by Pacific Life to Pacific LifeCorp in March 2010. See "Liquidity and Capital Resources" below for further discussion of the surplus note issuances.

The provision for income taxes for 2010 amounted to $63 million compared to $44 million for 2009. The taxes in 2010 and in 2009 were lower than the statutory rate primarily due to the separate account dividends received deductions. See the Audited GAAP Financial Statements included elsewhere in this Annual Report for additional information on income taxes.

Assets

As of December 31, 2011, the Company had total assets of $114.6 billion as compared to $114.7 billion as of December 31, 2010. A decrease in separate account assets from $55.7 billion at December 31, 2010 to $51.5 billion at December 31, 2011 contributed to the decrease in total assets. Partially offsetting this decrease was an increase to total investments of $1.7 billion, an increase in cash and cash equivalents of $0.5 billion, an increase in DAC of $0.8 billion, an increase in the aircraft leasing portfolio of $0.6 billion and an increase in other assets of $0.5 billion. See the Audited GAAP Financial Statements included in this Annual Report for additional information on investments.

As of December 31, 2010, the Company had total assets of $114.7 billion as compared to $108.5 billion as of December 31, 2009. This increase in total assets was partially due to an increase in separate account assets from $52.6 billion at December 31, 2009 to $55.7 billion at December 31, 2010. Total investments also increased from $41.4 billion as of December 31, 2009 to $44.2 billion as of December 31, 2010, primarily due to increases in fixed maturity securities. Cash and cash equivalents also increased by $0.4 billion and other assets increased by $0.3 billion from December 31, 2009 to December 31, 2010. This increase was partially offset by a $0.4 billion decrease in DAC. See the Audited GAAP Financial Statements included in this Annual Report for additional information on investments.

Liabilities

As of December 31, 2011, the Company had total liabilities of $105.4 billion as compared to $106.7 billion as of December 31, 2010. This decrease in total liabilities was primarily a result of the decrease in separate account liabilities from $55.7 billion as of December 31, 2010 to $51.5 billion as of December 31, 2011 and a decrease in policyholder account balances of $0.7 billion. This decrease was partially offset by increases in future policy benefits of $2.4 billion, long-term debt of $0.6 billion and other liabilities of $0.6 billion. See the Audited GAAP Financial Statements included elsewhere in this Annual Report for additional information on liabilities.

As of December 31, 2010, the Company had total liabilities of $106.7 billion as compared to $101.6 billion as of December 31, 2009. This increase in total liabilities was primarily a result of the increase in separate account liabilities from $52.6 billion as of December 31, 2009 to $55.7 billion as of December 31, 2010. Policyholder account balances also increased $1.1 billion to $35.1 billion as of December 31, 2010. Long-term debt increased by $0.9 billion primarily due to the issuance of a $450 million internal surplus note by Pacific Life to Pacific LifeCorp in March 2010, a $255 million issuance by ACG of senior unsecured notes in a private placement offering in April 2010 and a $600 million senior note issuance by ACG in October 2010. See the Audited GAAP Financial Statements included elsewhere in this Annual Report for additional information on liabilities.

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 increased $559 million during 2011 as compared to an increase of $351 million during 2010 and a decrease of $1,478 million during 2009.

Net cash provided by operating activities was $3,589 million during 2011, $3,024 million during 2010 and $2,410 million in 2009. 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 $1,195 million during 2011, $2,301 million in 2010 and $5,334 million during 2009. Net cash used in investing activities was lower in 2011 as compared to 2010 due to lower fixed maturity and equity securities purchases. Net cash used in investing activities was lower in 2010 as compared to 2009 due to higher fixed maturity and equity securities sales, partially offset by an increase in purchases. The increase in net cash used in investing activities in 2009 was due to increased purchases of fixed maturity and equity securities in 2009. 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. Partially offsetting the decrease in net cash used in investing activities was higher fundings of mortgage loans and real estate in 2011 compared to 2010 and higher purchases of, and advance payments on, the aircraft leasing portfolio in 2011 compared to 2010. Also contributing to the lower cash outflows from 2011 as compared to 2010 and 2010 as compared to 2009 was the net change in cash collateral received or pledged. The Company also had fluctuations in payments for nonhedging derivative settlements and changes in collateral received or pledged during 2011, 2010 and 2009. The Company experienced an increase in cash payments for nonhedging derivative settlements in 2011 compared to 2010, primarily due to the termination of derivative instruments as a result of the discontinuance of cash flow hedge accounting in 2011. In 2010, cash payments for nonhedging derivative settlements decreased as compared to 2009 due to a decrease in settlements on total return swap derivatives used to hedge variable annuity risks. In 2009, on an aggregate basis, the Company returned cash collateral to counterparties due to a decrease in the net aggregate exposure resulting from a decrease in the derivative positions' market value.

Net cash provided by (used in) financing activities was ($1,835) million during 2011 and ($372) million in 2010 as compared to $1,446 million during 2009. The increase in net cash used in financing activities in 2011 as compared to 2010 primarily related to higher policyholder account balance withdrawals. Net cash provided by (used in) financing activities was lower in 2010 as compared to 2009 primarily as a result of lower policyholder account balance deposits and withdrawals and an increase in payments of long-term debt. Pacific Life also paid a $150 million cash dividend to Pacific LifeCorp in March 2010 and Pacific

LifeCorp made a $200 million contribution to Pacific Life in 2009. Net cash provided by financing activities increased in 2009 primarily as a result of the issuance by Pacific Life of an aggregate principal amount of $1.0 billion in surplus notes in June 2009 and a $200 million contribution from Pacific LifeCorp to Pacific Life in 2009. Also, changes in universal life and investment-type product account balances and changes in short-term and long-term debt were additional drivers of the change in cash flows from financing activities.

The payment of dividends by Pacific Life to Pacific LifeCorp is subject to restrictions set forth in the insurance laws of the State of Nebraska. Under these laws, Pacific Life must deliver notice to the Nebraska Department of Insurance of any dividend or distribution to Pacific LifeCorp within five business days after declaration of the dividend or distribution, and may not pay the dividend or distribution to Pacific LifeCorp within the ten business day period following delivery of such notice unless the Nebraska Department of Insurance approves payment of the dividend or distribution within such ten business day period. In addition, Pacific Life may not pay an "extraordinary" dividend or distribution to Pacific LifeCorp until the Nebraska Department of Insurance has either (i) approved the payment of the dividend or distribution or (ii) not disapproved the payment of the dividend or distribution within thirty days after receiving notice of the declaration of the dividend or distribution. For purposes of applicable Nebraska law, an "extraordinary" dividend or distribution is a dividend or distribution of cash or other property with a fair market value that, together with that of other dividends or distributions made by Pacific Life to Pacific LifeCorp within the preceding twelve months, exceeds the greater of either (i) 10% of Pacific Life's statutory policyholders surplus as of the preceding December 31 or (ii) Pacific Life's statutory net gain from operations for the twelve month period ending the preceding December 31. Based on the 2011 statutory results, Pacific Life could pay $199 million in ordinary dividends or distributions during 2012, 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 2011 and 2010, Pacific Life paid cash dividends to Pacific LifeCorp of $125 million and $150 million, respectively. No dividends were paid by Pacific Life during 2009. In March 2012, Pacific Life declared and paid a cash dividend to Pacific LifeCorp of $70 million.

Liquidity and Capital Sources and Requirements

The Company's liquidity needs vary by product line. Factors that affect each product line's need for liquidity include interest rate levels, customer type, termination or surrender charges, Federal income taxes, benefit levels and level of underwriting risk. Pacific Life's asset/liability management strategy 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. See the discussion below of ACG's facilities to access the debt markets to meet their liquidity needs to fund future aircraft comments.

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 at the dates noted.

	December 31, 2011		December 31, 2010	
	Amount	% of Total	Amount	% of Total
	($ in millions)			
Subject to discretionary withdrawal:				
With fair value adjustment	$ 3,267	5%	$ 3,831	6%
At book value less current surrender charge of 5% or more	3,511	6%	3,293	5%
At fair value	43,253	71%	46,959	72%
Total with adjustment or at fair value	50,031	82%	54,083	83%
At book value without adjustment	1,904	3%	1,900	3%
Not subject to discretionary withdrawal	9,271	15%	9,409	14%
Total (gross)	61,206	100%	65,392	100%
Reinsurance ceded	60		–	
Total (net)	$ 61,146		$ 65,392	

As noted in the table above, as of December 31, 2011 and 2010, only 3% of these liabilities were subject to withdrawal at book value without adjustment. The other 97% of these liabilities as of December 31, 2011 and 2010 were either subject to withdrawal with an adjustment or at fair value or were not subject to discretionary withdrawal. The products are designed in this manner to discourage early withdrawals and protect Pacific Life from liquidity risks. Pacific Life believes the structuring of liabilities in this manner provides it with a stable block of liabilities that reduces its exposure to unexpected cash withdrawals and demands and the adverse financial effects that could occur as a result.

In June 2009, Pacific Life issued an aggregate principal amount of $1.0 billion in surplus notes maturing on June 15, 2039. Pacific Life is required to pay interest on these surplus notes at an annual rate of 9.25%. Pacific Life also has outstanding $150 million of surplus notes due December 30, 2023 on which Pacific Life is required to pay interest at an annual rate of 7.90%. For both of these surplus note issuances, all future payments of interest and principal on these surplus notes can be made only with the prior approval of the Nebraska Director of Insurance.

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

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

Additional sources of liquidity include facilities for short-term borrowing to meet working capital requirements. Pacific Life maintains a $700 million commercial paper program. There was no commercial paper debt outstanding as of December 31, 2011, 2010 and 2009. Pacific Life replaced a bank revolving credit facility of $400 million in November 2011 that was scheduled to mature in 2012 and served as a back-up line of credit for the commercial paper program, with a new bank revolving credit facility of $400 million maturing in November 2016 that will serve as a back-up line of credit to the commercial paper program. These facilities had no debt outstanding as of December 31, 2011, 2010 and 2009. As of and during the years ended December 31, 2011, 2010 and 2009, Pacific Life was in compliance with its 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 December 31, 2011, 2010 and 2009.

Pacific Life is a member of the Federal Home Loan Bank ("**FHLB**") of Topeka. Pacific Life has approval from the FHLB of Topeka to advance amounts up to 40% of Pacific Life's statutory general account assets provided it has available collateral and is in compliance with debt covenant restrictions and insurance laws and regulations. There was no debt outstanding with the FHLB of Topeka as of December 31, 2011, 2010 and 2009. The Company had no additional funding capacity from eligible collateral as of December 31, 2011 and 2010, respectively.

PL&A is a member of the FHLB of San Francisco. PL&A is eligible to borrow from the FHLB of San Francisco amounts based on a percentage of statutory capital and surplus and could borrow amounts up to $121 million. Of this amount, half, or $60.5 million, can be borrowed for terms other than overnight, out to a maximum term of nine months. These borrowings are at variable rates of interest, collateralized by certain mortgage loan and government securities. As of December 31, 2011, 2010 and 2009, PL&A had no debt outstanding with the FHLB of San Francisco.

ACG has a revolving credit agreement with a bank for a $200 million borrowing facility. Interest is at variable rates and the facility matures in October 2013. There was no debt outstanding in connection with this revolving credit agreement as of December 31, 2011 and 2010, respectively. This credit facility is recourse only to ACG.

ACG has various facilities to finance aircraft. Additionally, some of ACG's aircraft are financed through the issuance of asset-backed securitized notes sold in the capital markets. See the Audited GAAP Financial Statements included elsewhere in this Annual Report for additional information on ACG debt and asset-backed securitizations.

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 lesser of either (i) 10% of PL&A's statutory policyholders surplus as of the preceding December 31 or (ii) PL&A's statutory net gain from operations for the twelve month period ending the preceding December 31. Based on this limitation and 2011 statutory results, PL&A could pay $30 million in dividends to Pacific Life in 2012 without prior regulatory approval. PL&A did not pay any dividends to Pacific Life during the years ended December 31, 2011, 2010 or 2009.

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.

Principal Risks and Uncertainties

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

- continued downturns and volatility in the equity and credit markets and the global economy, including the financial market distress resulting from the downgrade by Standard & Poor's Ratings Services of the United States of America's long-term sovereign credit rating and concern regarding the solvency of several member states of the European Union;
- suboptimal economic growth and the threat of a renewed recession in the United States and other economies of the world;
- fluctuations in reserves relating to the Company's guaranteed minimum benefit riders together with changes in the valuation of derivatives, including derivatives entered into in connection with these guaranteed minimum benefit riders;
- changes in interest rates which may reduce profitability, negatively affect liquidity and significantly affect the value of the Company's fixed maturity investment portfolio;
- adverse capital and credit market conditions which may significantly affect the Company's access to debt and capital markets and affect the Company's ability to meet liquidity needs or refinancing requirements in the future;
- losses due to defaults by others, including issuers of investment securities or reinsurance and derivative counterparties;
- the ability of the U.S. government, the Federal Reserve and other governmental and regulatory bodies to act successfully to stabilize the financial markets;
- adverse regulatory developments;
- new accounting rules or changes to existing accounting rules;
- downgrades or potential downgrades in Pacific Life's ratings;
- strong competition in the Company's business;
- the ability of ACG's airline customers to meet their obligations;
- the ability of ACG's manufacturers to remain financially stable and to fulfill their contractual obligations;
- the ability of ACG to recover its investment in the aircraft in its fleet through re-leasing or selling;

- changes in tax laws and the interpretation thereof;
- the adoption of new tax laws that would adversely affect the products offered by the Company;
- deviations from assumptions regarding future persistency, mortality and interest rates used in pricing the Company's products;
- significant market valuation fluctuations of the Company's investments that are relatively illiquid;
- subjectivity in methodology, estimates and assumptions in the valuation of fixed maturity, equity and trading securities;
- sensitivity of the statutory risk-based capital the Company is required to hold to factors outside of the Company's control;
- market capacity constraints on statutory reserve financings;
- litigation and regulatory investigations;
- lack of available, affordable or adequate reinsurance;
- the inability of Pacific LifeCorp, the parent company of Pacific Life, to access its credit facilities and the availability of credit to the Company as a whole;
- significant variances from pricing expectations for mortality or persistency rates;
- the inability to attract and retain key personnel;
- the occurrence of events that would require the acceleration of the amortization of deferred policy acquisition costs;
- the impact of current international tensions between the U.S. and other nations, including any terrorist attack, or on-going military and other actions, or a large-scale pandemic;
- geopolitical and other events, including war, civil disturbances, acts of terrorism, outbreaks of epidemic diseases and natural disasters;
- requirements to post collateral or make payments related to declines in the market value of specified assets;
- exposure to unidentified or unanticipated risks;
- a computer system failure or security breach;
- adverse global climate changes.

Recently Adopted Accounting Pronouncements

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

Legal Proceedings

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

Although the Company is confident of its position in these matters, success is not a certainty and it is possible that in any case a judge or jury could rule against the Company. In the opinion of management, the outcome of such proceedings is not likely to have a material adverse effect on the Company's consolidated financial position. The Company believes adequate provision has been made in its consolidated financial statements for all probable and estimable losses for litigation and indemnification claims against the Company. See the Audited GAAP Financial Statements included elsewhere in this Annual Report for additional information on litigation.

Ratings

An insurer's financial strength rating represents an opinion by the issuing rating agency regarding the ability of an insurance company to meet its financial obligations to its policyholders and contract holders. A rating is an opinion of the rating agency only and not a statement of fact or recommendation to purchase, sell or hold any security, policy or contract. These ratings do not imply approval of the Company's products and do not reflect any indication of their performance. There can be no assurance that Pacific Life's ratings will continue for any given period of time or that they will not be adjusted or withdrawn. A negative outlook indicates that the rating could change based on certain future events relating to the financial condition of the rated entity. Pacific Life's financial strength ratings and outlook as of the date of this Annual Report are set forth in the chart below.

Rating Agency	Rating	Rating Structure	Ratings Outlook
Moody's Investors Service, Inc.	A1 (Good)	Fifth highest of 21 ratings	Stable
Standard and Poor's Rating Services	A+ (Strong)	Fifth highest of 21 ratings	Negative
Fitch Ratings	A+ (Strong)	Fifth highest of 21 ratings	Stable
A.M. Best Company, Inc.	A+ (Superior)	Second highest of 16 ratings	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 December 31, 2011, the Company had approximately 2,700 employees. None of the Company's employees are covered by a collective bargaining agreement. The Company believes that its employee relations are satisfactory.

Properties

The Company's principal administrative offices are located at 700 Newport Center Drive, Newport Beach, California, in a 285,000 square-foot office building it owns. The Company also leases office space at various locations throughout the U.S. Other principal leases include other subsidiary home offices, regional life and other sales offices and storage facilities. The Company believes that its facilities are adequate for its present needs in all material respects.

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

Audited GAAP Financial Statements of Pacific Life Funding, LLC as of December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009

Audited GAAP Consolidated Financial Statements of Pacific Life Insurance Company as of December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009

**AUDITED GAAP FINANCIAL STATEMENTS OF
PACIFIC LIFE FUNDING, LLC
AS OF DECEMBER 31, 2011 AND 2010 AND
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009**

Deloitte.

Deloitte & Touche LLP
Suite 1200
695 Town Center Drive
Costa Mesa, CA 92626-7188
USA

Tel: +1 714 436 7100
Fax: + 1 714 436 7200
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

Pacific Life Funding, LLC:

We have audited the accompanying balance sheets of Pacific Life Funding, LLC (the Company) as of December 31, 2011 and 2010, and the related statements of operations and retained earnings and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

April 10, 2012

Pacific Life Funding, LLC

BALANCE SHEETS
(Expressed in United States Dollars)

(In Thousands)	December 31, 2011	2010
ASSETS		
Cash and cash equivalents	$26	$26
Funding Agreements	913,401	1,492,148
Accrued interest receivable	26,364	47,221
TOTAL ASSETS	$939,791	$1,539,395
LIABILITIES AND MEMBER'S EQUITY		
Liabilities:		
Notes payable	$913,401	$1,492,148
Accrued interest payable	26,364	47,221
TOTAL LIABILITIES	939,765	1,539,369
Member's Equity:		
Share capital	1	1
Retained earnings	25	25
TOTAL MEMBER'S EQUITY	26	26
TOTAL LIABILITIES AND MEMBER'S EQUITY	$939,791	$1,539,395

See Notes to Financial Statements

Pacific Life Funding, LLC

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

	Years Ended December 31,		
(In Thousands)	2011	2010	2009
INCOME			
Interest on Funding Agreements	$61,034	$83,256	$111,951
Foreign exchange gain on notes payable	89,642	91,004	179,611
TOTAL INCOME	150,676	174,260	291,562
EXPENSES			
Interest on notes payable	61,034	83,256	111,951
Foreign exchange loss on Funding Agreements	89,642	91,004	179,611
TOTAL EXPENSES	150,676	174,260	291,562
NET INCOME	$0	$0	$0
RETAINED EARNINGS, BEGINNING OF YEAR	$25	$25	$25
Net income	0	0	0
RETAINED EARNINGS, END OF YEAR	$25	$25	$25

See Notes to Financial Statements

Pacific Life Funding, LLC

STATEMENTS OF CASH FLOWS
(Expressed in United States Dollars)

(In Thousands)	Years Ended December 31, 2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$0	$0	$0
Adjustments to reconcile net income to net cash provided by operating activities:			
Change in accrued interest receivable	20,857	4,516	27,068
Change in accrued interest payable	(20,857)	(4,516)	(27,068)
Amortization on Funding Agreements	0	749	965
Amortization on notes payable	0	(749)	(965)
NET CASH PROVIDED BY OPERATING ACTIVITIES	0	0	0
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from maturities of Funding Agreements	489,105	167,525	696,074
NET CASH PROVIDED BY INVESTING ACTIVITIES	489,105	167,525	696,074
CASH FLOWS FROM FINANCING ACTIVITIES:			
Redemption of notes payable	(489,105)	(167,525)	(696,074)
NET CASH USED IN FINANCING ACTIVITIES	(489,105)	(167,525)	(696,074)
NET CHANGE IN CASH AND CASH EQUIVALENTS	0	0	0
Cash and cash equivalents, beginning of year	26	26	26
CASH AND CASH EQUIVALENTS, END OF YEAR	$26	$26	$26
NON-CASH INVESTING AND FINANCING ACTIVITIES			
Cancellation of Funding Agreement	$0	$0	$25,000
Cancellation of notes payable	0	0	(25,000)
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest paid	$81,891	$88,521	$139,984

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS
(Expressed in United States Dollars)

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

The Company has evaluated events subsequent to December 31, 2011 through April 10, 2012, the date the financial statements were available to be issued. There are no events subsequent to December 31, 2011 that require disclosure.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all investments with an original maturity of three months or less from the purchase date. The carrying values approximate fair values due to the short-term maturities of these instruments.

FUNDING AGREEMENTS AND NOTES PAYABLE

The Funding Agreements and related notes payable (together, the Instruments) are reported at amortized cost, adjusted for changes in foreign exchange rates. The Funding Agreements have been classified as held to maturity. Most of the instruments are denominated in currencies other than the U.S. dollar and are subject to both exchange and interest rate fluctuations.

FOREIGN CURRENCY TRANSLATION

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

USE OF ESTIMATES

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

3. TRANSACTIONS WITH AFFILIATES

The Funding Agreements, included on the balance sheets, 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 years ended December 31, 2011, 2010 and 2009, Pacific Life paid $122 thousand, $192 thousand and $313 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 February 2013 to September 2021.

The following schedules detail the notes payable outstanding as of December 31, 2011 and 2010. The detail schedules for the Funding Agreements are not included, but would contain similar information, except that the schedules would reflect the investments related to the Instruments.

4. FUNDING AGREEMENTS/NOTES PAYABLE (CONTINUED)

December 31, 2011:

Issue	Currency	Principal Denominated in Currency of Issuance *(In Thousands)*	Maturity	Interest Rate	Principal	Foreign Currency Gains (Losses) *($ In Thousands)*	Carrying Value
Series 11 Tranche 1	EUR	36,500	3/12/2019	4.70 %	$40,880	$6,502	$47,382
Series 33 Tranche 1	USD	28,560	9/15/2021	6 mth USD LIBOR + .40%	28,560	-	28,560
Series 36 Tranche 1	EUR	29,000	9/29/2020	3 mth EURIBOR + .37%	25,418	12,228	37,646
Series 39 Tranche 1	GBP	25,000	12/7/2015	5.81 %	35,500	3,353	38,853
Series 40 Tranche 1	EUR	27,000	2/5/2021	3 mth EURIBOR + .43%	25,313	9,738	35,051
Series 47 Tranche 1	GBP	150,000	8/16/2013	6.00 %	214,000	19,114	233,114
Series 47 Tranche 2	GBP	50,000	8/16/2013	6.00 %	72,900	4,805	77,705
Series 66 Tranche 1	HKD	160,000	7/31/2014	5.00 %	20,600	1	20,601
Series 67 Tranche 1	GBP	200,000	1/20/2015	5.13 %	375,000	(64,180)	310,820
Series 68 Tranche 1	HKD	200,000	1/26/2015	4.28 %	25,664	87	25,751
Series PLF003 Tranche 1	EUR	25,358	2/15/2014	4.00 %	33,219	(301)	32,918
Series PLF007 Tranche 1	GBP	1,010	2/15/2013	5.00 %	1,906	(337)	1,569
Series PLF012 Tranche 1	EUR	10,000	3/15/2015	3.80 %	12,860	121	12,981
Series PLF014 Tranche 1	GBP	256	3/15/2013	4.80 %	484	(86)	398
Series PLF015 Tranche 1	GBP	500	5/15/2013	5.00 %	959	(181)	778
Series PLF019 Tranche 1	EUR	5,016	6/15/2017	4.00 %	6,340	171	6,511
Series PLF029 Tranche 1	GBP	650	11/15/2013	4.65 %	1,159	(149)	1,010
Series PLF031 Tranche 1	EUR	1,350	12/15/2015	3.80 %	1,580	173	1,753
TOTAL					$922,342	($8,941)	$913,401

4. FUNDING AGREEMENTS/NOTES PAYABLE (CONTINUED)

December 31, 2010:

Issue	Currency	Principal Denominated in Currency of Issuance *(In Thousands)*	Maturity	Interest Rate	Principal	Foreign Currency Gains (Losses) *($ In Thousands)*	Carrying Value
Series 11 Tranche 1	EUR	36,500	3/12/2019	4.70 %	$40,880	$8,086	$48,966
Series 23 Tranche 1	EUR	100,000	12/12/2011	(A)	103,250	30,904	134,154
Series 25 Tranche 1	EUR	90,000	8/17/2011	6.08 %	90,855	29,884	120,739
Series 33 Tranche 1	USD	28,560	9/15/2021	6 mth USD LIBOR + .40%	28,560	-	28,560
Series 36 Tranche 1	EUR	29,000	9/29/2020	3 mth EURIBOR + .37%	25,418	13,486	38,904
Series 39 Tranche 1	GBP	25,000	12/7/2015	5.81 %	35,500	3,641	39,141
Series 40 Tranche 1	EUR	27,000	2/5/2021	3 mth EURIBOR + .43%	25,313	10,910	36,223
Series 41 Tranche 1	GBP	200,000	2/8/2011	6.25 %	295,000	18,131	313,131
Series 47 Tranche 1	GBP	150,000	8/16/2013	6.00 %	214,000	20,848	234,848
Series 47 Tranche 2	GBP	50,000	8/16/2013	6.00 %	72,900	5,383	78,283
Series 66 Tranche 1	HKD	160,000	7/31/2014	5.00 %	20,600	(18)	20,582
Series 67 Tranche 1	GBP	200,000	1/20/2015	5.13 %	375,000	(61,869)	313,131
Series 68 Tranche 1	HKD	200,000	1/26/2015	4.28 %	25,664	64	25,728
Series PLF003 Tranche 1	EUR	25,358	2/15/2014	4.00 %	33,219	800	34,019
Series PLF007 Tranche 1	GBP	1,010	2/15/2013	5.00 %	1,906	(325)	1,581
Series PLF012 Tranche 1	EUR	10,000	3/15/2015	3.80 %	12,860	555	13,415
Series PLF014 Tranche 1	GBP	256	3/15/2013	4.80 %	484	(83)	401
Series PLF015 Tranche 1	GBP	500	5/15/2013	5.00 %	959	(175)	784
Series PLF019 Tranche 1	EUR	5,016	6/15/2017	4.00 %	6,340	389	6,729
Series PLF029 Tranche 1	GBP	650	11/15/2013	4.65 %	1,159	(141)	1,018
Series PLF031 Tranche 1	EUR	1,350	12/15/2015	3.80 %	1,580	231	1,811
TOTAL					$1,411,447	$80,701	$1,492,148

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

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

As described previously in Note 2, the Funding Agreements have been classified as held-to-maturity and are carried at amortized cost, adjusted for changes in foreign exchange rates. The estimated fair value of Funding Agreements and notes payable is estimated using the rates currently offered for deposits of similar remaining maturities.

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

	December 31, 2011	
	Carrying Amount	Estimated Fair Value
	(In Thousands)	
Assets:		
Funding Agreements (Note 4)	$913,401	$956,155
Liabilities:		
Notes payable (Note 4)	913,401	956,155

	December 31, 2010	
	Carrying Amount	Estimated Fair Value
	(In Thousands)	
Assets:		
Funding Agreements (Note 4)	$1,492,148	$1,539,018
Liabilities:		
Notes payable (Note 4)	1,492,148	1,539,018

6. SHARE CAPITAL

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

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

As of December 31, 2011 and 2010, one thousand ordinary shares had been issued at par to QSPV Limited.

AUDITED GAAP CONSOLIDATED FINANCIAL STATEMENTS OF
PACIFIC LIFE INSURANCE COMPANY
AS OF DECEMBER 31, 2011 AND 2010 AND
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

Deloitte.

Deloitte & Touche LLP
Suite 1200
695 Town Center Drive
Costa Mesa, CA 92626-7188
USA

Tel: +1 714 436 7100
Fax: + 1 714 436 7200
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

Pacific Life Insurance Company and Subsidiaries:

We have audited the accompanying consolidated statements of financial condition of Pacific Life Insurance Company and Subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, equity and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Pacific Life Insurance Company and Subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting and reporting for deferred policy acquisition costs in 2011. In addition, the Company changed its method of accounting and reporting for other than temporary impairments as required by accounting guidance adopted in 2009.

Deloitte & Touche LLP

April 12, 2012

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31,	
(In Millions)	2011	2010
ASSETS		
Investments:		
Fixed maturity securities available for sale, at estimated fair value	$28,853	$28,313
Equity securities available for sale, at estimated fair value	301	279
Mortgage loans	7,599	6,693
Policy loans	6,812	6,690
Other investments (includes VIE assets of $351 and $263)	2,319	2,247
TOTAL INVESTMENTS	45,884	44,222
Cash and cash equivalents (includes VIE assets of $26 and $4)	2,829	2,270
Restricted cash (includes VIE assets of $200 and $170)	280	214
Deferred policy acquisition costs	5,263	4,435
Aircraft leasing portfolio, net (includes VIE assets of $1,838 and $2,154)	5,845	5,259
Other assets (includes VIE assets of $32 and $40)	3,069	2,579
Separate account assets	51,450	55,683
TOTAL ASSETS	$114,620	$114,662
LIABILITIES AND EQUITY		
Liabilities:		
Policyholder account balances	$34,392	$35,076
Future policy benefits	9,467	7,080
Long-term debt (includes VIE debt of $1,150 and $1,592)	7,152	6,516
Other liabilities (includes VIE liabilities of $338 and $388)	2,983	2,377
Separate account liabilities	51,450	55,683
TOTAL LIABILITIES	105,444	106,732
Commitments and contingencies (Note 21)		
Stockholder's Equity:		
Common stock - $50 par value; 600,000 shares authorized, issued and outstanding	30	30
Paid-in capital	982	982
Retained earnings	6,896	6,359
Accumulated other comprehensive income	934	308
Total Stockholder's Equity	8,842	7,679
Noncontrolling interest	334	251
TOTAL EQUITY	9,176	7,930
TOTAL LIABILITIES AND EQUITY	$114,620	$114,662

The abbreviation VIE above means variable interest entity.

See Notes to Consolidated Financial Statements

Pacific Life Insurance Company and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

(In Millions)	Years Ended December 31, 2011	2010	2009
REVENUES			
Policy fees and insurance premiums	$3,081	$2,367	$2,275
Net investment income	2,186	2,122	1,862
Net realized investment gain (loss)	(661)	(94)	153
OTTIs, consisting of $409, $328 and $641 in total, net of $256, $215 and $330 recognized in OCI	(153)	(113)	(311)
Investment advisory fees	268	245	208
Aircraft leasing revenue	607	591	578
Other income	226	230	137
TOTAL REVENUES	5,554	5,348	4,902
BENEFITS AND EXPENSES			
Policy benefits paid or provided	1,951	1,351	1,226
Interest credited to policyholder account balances	1,318	1,317	1,253
Commission expenses	83	831	691
Operating and other expenses	1,293	1,264	1,246
TOTAL BENEFITS AND EXPENSES	4,645	4,763	4,416
INCOME FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES	909	585	486
Provision for income taxes	146	63	44
INCOME FROM CONTINUING OPERATIONS	763	522	442
Discontinued operations, net of taxes	(9)		(20)
Net income	754	522	422
Less: net (income) loss attributable to the noncontrolling interest from continuing operations	(71)	(50)	14
NET INCOME ATTRIBUTABLE TO THE COMPANY	$683	$472	$436

The abbreviation OTTIs above means other than temporary impairment losses.

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

See Notes to Consolidated Financial Statements

Pacific Life Insurance Company and Subsidiaries

CONSOLIDATED STATEMENTS OF EQUITY

(In Millions)	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss): Unrealized Gain (Loss) On Derivatives and Securities Available for Sale, Net	Accumulated Other Comprehensive Income (Loss): Other, Net	Total Stockholder's Equity	Noncontrolling Interest	Total Equity
BALANCES, DECEMBER 31, 2008	**$30**	**$782**	**$5,426**	**($1,751)**	**($51)**	**$4,436**	**$244**	**$4,680**
Cumulative effect of adoption of new								
accounting principle, net of tax			175	(170)		5		5
Comprehensive income (loss):								
Net income (loss)			436			436	(14)	422
Other comprehensive income (loss)				1,562	47	1,609	(7)	1,602
Total comprehensive income						2,045		2,024
Contribution to parent		200				200		200
Change in equity of noncontrolling interest							8	8
BALANCES, DECEMBER 31, 2009	**30**	**982**	**6,037**	**(359)**	**(4)**	**6,686**	**231**	**6,917**
Comprehensive income:								
Net income			472			472	50	522
Other comprehensive income				669	2	671		671
Total comprehensive income						1,143		1,193
Dividend to parent			(150)			(150)		(150)
Change in equity of noncontrolling interest							(30)	(30)
BALANCES, DECEMBER 31, 2010	**30**	**982**	**6,359**	**310**	**(2)**	**7,679**	**251**	**7,930**
Comprehensive income (loss):								
Net income			683			683	71	754
Other comprehensive income (loss)				638	(12)	626		626
Total comprehensive income						1,309		1,380
Dividend to parent			(125)			(125)		(125)
Non-cash dividend to parent			(21)			(21)		(21)
Change in equity of noncontrolling interest							12	12
BALANCES, DECEMBER 31, 2011	**$30**	**$982**	**$6,896**	**$948**	**($14)**	**$8,842**	**$334**	**$9,176**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
(In Millions)	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income from continuing operations	$763	$522	$442
Adjustments to reconcile net income from continuing operations			
to net cash provided by operating activities:			
Net accretion on fixed maturity securities	(116)	(136)	(142)
Depreciation and amortization	329	299	281
Deferred income taxes	141	56	451
Net realized investment (gain) loss	661	94	(153)
Other than temporary impairments	153	113	311
Net change in deferred policy acquisition costs	(850)	116	(202)
Interest credited to policyholder account balances	1,318	1,317	1,253
Net change in future policy benefits and other insurance liabilities	1,215	648	111
Other operating activities, net	(18)	(5)	85
NET CASH PROVIDED BY OPERATING ACTIVITIES BEFORE DISCONTINUED OPERATIONS	3,596	3,024	2,437
Net cash used in operating activities of discontinued operations	(7)		(27)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,589	3,024	2,410
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed maturity and equity securities available for sale:			
Purchases	(4,808)	(6,503)	(5,507)
Sales	3,159	3,572	1,463
Maturities and repayments	2,256	2,138	2,542
Repayments of mortgage loans	1,172	746	406
Fundings of mortgage loans and real estate	(2,177)	(870)	(1,434)
Net change in policy loans	(122)	(181)	411
Change in restricted cash	(66)	7	6
Purchases of derivative instruments	(79)	(116)	(20)
Terminations of derivative instruments, net	172	(51)	20
Proceeds from nonhedging derivative settlements	151	9	64
Payments for nonhedging derivative settlements	(505)	(569)	(1,540)
Net change in collateral received or pledged	516	6	(1,226)
Purchases of and advance payments on aircraft leasing portfolio	(1,397)	(754)	(561)
Acquisition of retrocession business (Note 5)	192		
Acquisition of pension advisory business (Note 5)	(45)		
Other investing activities, net	386	265	42
NET CASH USED IN INVESTING ACTIVITIES	(1,195)	(2,301)	(5,334)

(Continued)

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions)	2011	2010	2009
	Years Ended December 31,		
(Continued)		*(In Millions)*	
CASH FLOWS FROM FINANCING ACTIVITIES			
Policyholder account balances:			
Deposits	$4,521	$4,272	$8,003
Withdrawals	(6,599)	(5,162)	(7,972)
Net change in short-term debt		(105)	(45)
Issuance of long-term debt	1,124	1,815	1,692
Payments of long-term debt	(768)	(1,012)	(433)
Contribution from (dividend to) parent	(125)	(150)	200
Other financing activities, net	12	(30)	1
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(1,835)	(372)	1,446
Net change in cash and cash equivalents	559	351	(1,478)
Cash and cash equivalents, beginning of year	2,270	1,919	3,397
CASH AND CASH EQUIVALENTS, END OF YEAR	$2,829	$2,270	$1,919
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Income taxes paid (received), net	($7)	$113	($143)
Interest paid	$222	$175	$146

See Notes to Consolidated Financial Statements

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND DESCRIPTION OF BUSINESS

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

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

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

BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements of Pacific Life and its subsidiaries (the Company) have been prepared in accordance with U.S. GAAP and include the accounts of Pacific Life and its majority owned and controlled subsidiaries and variable interest entities (VIEs) in which the Company is the primary beneficiary. Noncontrolling interest is primarily comprised of private equity funds (Note 4). All significant intercompany transactions and balances have been eliminated in consolidation.

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

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

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

- The fair value of investments in the absence of quoted market values
- Other than temporary impairment losses (OTTI) of investments
- Application of the consolidation rules to certain investments
- The fair value of and accounting for derivatives
- Aircraft valuation and impairment
- The capitalization and amortization of deferred policy acquisition costs (DAC)
- The liability for future policyholder benefits
- Accounting for income taxes
- Accounting for business combinations
- Accounting for reinsurance transactions
- Litigation and other contingencies

Certain reclassifications have been made to the 2010 and 2009 consolidated financial statements to conform to the 2011 financial statement presentation.

The Company has evaluated events subsequent to December 31, 2011 through April 12, 2012, the date the consolidated financial statements were available to be issued. See Note 2 for discussion of subsequent event.

CHANGE IN ACCOUNTING METHOD

Effective October 1, 2011, the Company changed its DAC amortization method for universal life-type contracts. Management determined it was preferable to provide a more constant rate of positive or negative amortization in relation to the emergence of gross profits over the lives of the contracts. During reporting periods in which actual gross profits (AGPs) are negative, DAC amortization may be negative, which would result in an increase of the DAC asset balance. The facts and circumstances surrounding potential negative amortization are considered to determine whether it is appropriate for recognition in the consolidated financial statements. Additionally, negative amortization is only recorded when the increased DAC asset balance is determined to be recoverable and is also limited to amounts originally deferred plus interest. The Company's previous accounting method eliminated to zero DAC amortization in reporting periods in which the AGPs were negative.

The Company accounted for this change in accounting estimate effected by a change in accounting method prospectively, resulting in an increase to the DAC asset balance of $618 million and a decrease to commission expenses of $502 million and operating and other expenses of $116 million, pre-tax, and an increase to net income and total equity of $402 million, after tax, in the accompanying consolidated financial statements as of and for the year ended December 31, 2011.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

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

FUTURE ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

In October 2010, the FASB issued Accounting Standards Update (ASU) 2010-26 to the Codification's Financial Services – Insurance Topic. ASU 2010-26 significantly amends the guidance applicable to accounting for costs associated with acquiring or renewing insurance contracts. The amendment specifies the following costs incurred in the acquisition of new and renewal contracts should be capitalized: 1) incremental direct costs of contract acquisition and 2) certain costs related directly to underwriting, policy issuance and processing, medical and inspecting, and sales force contract selling activities. This amendment also specifies that costs may only be capitalized based on successful contract acquisition efforts. The Company will adopt this standard retrospectively on January 1, 2012, resulting in a write-down of the Company's DAC asset relating to those costs, which no longer meet the revised standard. The Company estimates that the DAC asset will be reduced by approximately $1.0 billion to $1.2 billion and total equity will be reduced by approximately $650 million to $780 million, after tax, as of the date of adoption.

In May 2011, the FASB issued ASU 2011-04 which modifies the Codification's Fair Value Measurements and Disclosures Topic. The Company will adopt this new guidance in the fourth quarter of 2012 and will apply it prospectively. The Company expects this guidance to have an impact on its financial statement disclosures and no impact on the Company's consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05 to the Codification's Comprehensive Income Topic. ASU 2011-05 revises the manner in which a company presents comprehensive income on the financial statements. The amendment requires a company to present each component of net income along with total net income, each component of OCI along with a total for OCI, and a total amount for comprehensive income. The Company will adopt this amendment in the fourth quarter of 2012. Adoption will not have an impact on the Company's financial position, results of operations or cash flows, however, adoption will result in the presentation of a new consolidated statement of comprehensive income immediately following the consolidated statement of operations.

INVESTMENTS

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

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

The Company's available for sale securities are regularly assessed for OTTIs. If a decline in the estimated fair value of an available for sale security is deemed to be other than temporary, the OTTI is recognized equal to the difference between the estimated fair value and net carrying amount of the security. If the OTTI for a fixed maturity security is attributable to both credit and other factors, then the OTTI is bifurcated and the non credit related portion is recognized in OCI while the credit portion is recognized in earnings. If the OTTI is related to credit factors only, it is recognized in earnings.

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

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

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

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

In evaluating investment grade perpetual preferred securities, which do not have final contractual cash flows, the Company applied OTTI considerations used for debt securities, placing emphasis on the probability that all cash flows will be collected under the contractual terms of the security and the Company's intent and ability to hold the security to allow for a recovery of value. Perpetual preferred securities are reported as equity securities as they are structured in equity form, but have significant debt-like characteristics, including periodic dividends, call features, and credit ratings and pricing similar to debt securities.

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

Mortgage loans on real estate are carried at their unpaid principal balance, net of deferred origination fees and write-downs. Mortgage loans are considered to be impaired when management estimates that based upon current information and events, it is probable that the Company will not be able to collect all amounts due according to the contractual terms of the mortgage loan agreement. For mortgage loans deemed to be impaired, an impairment loss is recorded when the carrying amount is greater than the Company's estimated fair value of the underlying collateral of the loan. When the underlying collateral of the mortgage loan is greater than the carrying amount, the mortgage loan is not considered to have an impaired loss and no write-down is recorded.

Policy loans are stated at unpaid principal balances.

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

Real estate investments are evaluated for impairment based on the undiscounted cash flows expected to be received during the estimated holding period. When the undiscounted cash flows are less than the current carrying value of the property (gross cost less accumulated depreciation), the property is considered impaired and will be written-down to its estimated fair value.

Investments in LIHTC are recorded under the effective interest method, if they meet certain requirements, including a projected positive yield based solely on guaranteed credits. The amortization of the original investment and the tax credits are recorded in the provision for income taxes.

All derivatives, whether designated in hedging relationships or not, are required to be recorded at estimated fair value. If the derivative is designated as a cash flow hedge, the effective portion of changes in the estimated fair value of the derivative is recorded in OCI and recognized in earnings when the hedged item affects earnings. See discussion of the discontinuance of cash flow hedge accounting for insurance operations in Note 10. If the derivative is designated as a fair value hedge, changes in the estimated fair value of the hedging derivative, including amounts measured as ineffectiveness, and changes in the estimated fair value of the hedged item related to the designated risk being hedged, are reported in net realized investment gain (loss). The change in estimated value of the hedged item associated with the risk being hedged is reflected as an adjustment to the carrying amount of the hedged item. For derivative instruments not designated as hedges, the change in estimated fair value of the derivative is recorded in net realized investment gain (loss).

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all investments with a maturity of three months or less from purchase date. Cash equivalents consist primarily of U.S. Treasury bills and money market securities.

RESTRICTED CASH

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

DEFERRED POLICY ACQUISITION COSTS

The costs of acquiring new insurance business, principally commissions, medical examinations, underwriting, policy issue and other expenses, all of which vary with and are primarily associated with the production of new business, are deferred and recorded as an asset referred to as DAC. DAC related to internally replaced contracts (as defined in the Codification's Financial Services – Insurance Topic), is immediately written off to expense and any new deferrable expenses associated with the replacement are deferred if the contract modification substantially changes the contract. However, if the contract modification does not substantially change the contract, the existing DAC asset remains in place and any acquisition costs associated with the modification are immediately expensed. The Company defers sales inducements and amortizes them over the life of the policy using the same methodology and assumptions used to amortize DAC.

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

Effective October 1, 2011, the Company changed its DAC amortization method for periods when AGPs are negative. During reporting periods of negative AGPs, DAC amortization may be negative, which would result in an increase to the DAC balance. The specific facts and circumstances surrounding the potential negative amortization are evaluated to determine whether it is appropriate for recognition in the consolidated financial statements. Negative amortization is only recorded when the increased DAC balance is determined to be recoverable and is also limited to amounts originally deferred plus interest.

Significant assumptions in the development of EGPs include investment returns, surrender and lapse rates, rider utilization, interest spreads, and mortality margins. The Company's long-term assumption for the underlying separate account investment return ranges up to 8.0%. A change in the assumptions utilized to develop EGPs results in a change to amounts expensed in the reporting period in which the change was made by adjusting the DAC balance to the level DAC would have been had the EGPs been calculated using the new assumptions over the entire amortization period. In general, favorable experience variances result in increased expected future profitability and may lower the rate of DAC amortization, whereas unfavorable experience variances result in decreased expected future profitability and may increase the rate of DAC amortization. All critical assumptions utilized to develop EGPs are evaluated at least annually and necessary revisions are made to certain assumptions to the extent that actual or anticipated experience necessitates such a prospective change. The Company may also identify and implement actuarial modeling refinements to projection models that may result in increases or decreases to the DAC asset.

The DAC asset is reviewed periodically to ensure that the unamortized balance does not exceed expected recoverable EGPs.

AIRCRAFT LEASING PORTFOLIO

Aircraft are recorded at depreciated cost, which includes certain acquisition costs. Depreciation to estimated residual values is computed using the straight-line method over the estimated useful lives of the aircraft. Estimated residuals values are based on a percentage of the acquisition cost. Major improvements to aircraft are capitalized when incurred and depreciated over the shorter of the useful life of the aircraft or the useful life of the improvement. The Company evaluates carrying values of aircraft based upon changes in market and other physical and economic conditions and will record impairments to recognize a loss in the value of the aircraft when management believes that, based on future estimated cash flows, the recoverability of the Company’s investment in an aircraft has been impaired.

GOODWILL

Goodwill represents the excess of acquisition costs over the fair value of net assets acquired. Goodwill is not amortized but is reviewed for impairment at least annually or more frequently if events occur or circumstances indicate that the goodwill might be impaired. Goodwill is included in other assets and totaled $87 million and $43 million as of December 31, 2011 and 2010, respectively. See Note 5. There were no goodwill impairment write-downs during the years ended December 31, 2011, 2010 and 2009.

POLICYHOLDER ACCOUNT BALANCES

Policyholder account balances on UL and investment-type contracts, such as funding agreements, annuities without life contingencies, deposit liabilities and guaranteed interest contracts (GICs), are valued using the retrospective deposit method and are equal to accumulated account values, which consist of deposits received, plus interest credited, less withdrawals and assessments. Interest credited to these contracts primarily ranged from 0.2% to 7.7%.

FUTURE POLICY BENEFITS

Annuity reserves, which primarily consist of group retirement and structured settlement annuities with life contingencies, are equal to the present value of estimated future payments using pricing assumptions, as applicable, for interest rates, mortality, morbidity, retirement age and expenses. Interest rates used in establishing such liabilities ranged from 0.4% to 11.0%.

The Company offers variable annuity contracts with guaranteed minimum benefits, including guaranteed minimum death benefits (GMDBs) and riders with guaranteed living benefits (GLBs) that guarantee net principal over a ten-year holding period or a minimum withdrawal benefit over specified periods, subject to certain restrictions. If the guarantee includes a benefit that is only attainable upon annuitization or is wholly life contingent (e.g. GMDBs or guaranteed minimum withdrawal benefits for life), it is accounted for as an insurance liability (Note 12). All other GLB guarantees are accounted for as embedded derivatives (Note 10).

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

Life insurance reserves are valued using the net level premium method on the basis of actuarial assumptions appropriate at policy issue. Mortality and persistency assumptions are generally based on the Company's experience, which, together with interest and expense assumptions, include a margin for possible unfavorable deviations. Interest rate assumptions ranged from 3.0% to 9.3%. Future dividends for participating business are provided for in the liability for future policy benefits.

As of December 31, 2011 and 2010, participating experience rated policies paying dividends represent less than 1% of direct life insurance in force.

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

REINSURANCE

The Company has ceded reinsurance agreements with other insurance companies to limit potential losses, reduce exposure arising from larger risks, provide additional capacity for future growth and has assumed reinsurance agreements intended to offset reinsurance costs. As part of a strategic alliance, the Company also reinsures risks associated with policies written by an independent producer group through modified coinsurance and yearly renewable term (YRT) arrangements with this producer group's reinsurance company. The ceding of risk does not discharge the Company from its primary obligations to contract owners. To the extent that the assuming companies become unable to meet their obligations under reinsurance contracts, the Company remains contingently liable. Each reinsurer is reviewed to evaluate its financial stability before entering into each reinsurance contract and throughout the period that the reinsurance contract is in place. The Company also assumes reinsurance from affiliated and unaffiliated insurers. In August 2011, the Company acquired a retrocession business (Note 5).

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

Reinsurance accounting is utilized for ceded and assumed transactions when risk transfer provisions have been met. To meet risk transfer requirements, a reinsurance contract must include insurance risk, consisting of both underwriting and timing risk, and a reasonable possibility of a significant loss to the reinsurer.

Reinsurance premiums ceded and reinsurance recoveries on benefits and claims incurred are deducted from their respective revenue and benefit and expense accounts. Prepaid reinsurance premiums, included in other assets, are premiums that are paid in advance for future coverage. Reinsurance recoverables, included in other assets, include balances due from reinsurance companies for paid and unpaid losses. Amounts receivable and payable are offset for account settlement purposes for contracts where the right of offset exists.

REVENUES, BENEFITS AND EXPENSES

Premiums from annuity contracts with life contingencies and traditional life and term insurance contracts, are recognized as revenue when due. Benefits and expenses are provided against such revenues to recognize profits over the estimated lives of the contracts by providing for liabilities for future policy benefits, expenses of contract administration and DAC amortization.

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

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

Aircraft leases, which are structured as triple net leases, are accounted for as operating leases. Aircraft leasing revenue is recognized ratably over the terms of the lease agreements.

DEPRECIATION AND AMORTIZATION

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

INCOME TAXES

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

CONTINGENCIES

Each reporting cycle, the Company evaluates all identified contingent matters on an individual basis. A loss is recorded if probable and reasonably estimable. The Company establishes reserves for these contingencies at the best estimate, or, if no one number within the range of possible losses is more probable than any other, the Company records an estimated reserve at the low end of the range of losses.

SEPARATE ACCOUNTS

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

For separate account funding agreements in which the Company provides a guarantee of principal and interest to the contract holder and bears all the risks and rewards of the investments underlying the separate account, the related investments and liabilities are recognized as investments and liabilities in the consolidated statements of financial condition. Revenue and expenses are recognized within the respective revenue and benefit and expense lines in the consolidated statements of operations.

ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

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

2. STATUTORY FINANCIAL INFORMATION AND DIVIDEND RESTRICTIONS

STATUTORY ACCOUNTING PRACTICES

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

As of December 31, 2011, the Company had two permitted practices. Under the first permitted practice, the Company utilizes book value accounting for certain guaranteed separate account funding agreements. The underlying separate account assets are 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). As of December 31, 2011 and 2010, the underlying separate account assets had unrealized losses of $25 million and $24 million, respectively. Under the second permitted practice, which was approved by the Director of the NE DOI in 2011, investments in Working Capital Finance Notes (WCFN), a new type of investment being considered by the NAIC for admissibility, will be treated as admitted assets provided they are rated by the NAIC Securities Valuation Office as an NAIC 1 or 2 investment. As of December 31, 2011, admitted WCFN investments totaled $29 million.

The NE DOI has a prescribed accounting practice for certain synthetic 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 $36 million and $27 million as of December 31, 2011 and 2010, respectively, and has been recorded by the Company. 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 December 31, 2011 and 2010, the reserve for synthetic GICs using the NAIC SAP basis was zero.

STATUTORY NET INCOME (LOSS) AND SURPLUS

Statutory net income (loss) of Pacific Life was ($735) million, $741 million and $652 million for the years ended December 31, 2011, 2010 and 2009, respectively. Statutory capital and surplus of Pacific Life was $5,577 million and $5,867 million as of December 31, 2011 and 2010, respectively.

RISK-BASED CAPITAL

Risk-based capital is a method developed by the NAIC to measure the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The formulas for determining the amount of risk-based capital specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Additionally, certain risks are required to be measured using actuarial cash flow modeling techniques, subject to formulaic minimums. The adequacy of a company's actual capital is measured by a comparison to the risk-based capital results. Companies below minimum risk-based capital requirements are classified within certain levels, each of which requires specified corrective action. As of December 31, 2011 and 2010, Pacific Life, PL&A and PAR Vermont exceeded the minimum risk-based capital requirements.

NO LAPSE GUARANTEE RIDER REINSURANCE

Certain no lapse guarantee rider (NLGR) benefits of Pacific Life's UL insurance products are subject to Actuarial Guideline 38 (AG 38) statutory reserving requirements. AG 38 results in additional statutory reserves on UL products with NLGRs issued after June 30, 2005. Substantially all statutory reserves relating to NLGRs issued after June 30, 2005 through approximately March 31, 2010 were ceded from Pacific Life to Pacific Alliance Reinsurance Ltd. (PAR Bermuda), a Bermuda-based life reinsurance company wholly owned by Pacific LifeCorp, and PAR Vermont under reinsurance agreements. Effective October 1, 2010, 100% of the PAR Bermuda reinsurance was novated to PAR Vermont, consolidating all such NLGR reinsurance in PAR Vermont. In August 2011, PAR Vermont was accredited as an authorized reinsurer in Nebraska, making it unnecessary to provide security for statutory reserve credits taken by Pacific Life. Funded economic reserves and a letter of credit approved as an admitted asset for PAR Vermont for statutory accounting will continue to be held in a trust with Pacific Life as beneficiary. See Note 21.

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 2011 statutory results, Pacific Life could pay $199 million in dividends in 2012 to Pacific LifeCorp without prior approval from the NE DOI, subject to the notification requirement.

During the years ended December 31, 2011 and 2010, Pacific Life paid cash dividends to Pacific LifeCorp of $125 million and $150 million, respectively. No dividends were paid during 2009. In March 2012, Pacific Life declared and paid a cash dividend to Pacific LifeCorp of $70 million.

The maximum amount of ordinary dividends that can be paid by PL&A to Pacific Life without restriction cannot exceed the lesser of 10% of statutory surplus as regards to policyholders, or the statutory net gain from operations. Based on this limitation and 2011 statutory results, PL&A could pay $30 million in dividends to Pacific Life in 2012 without prior regulatory approval. No dividends were paid during 2011, 2010 and 2009.

3. CLOSED BLOCK

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

Assets that support the Closed Block, which are primarily included in fixed maturity securities and policy loans, amounted to $289 million and $284 million as of December 31, 2011 and 2010, respectively. Liabilities allocated to the Closed Block, which are primarily included in future policy benefits, amounted to $301 million and $304 million as of December 31, 2011 and 2010, respectively. The net contribution to income from the Closed Block was $1 million, zero and $4 million for the years ended December 31, 2011, 2010 and 2009, respectively.

4. 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 December 31, 2011 and 2010, the consolidated assets, consolidated liabilities and maximum exposure to loss relating to VIEs, which the Company (i) has consolidated because it is the primary beneficiary or (ii) total assets 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*):

	Primary Beneficiary			Not Primary Beneficiary	
	Consolidated Assets	Consolidated Liabilities	Maximum Exposure to Loss	Total Assets	Maximum Exposure to Loss
December 31, 2011:					
Aircraft securitizations	$2,070	$1,466	$604	$282	
Private equity funds	377	22	50		
Asset-backed securities				1,910	$105
Total	$2,447	$1,488	$654	$2,192	$105
December 31, 2010:					
Aircraft securitizations	$2,364	$1,975	$389	$320	
Private equity funds	267	5	34		
Asset-backed securities				1,910	$108
Total	$2,631	$1,980	$423	$2,230	$108

AIRCRAFT SECURITIZATIONS

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

In 2005, ACG sponsored a securitization transaction whereby Aviation Capital Group Trust III (ACG Trust III) acquired 74 of ACG's aircraft through a private placement note offering in the amount of $1,860 million. ACG owns 100% of the equity and has a controlling financial interest in this VIE. Therefore, ACG was determined to be the primary beneficiary of this VIE and ACG Trust III is consolidated into the consolidated financial statements of the Company. These private placement notes are the obligation of ACG Trust III and represent debt that is non-recourse to the Company (Note 13). VIE non-recourse debt consolidated from ACG Trust III was $795 million and $1,103 million as of December 31, 2011 and 2010, respectively. As of December 31, 2011 and 2010, the maximum exposure to loss, based on the Company's interest in ACG Trust III, was $397 million and $201 million, respectively.

In 2003, ACG sponsored a securitization transaction whereby Aviation Capital Group Trust II (ACG Trust II) acquired 37 of ACG's aircraft through a private placement note offering in the amount of $1,027 million. ACG owns 100% of the equity and has a controlling financial interest in this VIE. Therefore, ACG was determined to be the primary beneficiary of this VIE and ACG Trust II is consolidated into the consolidated financial statements of the Company. These private placement notes are the obligation of ACG Trust II and represent debt that is non-recourse to the Company (Note 13). VIE non-recourse debt consolidated from ACG Trust II was $335 million and $484 million as of December 31, 2011 and 2010, respectively. As of December 31, 2011 and 2010, the maximum exposure to loss was $207 million and $188 million, respectively.

In 2000, ACG sponsored a financial asset securitization of aircraft to Aviation Capital Group Trust (Aviation Trust). ACG and Pacific Life are beneficial interest holders in Aviation Trust. Aviation Trust is not consolidated as the Company is not the primary beneficiary as ACG does not have the obligation to absorb losses of Aviation Trust that could potentially be significant to Aviation Trust or the right to receive benefits from Aviation Trust that could potentially be significant to it. The carrying value is comprised of beneficial interests issued by Aviation Trust. As of December 31, 2011 and 2010, the maximum exposure to loss, based on carrying value, was zero.

PRIVATE EQUITY FUNDS

Private equity funds (the Funds) are limited partnerships that invest in private equity investments for outside investors, where the Company is the general partner. The Company provides investment management services to the Funds for a fee and receives carried interest based upon the performance of the Funds. The Funds are a VIE due to the purpose and design of the Funds and the lack of control by the other equity investors. The Company has determined itself to be the primary beneficiary since it has a controlling financial interest in the Funds and the Funds are consolidated into the consolidated financial statements of the Company. The Company has not guaranteed the performance, liquidity or obligations of the Funds, and the Company's maximum exposure to loss is equal to the carrying amounts of its retained interest. VIE non-recourse debt consolidated from the Funds was $20 million and $5 million as of December 31, 2011 and 2010, respectively (Note 13).

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 and had a net carrying amount of $105 million and $108 million as of December 31, 2011 and 2010, respectively. During the years ended December 31, 2011, 2010 and 2009, the Company recorded OTTIs of zero, zero and $60 million, respectively, related to these securities.

OTHER NON-CONSOLIDATED VIEs

As part of normal investment activities, the Company will make passive investments in structured securities for which it is not the sponsor. These structured securities 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. 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 investment. See Note 8 for the carrying amount and estimated fair value of these investments.

5. BUSINESS ACQUISITIONS

On August 31, 2011, Pacific Life and Pacific Life Reinsurance (Barbados) Limited (PLRB), a newly formed insurer and wholly owned subsidiary of Pacific LifeCorp, acquired Manulife Financial Corporation's life retrocession business. The acquisition was structured utilizing five coinsurance transactions in which Pacific Life entered into three contracts covering the lives of U.S. persons and PLRB entered into two contracts covering non-U.S. persons. By operation of the five reinsurance transactions, Pacific Life and PLRB each obtained control of a business requiring the application of the acquisition accounting provisions of the Codification's Business Combinations Topic.

The acquisition allows Pacific Life to gain access to a large block of mortality-based business without adding significant concentration risk. The addition of this mortality risk helps Pacific Life diversify its overall risk profile by providing balance against the more volatile risks of equity, credit, and interest rates. The expectation is that the acquired retrocession business will also provide a platform to generate new business. For financial reporting purposes, the retrocession business is a component of the Company's reinsurance segment.

Ceding commissions in the form of non-cash consideration in connection with the acquisition of the U.S. life business by Pacific Life and the non-U.S. life business by PLRB was $198 million and $39 million, respectively. In anticipation of the acquisition, Pacific LifeCorp invested $120 million of capital in PLRB. Pacific Life and PLRB incurred acquisition-related costs of $6 million, which is included in operating and other expenses and capitalized $5 million of debt issuance cost, which is included in other assets.

Pacific Life and PLRB are in the process of finalizing the fair value of the assets acquired and the liabilities assumed and therefore has not finalized the acquisition accounting required by U.S. GAAP. The valuation of the insurance reserves acquired and the identification and valuation of intangible assets are the most significant items requiring additional data and analysis before the valuation process is complete. Pacific Life and PLRB expect to finalize the acquisition accounting no later than the third quarter of 2012.

The following table presents, as of December 31, 2011, the estimated fair value of the assets acquired and liabilities assumed on August 31, 2011:

	Pacific Life	PLRB	Combined
Assets acquired:		*(In Millions)*	
Cash	$192	$520	$712
Value of business acquired [1]	72	12	84
Software computer applications [2]	4		4
Other assets	4		4
Goodwill [2]	6	70	76
Total assets	$278	$602	$880
Liabilities assumed:			
GAAP reserves [3]	$129	$567	$696
Other liabilities	149	35	184
Total liabilities	$278	$602	$880

[1] Included in DAC [2] Included in other assets [3] Included in future policy benefits

On July 28, 2011, Pacific Global Advisors LLC (PGA), a wholly owned subsidiary of Pacific Life, acquired JP Morgan Chase's Pension Advisory Group. PGA's target market is businesses and plan trustees managing employee defined benefit retirement plans. PGA's expertise is in the delivery of advisory services concentrated in the areas of liability-driven investing, hedging, risk management, and actuarial services.

This acquisition allows Pacific Life to strengthen its ability to deliver financial security solutions to retirement plans sponsors and trustees. PGA will also provide additional diversification to Pacific Life's business mix.

PGA paid approximately $45 million to acquire the pension advisory business. In anticipation of the acquisition, Pacific Life invested $48 million of capital in PGA. The Company incurred acquisition-related expense of $5 million, which is included in operating and other expenses.

The Company is in the process of finalizing the fair value of the assets acquired and the liabilities assumed and therefore has not finalized the acquisition accounting required by U.S. GAAP. The identification and valuation of intangible assets is the most significant item requiring additional data and analysis before the valuation process is complete. The Company expects to finalize the acquisition accounting no later than the second quarter of 2012.

The following table presents, as of December 31, 2011, the estimated fair value of the assets acquired and liabilities assumed on July 28, 2011 (*In Millions*):

Assets acquired:	
Intangibles [1]	$7
Goodwill [1]	38
Total assets	$45
Liabilities assumed:	
Other liabilities	-
Total liabilities	-

[1] Included in other assets

6. DISCONTINUED OPERATIONS

The Company's former broker-dealer operations have been reflected as discontinued operations in the Company's consolidated financial statements. Discontinued operations do not include the operations of Pacific Select Distributors, Inc. (PSD), a wholly owned broker-dealer subsidiary of Pacific Life, which primarily serves as the underwriter/distributor of registered investment-related products and services, principally variable life and variable annuity contracts issued by the Company, and mutual funds. In March 2007, the Company classified its broker-dealer subsidiaries, other than PSD, as held for sale. During 2008 and 2007, these broker-dealers were sold.

Operating results from the discontinued operations were as follows:

	Years Ended December 31,		
	2011	2010	2009
	(In Millions)		
Benefits and expenses	$13		$31
Loss from discontinued operations	(13)	-	(31)
Benefit from income taxes	(4)		(11)
Discontinued operations, net of taxes	($9)	-	($20)

7. DEFERRED POLICY ACQUISITION COSTS

Components of DAC are as follows:

	Years Ended December 31,		
	2011	2010	2009
	(In Millions)		
Balance, January 1	$4,435	$4,806	$5,012
Cumulative pre-tax effect of adoption of new accounting principle (Note 1)			7
Additions:			
Capitalized during the year	639	558	777
Amortization:			
Allocated to commission expenses	274	(529)	(446)
Allocated to operating expenses	9	(145)	(129)
Total amortization	283	(674)	(575)
Allocated to OCI	(94)	(255)	(415)
Balance, December 31	$5,263	$4,435	$4,806

During the year ended December 31, 2011, negative AGPs resulted in an increase to the DAC asset of $618 million and negative DAC amortization through a decrease to commission expenses of $502 million and operating expenses of $116 million (Note 1). During the years ended December 31, 2011, 2010 and 2009, the Company revised certain assumptions to develop EGPs for its products subject to DAC amortization. This resulted in a decrease in DAC amortization expense of $109 million for the year ended December 31, 2011 and increases in DAC amortization expense of $34 million and $23 million for the years ended December 31, 2010 and 2009, respectively. The revised EGPs also resulted in increased URR amortization of $35 million for the year ended December 31, 2011, increased URR amortization of $20 million for the year ended December 31, 2010 and an immaterial decrease in URR amortization for the year ended December 31, 2009. The capitalized sales inducement balance included in the DAC asset was $645 million and $549 million as of December 31, 2011 and 2010, respectively.

8. INVESTMENTS

The net carrying amount, gross unrealized gains and losses, and estimated fair value of fixed maturity and equity securities available for sale are shown below. The net carrying amount of fixed maturity securities represents amortized cost adjusted for OTTIs recognized in earnings and changes in the estimated fair value attributable to the hedged risk in a fair value hedge. The net carrying amount of equity securities represents cost adjusted for OTTIs. See Note 14 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)		
December 31, 2011:				
U.S. Treasury securities	$27	$8		$35
Obligations of states and political subdivisions	1,064	117	$2	1,179
Foreign governments	456	51	4	503
Corporate securities	19,468	2,210	186	21,492
RMBS	4,475	189	491	4,173
CMBS	740	37	6	771
Collateralized debt obligations	115	17	17	115
Other asset-backed securities	523	69	7	585
Total fixed maturity securities	$26,868	$2,698	$713	$28,853
Perpetual preferred securities	$283	$5	$60	$228
Other equity securities	74		1	73
Total equity securities	$357	$5	$61	$301

	Net Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(In Millions)		
December 31, 2010:				
U.S. Treasury securities	$914	$21	$15	$920
Obligations of states and political subdivisions	954	15	44	925
Foreign governments	433	50	1	482
Corporate securities	18,454	1,421	207	19,668
RMBS	5,100	138	597	4,641
CMBS	972	50	11	1,011
Collateralized debt obligations	118	28	26	120
Other asset-backed securities	500	54	8	546
Total fixed maturity securities	$27,445	$1,777	$909	$28,313
Perpetual preferred securities	$299	$11	$35	$275
Other equity securities	4			4
Total equity securities	$303	$11	$35	$279

The Company has investments in perpetual preferred securities that are issued primarily by European banks. The net carrying amount and estimated fair value of the available for sale perpetual preferred securities was $372 million and $282 million, respectively, as of December 31, 2011. Included in these amounts are perpetual preferred securities carried in trusts with a net carrying amount and estimated fair value of $89 million and $54 million, respectively, that are held in fixed maturities and included in the tables above in corporate securities. Perpetual preferred securities reported as equity securities available for sale are presented in the tables above as perpetual preferred securities.

The net carrying amount and estimated fair value of fixed maturity securities available for sale as of December 31, 2011, by contractual repayment date of principal, are shown below. Expected maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Net Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In Millions)			
Due in one year or less	$896	$31	$2	$925
Due after one year through five years	5,570	428	41	5,957
Due after five years through ten years	8,805	895	99	9,601
Due after ten years	5,744	1,032	50	6,726
	21,015	2,386	192	23,209
Mortgage-backed and asset-backed securities	5,853	312	521	5,644
Total fixed maturity securities	$26,868	$2,698	$713	$28,853

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

	Total		
	Number	Estimated Fair Value	Gross Unrealized Losses
		(In Millions)	
December 31, 2011:			
Obligations of states and political subdivisions	4	$71	$2
Foreign governments	11	73	4
Corporate securities	314	2,183	186
RMBS	207	2,624	491
CMBS	10	77	6
Collateralized debt obligations	3	91	17
Other asset-backed securities	13	101	7
Total fixed maturity securities	562	5,220	713
Perpetual preferred securities	19	177	60
Other securities	12	89	5
Total other securities	31	266	65
Total	593	$5,486	$778

	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, 2011:						
Obligations of states and political subdivisions				4	$71	$2
Foreign governments	11	$73	$4			
Corporate securities	217	1,159	49	97	1,024	137
RMBS	49	401	14	158	2,223	477
CMBS	7	37	2	3	40	4
Collateralized debt obligations				3	91	17
Other asset-backed securities	8	89	6	5	12	1
Total fixed maturity securities	292	1,759	75	270	3,461	638
Perpetual preferred securities	8	57	6	11	120	54
Other securities	6	42	2	6	47	3
Total other securities	14	99	8	17	167	57
Total	306	$1,858	$83	287	$3,628	$695

	Total		
	Number	Estimated Fair Value	Gross Unrealized Losses
		(In Millions)	
December 31, 2010:			
U.S. Treasury securities	3	$429	$15
Obligations of states and political subdivisions	44	612	44
Foreign governments	7	56	1
Corporate securities	350	3,161	207
RMBS	287	2,976	597
CMBS	21	141	11
Collateralized debt obligations	5	67	26
Other asset-backed securities	19	122	8
Total fixed maturity securities	736	7,564	909
Perpetual preferred securities	17	195	35
Other securities	29	112	16
Total other securities	46	307	51
Total	782	$7,871	$960

	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, 2010:						
U.S. Treasury securities	3	$429	$15			
Obligations of states and political subdivisions	32	374	16	12	$238	$28
Foreign governments	7	56	1			
Corporate securities	241	1,926	66	109	1,235	141
RMBS	94	156	4	193	2,820	593
CMBS	15	52	2	6	89	9
Collateralized debt obligations				5	67	26
Other asset-backed securities	7	30	1	12	92	7
Total fixed maturity securities	399	3,023	105	337	4,541	804
Perpetual preferred securities				17	195	35
Other securities	3	17	1	26	95	15
Total other securities	3	17	1	43	290	50
Total	402	$3,040	$106	380	$4,831	$854

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

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 December 31, 2011.

				Vintage Breakdown				
Rating	Net Carrying Amount	Estimated Fair Value	Rating as % of Net Carrying Amount	2004 and Prior	2005	2006	2007	2008 and Thereafter
	($ In Millions)							
Prime RMBS:								
AAA	$223	$230	9%	7%				2%
AA	91	93	3%	3%				
A	119	117	5%	4%	1%			
BAA	95	95	4%	3%	1%			
BA and below	2,058	1,823	79%	6%	27%	33%	13%	
Total	$2,586	$2,358	100%	23%	29%	33%	13%	2%
Alt-A RMBS:								
AAA	$39	$34	5%	5%				
AA	23	23	3%	1%	1%	1%		
A	3	3	1%	1%				
BA and below	653	478	91%	2%	11%	28%	50%	
Total	$718	$538	100%	9%	12%	29%	50%	0%
Sub-prime RMBS:								
AAA	$17	$16	5%	5%				
A	28	27	8%	8%				
BAA	72	67	20%	20%				
BA and below	246	194	67%	49%	17%		1%	
Total	$363	$304	100%	82%	17%	0%	1%	0%
CMBS:								
AAA	$573	$593	77%	34%	1%	1%	21%	20%
AA	120	134	16%	12%				4%
A	15	12	2%	2%				
BAA	4	5	1%					1%
BA	28	27	4%				4%	
Total	$740	$771	100%	48%	1%	1%	25%	25%

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

Pacific Life is a member of the Federal Home Loan Bank (FHLB) of Topeka. As of December 31, 2011, the Company has received advances of $1.0 billion from the FHLB of Topeka and has issued funding agreements to the FHLB of Topeka. The funding agreement liabilities are included in policyholder account balances. As of December 31, 2011, fixed maturity securities with an estimated fair value of $1.1 billion are in a custodial account pledged as collateral for the funding agreements. The Company is required to purchase stock in FHLB of Topeka each time it receives an advance. As of December 31, 2011, the Company holds $50 million of FHLB of Topeka stock, which has been restricted for sale and is recorded in other investments.

PL&A is a member of FHLB of San Francisco. As of December 31, 2011, no assets are pledged as collateral. As of December 31, 2011, PL&A holds FHLB of San Francisco stock with an estimated fair value of $4 million, which has been restricted for sale and is recorded in other investments.

In connection with the acquired life retrocession business (Note 5), as of December 31, 2011, fixed maturity securities and cash and cash equivalents of $377 million and $12 million, respectively, have been pledged as collateral in reinsurance trusts.

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

	Years Ended December 31,		
	2011	2010	2009
	(In Millions)		
Fixed maturity securities	$1,458	$1,506	$1,448
Equity securities	15	19	20
Mortgage loans	391	337	297
Real estate	107	93	92
Policy loans	204	214	229
Partnerships and joint ventures	163	119	(78)
Other	16		12
Gross investment income	2,354	2,288	2,020
Investment expense	168	166	158
Net investment income	$2,186	$2,122	$1,862

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

	Years Ended December 31,		
	2011	2010	2009
	(In Millions)		
Fixed maturity securities:			
Gross gains on sales	$113	$167	$42
Gross losses on sales	(16)	(32)	(18)
Total fixed maturity securities	97	135	24
Equity securities:			
Gross gains on sales	9	4	
Gross losses on sales			(11)
Total equity securities	9	4	(11)
Non-marketable securities	34		
Trading securities	(7)	12	20
Real estate	5	21	
Variable annuity GLB embedded derivatives	(1,191)	185	2,211
Variable annuity GLB policy fees	197	208	147
Variable annuity derivatives - interest rate swaps			(104)
Variable annuity derivatives - total return swaps	(366)	(534)	(1,542)
Equity put options	135	(159)	(672)
Foreign currency and interest rate swaps	75	16	9
Forward starting interest rate swaps	299		
Synthetic GIC policy fees	43	30	25
Other	9	(12)	46
Total	($661)	($94)	$153

The table below summarizes the OTTIs by investment type:

	Recognized in Earnings	Included in OCI	Total
Year ended December 31, 2011:		(In Millions)	
Corporate securities [1]	$24		$24
RMBS	102	$256	358
Equity securities	11		11
OTTIs - fixed maturity and equity securities	137	256	393
Mortgage loans	5		5
Real estate	1		1
Other investments	10		10
Total OTTIs	$153	$256	$409
Year ended December 31, 2010:			
Corporate securities	$10		$10
RMBS	64	$215	279
Collateralized debt obligations	1		1
OTTIs - fixed maturity securities	75	215	290
Real estate	27		27
Other investments	11		11
Total OTTIs	$113	$215	$328
Year ended December 31, 2009:			
Corporate securities [2]	$63	$2	$65
RMBS	116	315	431
Collateralized debt obligations	66	13	79
Perpetual preferred securities	26		26
OTTIs - fixed maturity and equity securities	271	330	601
Other investments	40		40
Total OTTIs	$311	$330	$641

(1) Included are $7 million of OTTI recognized in earnings on perpetual preferred securities carried in trusts.
(2) Included are $29 million of OTTI recognized in earnings on perpetual preferred securities carried in trusts.

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

	Years Ended December 31,	
	2011	2010
	(In Millions)	
Cumulative credit loss, January 1	$245	$200
Additions for credit impairments recognized on:		
Securities not previously other than temporarily impaired	15	14
Securities previously other than temporarily impaired	87	46
Total additions	102	60
Reductions for credit impairments previously recognized on:		
Securities that matured or were sold	(71)	(5)
Securities due to an increase in expected cash flows and time value of cash flows	(8)	(10)
Total subtractions	(79)	(15)
Cumulative credit loss, December 31	$268	$245

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)	
December 31, 2011:			
Obligations of states and political subdivisions		$2	$2
Foreign governments		4	4
Corporate securities		186	186
RMBS	$301	190	491
CMBS		6	6
Collateralized debt obligations	17		17
Other asset-backed securities		7	7
Total fixed maturity securities	$318	$395	$713
Perpetual preferred securities		$60	$60
Other equity securities		1	1
Total equity securities	-	$61	$61
December 31, 2010:			
U.S. Treasury securities		$15	$15
Obligations of states and political subdivisions		44	44
Foreign governments		1	1
Corporate securities		207	207
RMBS	$308	289	597
CMBS		11	11
Collateralized debt obligations	26		26
Other asset-backed securities		8	8
Total fixed maturity securities	$334	$575	$909
Perpetual preferred securities		$35	$35
Total equity securities	-	$35	$35

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

	Years Ended December 31,		
	2011	2010	2009
		(In Millions)	
Available for sale securities:			
Fixed maturity	$1,117	$1,185	$2,455
Equity	(32)	23	124
Total available for sale securities	$1,085	$1,208	$2,579
Trading securities	($12)	$14	$26

Trading securities, included in other investments, totaled $215 million and $349 million as of December 31, 2011 and 2010, respectively. The cumulative net unrealized gains on trading securities held as of December 31, 2011 and 2010 were $9 million and $21 million, respectively.

As of December 31, 2011 and 2010, fixed maturity securities of $12 million were on deposit with state insurance departments to satisfy regulatory requirements.

Mortgage loans totaled $7,599 million and $6,693 million as of December 31, 2011 and 2010, respectively. Mortgage loans are collateralized by commercial properties primarily located throughout the U.S. As of December 31, 2011, $1,423 million, $1,250 million, $844 million, $657 million and $642 million were located in Washington, California, District of Columbia, Florida, and Texas, respectively. As of December 31, 2011, $382 million was located in Canada. The Company did not have any mortgage loans with accrued interest more than 180 days past due as of December 31, 2011 or 2010. As of December 31, 2011, there was no single mortgage loan investment that exceeded 10% of stockholder's equity.

As of December 31, 2011, there were three mortgage loans totaling $287 million that were considered impaired, and an impairment loss of $5 million was recorded as the underlying collateral of two of these mortgage loans was lower than the carrying amount and they were in the process of foreclosure. No impairment loss was recorded for the other mortgage loan since the estimated fair value of the collateral was greater than the carrying amount. As of December 31, 2010, one mortgage loan totaling $6 million was foreclosed upon. Since the estimated fair value of the collateral was greater than the carrying amount, no impairment loss was recorded.

Real estate investments totaled $534 million and $547 million as of December 31, 2011 and 2010, respectively. During the years ended December 31, 2011 and 2010, real estate investment write-downs totaled $1 million and $27 million, respectively. The Company had no real estate investment write-downs during the year ended December 31, 2009.

9. AIRCRAFT LEASING PORTFOLIO, NET

Aircraft leasing portfolio, net, consisted of the following:

	December 31,	
	2011	2010
	(In Millions)	
Aircraft	$4,569	$3,502
Aircraft consolidated from VIEs	2,613	2,938
	7,182	6,440
Accumulated depreciation	1,337	1,181
Aircraft leasing portfolio, net	$5,845	$5,259

As of December 31, 2011, domestic and foreign future minimum rentals scheduled to be received under the noncancelable portion of operating leases are as follows (*In Millions*):

	2012	2013	2014	2015	2016	Thereafter
Domestic	$64	$63	$61	$52	$48	$186
Foreign	537	435	379	306	248	489
Total operating leases	$601	$498	$440	$358	$296	$675

Included in the table above are three aircraft ACG has subleased to airlines with lease maturity dates of July 2021, March 2023 and April 2024 with total future rentals of $148 million. The revenue related to these aircraft, included in aircraft leasing revenue, was $11 million and $1 million for the years ended December 31, 2011 and 2010, respectively. There were no sublease revenues for the year ended December 31, 2009. These aircraft were sold to third-parties and subsequently leased back with lease maturity dates of March 2023 and December 2025. See Note 21 for the future lease commitments and minimum rentals to be received related to these sale leaseback transactions.

As of December 31, 2011 and 2010, aircraft with a carrying amount of $4,317 million and $4,802 million, respectively, were assigned as collateral to secure debt (Notes 4 and 13).

During the years ended December 31, 2011, 2010 and 2009, ACG recognized aircraft impairments of $15 million, $4 million and zero, respectively, which are included in operating and other expenses.

The Company had four and five non-earning aircraft in the portfolio as of December 31, 2011 and 2010, respectively.

During the years ended December 31, 2011, 2010 and 2009, ACG recognized pre-tax gains on the sale of aircraft of $33 million, $18 million and zero, respectively, which are included in other income. Aircraft held for sale totaled $6 million and $4 million as of December 31, 2011 and 2010, respectively, and are included in aircraft leasing portfolio, net.

See Note 21 for future aircraft purchase commitments.

10. DERIVATIVES AND HEDGING ACTIVITIES

The Company primarily utilizes derivative instruments to manage its exposure to interest rate risk, foreign currency risk, credit risk, and equity risk. Derivative instruments are also used to manage the duration mismatch of assets and liabilities. The Company utilizes a variety of derivative instruments including swaps 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 consolidated statement 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.

The Company developed a pattern of forecasted transactions that did not occur as originally forecasted, and as a result, derivative instruments in the Company's insurance operations previously designated as cash flow hedges should have been reported as derivatives not designated as hedging instruments during 2010. The impact of the discontinuance of cash flow hedge accounting was insignificant to the consolidated financial statements as of and for the year ended December 31, 2010, and therefore, the consolidated financial statements and footnote disclosures as of and for the year ended December 31, 2010 were not revised.

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 GLBs are considered embedded derivatives and are recorded in future policy benefits.

GLBs on variable annuity contracts issued between January 1, 2007 and March 31, 2009 are partially covered by reinsurance. These reinsurance arrangements are used to offset a portion of the Company's exposure to the GLBs for the lives of the host variable annuity contracts issued. The ceded portion of the GLBs is considered an embedded derivative and is recorded as a component of net reinsurance recoverable in other assets.

The Company employs hedging strategies (variable annuity derivatives) to mitigate equity risk associated with the GLBs not covered by reinsurance. The Company utilizes total return swaps based upon the S&P 500 Index (S&P 500) primarily to economically hedge the equity risk of the mortality and expense fees in its variable annuity products. These contracts provide periodic payments to the Company in exchange for the total return and changes in fair value of the S&P 500 in the form of a payment or receipt, depending on whether the return relative to the index on trade date is positive or negative, respectively. Payments and receipts are recognized in net realized investment gain (loss).

The Company also uses equity put options to hedge equity and credit risks. These equity put options involve the exchange of periodic fixed rate payments for the return, at the end of the option agreement, of the equity index below a specified strike price. Generally, no cash is exchanged at the outset of the contract and no principal payments are made by either party.

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

Financial futures contracts obligate the holder to buy or sell the underlying financial instrument at a specified future date for a set price and may be settled in cash or by delivery of the financial instrument. Price changes on futures are settled daily through the required margin cash flows. As part of its asset/liability management, the Company generally utilizes futures contracts to manage its interest rate and market risk related to bonds. Future contracts have limited off-balance sheet credit risk as they are executed on organized exchanges and require security deposits, as well as daily cash settlement of margins.

The Company offers indexed universal life insurance products, which credit the price return of an underlying index to the policy cash value. A policyholder may allocate the policy's net accumulated value to one or a combination of the following: fixed return account, one year S&P 500 indexed account capped at 13%, two year S&P 500 index account capped at 32%, five year S&P 500 indexed account, or one year global index account capped at 13%. The indexed products contain embedded derivatives and are recorded in policyholder account balances.

The Company utilizes call options to hedge the credit paid to the policy on the underlying index. 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 and the settlements will be recognized in net realized investment gain (loss).

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

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

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

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

	Notional Amount December 31, 2011	2010
	(In Millions)	
Variable annuity GLB embedded derivatives	$38,960	$37,147
Variable annuity GLB reinsurance contracts	14,744	15,117
Variable annuity derivatives - total return swaps	3,666	2,891
Equity put options	6,133	5,285
Synthetic GICs	21,593	22,402
Foreign currency and interest rate swaps	8,020	568
Forward starting interest rate swaps	1,140	
Futures	1,400	
Other	2,084	1,438

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 consolidated statements of financial condition. Notional amounts generally represent those amounts used to calculate contractual cash flows to be exchanged and are not paid or received, except for certain contracts such as currency swaps.

The 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 of $418 million, $560 million and $1,476 million for the years ended December 31, 2011, 2010 and 2009, respectively, which are recognized in net realized investment gain (loss).

	Amount of Gain (Loss) Recognized in Income on Derivatives Years Ended December 31, 2011	2010	2009
	(In Millions)		
Derivatives not designated as hedging instruments:			
Variable annuity derivatives - interest rate swaps			($168)
Variable annuity derivatives - total return swaps	($121)	($84)	(102)
Equity put options	252	(60)	(580)
Foreign currency and interest rate swaps	170 (1)		7
Forward starting interest rate swaps	281		
Other	34	39	27
Embedded derivatives:			
Variable annuity GLB embedded derivatives (including reinsurance contracts)	(1,191)	185	2,211
Other	23	(23)	(14)
Total	($552)	$57	$1,381

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

DERIVATIVES DESIGNATED AS CASH FLOW HEDGES

The Company primarily uses foreign currency interest rate swaps, forward starting interest rate swaps and interest rate swaps to manage its exposure to variability in cash flows due to changes in foreign currencies and the benchmark interest rate. These cash flows include those associated with existing assets and liabilities, as well as the forecasted interest cash flows related to anticipated investment purchases and liability issuances. Such anticipated cash flows in the non-insurance company operations are considered probable to occur and are generally completed within 24 years of the inception of the hedge.

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 years ended December 31, 2011, 2010 and 2009, hedge ineffectiveness related to designated cash flow hedges reflected in net realized investment gain (loss) was immaterial.

For the year ended December 31, 2011, the Company reclassified a gain, net of tax, of $12 million from accumulated other comprehensive income (loss) (AOCI) to earnings resulting from the discontinuance of cash flow hedges due to forecasted transactions that were no longer probable of occurring. Amounts reclassified from AOCI to earnings resulting from the discontinuance of cash flow hedges due to forecasted cash flows that were no longer probable of occurring for the years ended December 31, 2010 and 2009 were immaterial. Over the next twelve months, the Company anticipates that $12 million of deferred losses, net of tax, on derivative instruments in AOCI will be reclassified to earnings consistent with when the hedged forecasted transaction affects earnings. For the year ended December 31, 2011, all of the non-insurance company operation's (primarily ACG) hedged forecasted transactions for outstanding cash flow hedges were determined to be probable of occurring.

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

	Notional Amount	
	December 31,	
	2011	2010
	(In Millions)	
Foreign currency and interest rate swaps	$1,531	$7,644
Forward starting interest rate swaps		1,140

The following table summarizes amounts recognized in OCI for changes in estimated fair value for derivatives designated as cash flow hedges. The amounts presented do not include the periodic net settlements of the derivatives.

	Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)		
	Years Ended December 31,		
	2011	2010	2009
	(In Millions)		
Derivatives in cash flow hedges:			
Foreign currency and interest rate swaps	$5	($14)	$108
Forward starting interest rate swaps		29	(254)
Total	$5	$15	($146)

DERIVATIVES DESIGNATED AS FAIR VALUE HEDGES

Interest rate swap agreements are used to convert a U.S. dollar denominated fixed rate asset or liability to a floating U.S. dollar denominated rate to hedge the changes in estimated fair value of the hedged asset or liability due to changes in benchmark interest rates. These derivatives are used primarily to closely match the duration of the assets supporting specific liabilities. Pacific Life also used interest rate swaps to convert fixed rate surplus notes to variable notes (Note 13). The Company had outstanding derivatives designated as fair value hedges with notional amounts for foreign currency and interest rate swaps of zero and $1,592 million as of December 31, 2011 and 2010, respectively.

The following table summarizes amounts recognized in net realized investment gain (loss) for derivatives designated as fair value hedges. Gains and losses include the changes in estimated fair value of the derivatives as well as the offsetting gain or loss on the hedged item attributable to the hedged risk. The Company includes the gain or loss on the derivative in the same line item as the offsetting gain or loss on the hedged item. The amounts presented do not include the periodic net settlements of the derivatives or the income (expense) related to the hedged item.

	Gain (Loss) Recognized in Income on Derivatives			Gain (Loss) Recognized in Income on Hedged Items		
	Years Ended December 31,			Years Ended December 31,		
	2011	2010	2009	2011	2010	2009
	(In Millions)			*(In Millions)*		
Derivatives in fair value hedges:						
Interest rate swaps	$328	$85	$97	($334)	($98)	($93)
Total	$328	$85	$97	($334)	($98)	($93)

For the years ended December 31, 2011, 2010 and 2009, hedge ineffectiveness related to designated fair value hedges reflected in net realized investment gain (loss) was ($6) million, ($13) million and $4 million, respectively. No component of the hedging instrument's estimated fair value is excluded from the determination of effectiveness.

CONSOLIDATED FINANCIAL STATEMENT IMPACT

Derivative instruments are recorded on the Company's 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 14.

	Asset Derivatives Estimated Fair Value			Liability Derivatives Estimated Fair Value		
	December 31,			December 31,		
	2011	2010		2011	2010	
	(In Millions)			(In Millions)		
Derivatives designated as hedging instruments:						
Foreign currency and interest rate swaps		$326	(1)		$308	(1)
		18	(5)	$111	326	(5)
Forward starting interest rate swaps		51	(1)		1	(1)
		20	(5)			
Total derivatives designated as hedging instruments	-	415		111	635	
Derivatives not designated as hedging instruments:						
Variable annuity derivatives - total return swaps	$1		(1)	63	41	(1)
				2	33	(5)
Equity put options	543	254	(1)	2	15	(1)
		33	(5)		13	(5)
Foreign currency and interest rate swaps	332	30	(1)	242	4	(1)
	8	1	(5)	104		(5)
Forward starting interest rate swaps	293		(1)			
	29		(5)			
Other	35	29	(1)	29	23	(1)
	2	15	(5)			
Embedded derivatives:						
Variable annuity GLB embedded derivatives (including reinsurance contracts)	230	25	(2)	1,938	542	(3)
Other				67	76	(4)
Total derivatives not designated as hedging instruments	1,473	387		2,447	747	
Total derivatives	$1,473	$802		$2,558	$1,382	

Location on the consolidated statements of financial condition:

(1) Other investments (2) Other assets (3) Future policy benefits (4) Policyholder account balances (5) Other liabilities

Cash collateral received from counterparties was $658 million and $251 million as of December 31, 2011 and 2010, 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 $36 million and $145 million as of December 31, 2011 and 2010, respectively. A receivable representing the right to call this collateral back from the counterparty is netted against the estimated fair value of derivatives in other investments or other liabilities. If the net estimated fair value of the exposure to the counterparty is positive, the amount is reflected in other investments, whereas, if the net estimated fair value of the exposure to the counterparty is negative, the estimated fair value is included in other liabilities.

As of December 31, 2011 and 2010, the Company had also accepted collateral consisting of various securities with an estimated fair value of $77 million and $36 million, respectively, which are held in separate custodial accounts. The Company is permitted by contract to sell or repledge this collateral and as of December 31, 2011 and 2010, none of the collateral had been repledged. As of December 31, 2011 and 2010, the Company provided collateral in the form of various securities with an estimated fair value of $1 million and $15 million, respectively, which are included in fixed maturity securities. The counterparties are permitted by contract to sell or repledge this collateral.

CREDIT EXPOSURE AND CREDIT RISK RELATED CONTINGENT FEATURES

Credit exposure is measured on a counterparty basis as the net positive aggregate estimated fair value, net of collateral received, if any. The credit exposure for over the counter derivatives as of December 31, 2011 was $137 million. The maximum exposure to any single counterparty was $21 million at December 31, 2011.

For all derivative contracts, excluding embedded derivative contracts such as variable annuity GLBs and synthetic GICs, the Company enters into master agreements that may include a termination event clause associated with 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 December 31, 2011, the Company's financial strength ratings were above the specified level.

The Company enters into 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. Certain of these arrangements include credit-contingent provisions that provide for a reduction of these 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 December 31, 2011, is $81 million for which the Company has posted collateral of $36 million in the normal course of business. If certain of the Company's financial strength ratings were to fall one notch as of December 31, 2011, the Company would have been required to post an additional $15 million of collateral to its counterparties.

The Company attempts to limit its credit exposure by dealing with creditworthy counterparties, establishing risk control limits, executing legally enforceable master netting agreements, and obtaining collateral where appropriate. In addition, each counterparty is reviewed to evaluate its financial stability before entering into each agreement and throughout the period that the financial instrument is owned. All of the Company's credit exposure from derivative contracts is with investment grade counterparties.

11. POLICYHOLDER LIABILITIES

POLICYHOLDER ACCOUNT BALANCES

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

	December 31,	
	2011	2010
	(In Millions)	
UL	$20,941	$20,098
Annuity and deposit liabilities	9,162	8,335
Funding agreements	3,178	4,618
GICs	1,111	2,025
Total	$34,392	$35,076

FUTURE POLICY BENEFITS

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

	December 31, 2011	December 31, 2010
	(In Millions)	
Annuity reserves	$5,572	$4,926
Variable annuity GLB embedded derivatives	1,936	542
Policy benefits payable	741	363
Life insurance	591	411
Closed Block liabilities	300	303
URR	289	510
Other	38	25
Total	$9,467	$7,080

12. SEPARATE ACCOUNTS AND VARIABLE ANNUITY GUARANTEED BENEFIT FEATURES

The Company issues variable annuity contracts through separate accounts for which investment income and investment gains and losses accrue directly to, and investment risk is borne by, the contract holder (traditional variable annuities). These contracts also include various types of GMDB and GLB features. For a discussion of certain GLBs accounted for as embedded derivatives, see Note 10.

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

The guaranteed minimum income benefit (GMIB) is a GLB that provides the contract holder with a guaranteed annuitization value after 10 years. Annuitization value is generally based on deposits adjusted for withdrawals plus a minimum return. In general, the GMIB requires contract holders to invest in an approved asset allocation strategy.

In 2011, the Company began offering variable annuity contracts with guaranteed minimum withdrawal benefits for life (GMWBL) features. The GMWBL is a GLB that provides, subject to certain restrictions, a percentage of a contract holder’s guaranteed payment base will be available for withdrawal for life starting at age 59.5, regardless of market performance. The rider terminates upon death of the contract holder or their spouse if a spousal form of the rider is purchased. Outstanding GMWBL features were not significant at December 31, 2011.

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

	December 31, 2011	December 31, 2010
	($ In Millions)	
Return of net deposits		
Separate account value	$45,720	$49,673
Net amount at risk [(1)]	2,311	1,738
Average attained age of contract holders	63 years	61 years
Anniversary contract value		
Separate account value	$14,832	$16,814
Net amount at risk [(1)]	1,664	1,299
Average attained age of contract holders	64 years	62 years
Minimum return		
Separate account value	$1,040	$1,211
Net amount at risk [(1)]	555	505
Average attained age of contract holders	67 years	65 years

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

Information regarding GMIB features outstanding is as follows:

	December 31, 2011	December 31, 2010
	($ In Millions)	
Separate account value	$2,345	$2,744
Average attained age of contract holders	59 years	57 years

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

	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
	GMDB		GMIB	
	(In Millions)		*(In Millions)*	
Balance, beginning of year			$43	$38
Changes in reserves	$26	$42	39	14
Benefits paid	(26)	(42)	(4)	(9)
Balance, end of year	-	-	$78	$43

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

	December 31, 2011	December 31, 2010
	(In Millions)	
Asset type		
Domestic equity	$22,908	$26,290
International equity	6,272	6,447
Bonds	16,137	16,484
Money market	403	452
Total separate account value	$45,720	$49,673

13. DEBT

Debt consists of the following:

	December 31, 2011	December 31, 2010
	(In Millions)	
Long-term debt:		
Surplus notes	$1,600	$1,600
Deferred gains from derivative hedging activities	417	
Fair value adjustment for derivative hedging activities		84
Non-recourse long-term debt:		
Debt recourse only to ACG	3,332	2,499
ACG non-recourse debt	550	621
Other non-recourse debt	103	120
ACG VIE debt (Note 4)	1,130	1,587
Other VIE debt (Note 4)	20	5
Total long-term debt	$7,152	$6,516

SHORT-TERM DEBT

Pacific Life maintains a $700 million commercial paper program. There was no commercial paper debt outstanding as of December 31, 2011 and 2010. Pacific Life replaced a bank revolving credit facility of $400 million in November 2011 that was scheduled to mature in 2012 and served as a back-up line of credit for the commercial paper program, with a new bank revolving credit facility of $400 million maturing in November 2016 that will serve as a back-up line of credit to the commercial paper program. These facilities had no debt outstanding as of December 31, 2011 and 2010. As of and during the year ended December 31, 2011, 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 December 31, 2011 and 2010.

Pacific Life has approval from the FHLB of Topeka to receive advances up to 40% of Pacific Life's statutory general account assets provided it has available collateral and is in compliance with debt covenant restrictions and insurance laws and regulations. There was no debt outstanding with the FHLB of Topeka as of December 31, 2011 and 2010. The Company had no additional funding capacity from eligible collateral as of December 31, 2011 and 2010.

PL&A is eligible to borrow from the FHLB of San Francisco amounts based on a percentage of statutory capital and surplus and could borrow up to amounts of $121 million. Of this amount, half, or $60.5 million, can be borrowed for terms other than overnight, out to a maximum term of nine months. These borrowings are at variable rates of interest, collateralized by certain mortgage loan and government securities. As of December 31, 2011 and 2010, PL&A had no debt outstanding with the FHLB of San Francisco.

ACG has a revolving credit agreement with a bank for a $200 million borrowing facility. Interest is at variable rates and the facility matures in October 2013. There was no debt outstanding in connection with this revolving credit agreement as of December 31, 2011 and 2010. This credit facility is recourse only to ACG.

LONG-TERM DEBT

In June 2009, Pacific Life issued $1.0 billion of surplus notes at a fixed interest rate of 9.25%, maturing on June 15, 2039. Interest is payable semiannually on June 15 and December 15. Pacific Life may redeem the 9.25% surplus notes at its option, subject to the approval of the Nebraska Director of Insurance for such optional redemption. The 9.25% surplus notes are unsecured and subordinated to all present and future senior indebtedness and policy claims of Pacific Life. All future payments of interest and principal on the 9.25% surplus notes can be made only with the prior approval of the Nebraska Director of Insurance. The Company entered into interest rate swaps converting the 9.25% surplus notes to variable rate notes based upon the London InterBank Offered Rate (LIBOR). The interest rate swaps were designated as fair value hedges of these surplus notes and the changes in fair value of the hedged surplus notes associated with changes in interest rates were reflected as an adjustment to their carrying amount. This fair value adjustment to the carrying amount of the 9.25% surplus notes, which increased long-term debt by $53 million as of December 31, 2010 was offset by an estimated fair value adjustment which was also recorded for the interest rate swap derivative instruments. 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 $364 million will be amortized over the remaining life of the surplus notes using the effective interest method. Total unamortized deferred gains are $362 million as of December 31, 2011.

Pacific Life has $150 million of surplus notes outstanding at a fixed interest rate of 7.9%, maturing on December 30, 2023. Interest is payable semiannually on June 30 and December 30. The 7.9% surplus notes may not be redeemed at the option of Pacific Life or any holder of the surplus notes. The 7.9% surplus notes are unsecured and subordinated to all present and future senior indebtedness and policy claims of Pacific Life. All future payments of interest and principal on the 7.9% surplus notes can be made only with the prior approval of the Nebraska Director of Insurance. The Company entered into interest rate swaps converting these surplus notes to variable rate notes based upon the LIBOR. The interest rate swaps were designated as fair value hedges of these surplus notes and the changes in estimated fair value of the hedged surplus notes associated with changes in interest rates were reflected as an adjustment to their carrying amount. This fair value adjustment to the carrying amount of the 7.9% surplus notes, which increased long-term debt by $31 million as of December 31, 2010 was offset by an estimated fair value adjustment which was also recorded for the interest rate swap derivative instruments. 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 the surplus notes using the effective interest method. Total unamortized deferred gains are $55 million as of December 31, 2011.

In March 2010, the Nebraska Director of Insurance approved the issuance of an internal surplus note by Pacific Life to Pacific LifeCorp for $450 million. Pacific Life is required to pay Pacific LifeCorp interest on the internal surplus note semiannually on February 5 and August 5 at a fixed annual rate of 6.0%. All future payments of interest and principal on the internal surplus note can be made only with the prior approval of the Nebraska Director of Insurance. The internal surplus note matures on February 5, 2020.

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 0.7% to 4.4% as of December 31, 2011 and from 0.4% to 4.5% as of December 31, 2010. As of December 31, 2011, $1,455 million was outstanding on these loans with maturities ranging from 2014 to 2023. Principal payments due over the next twelve months are $120 million. As of December 31, 2010, $1,524 million was outstanding on these loans. These loans are recourse only to ACG.

ACG enters into various senior unsecured loans with third-parties. Interest on these loans is payable monthly, quarterly or semi-annually and ranged from 2.0% to 7.2% as of December 31, 2011 and from 5.7% to 7.2% as of December 31, 2010. As of December 31, 2011, $1,813 million was outstanding on these loans with maturities ranging from 2012 to 2021. Principal payments over the next twelve months are $120 million. As of December 31, 2010, $975 million was outstanding on these loans. These loans are recourse only to ACG.

ACG enters into various secured bank loans to finance aircraft orders and deposits. Interest on these loans is payable monthly and was 2.0% as of December 31, 2011. As of December 31, 2011, $64 million was outstanding on these loans with maturities ranging from 2012 to 2013. Principal payments due over the next twelve months are $47 million. As of December 31, 2010, there was no amount outstanding on these loans. These loans are recourse only to ACG.

ACG enters into various acquisition facilities and bank loans to acquire aircraft. Interest on these facilities and loans accrues at variable rates, is payable monthly and ranged from 2.8% to 3.3% as of December 31, 2011 and from 1.6% to 3.3% as of December 31, 2010. As of December 31, 2011, $550 million was outstanding on these facilities and loans with maturities ranging from 2013 to 2014. As of December 31, 2010, $621 million was outstanding on these facilities and loans. These facilities and loans are non-recourse to the Company.

Certain subsidiaries of Pacific Asset Holding LLC, a wholly owned subsidiary of Pacific Life, entered 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 December 31, 2011 and ranged from 5.8% to 6.2% as of December 31, 2010. Variable rates ranged from 1.5% to 4.0% as of December 31, 2011 and 1.4% to 2.0% as of December 31, 2010. As of December 31, 2011, there was $103 million outstanding on these loans with maturities ranging from 2012 to 2017. Principal payments due over the next twelve months are $54 million. As of December 31, 2010, there was $120 million outstanding on these loans. During the year ended December 31, 2011, one of these loans totaling $32 million was returned in foreclosure. All of these loans are secured by real estate properties and are non-recourse to the Company.

14. 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 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 by models using inputs that are derived principally from or corroborated by observable market data.

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

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

The following tables present, by estimated fair value hierarchy level, the Company's financial assets and liabilities that are carried at estimated fair value as of December 31, 2011 and 2010.

	Level 1	Level 2	Level 3	Gross Derivatives Estimated Fair Value	Netting Adjustments [1]	Total
				(In Millions)		
December 31, 2011:						
Assets:						
U.S. Treasury securities		$35				$35
Obligations of states and political subdivisions		1,170	$9			1,179
Foreign governments		422	81			503
Corporate securities		19,875	1,617			21,492
RMBS		3,137	1,036			4,173
CMBS		520	251			771
Collateralized debt obligations		4	111			115
Other asset-backed securities		289	296			585
Total fixed maturity securities	-	25,452	3,401			28,853
Perpetual preferred securities		202	26			228
Other equity securities	$73					73
Total equity securities	73	202	26			301
Trading securities	89	91	35			215
Other investments			54			54
Derivatives:						
Foreign currency and interest rate swaps		340		$340	($250)	90
Forward starting interest rate swaps		322		322	(29)	293
Equity derivatives			544	544	(65)	479
Embedded derivatives			230	230		230
Other		4	33	37	(31)	6
Total derivatives	-	666	807	1,473	(375)	1,098
Separate account assets [2]	51,184	128	113			51,425
Total	$51,346	$26,539	$4,436	$1,473	($375)	$81,946
Liabilities:						
Derivatives:						
Foreign currency and interest rate swaps		$457		$457	($250)	$207
Forward starting interest rate swaps					(29)	(29)
Equity derivatives			$67	67	(65)	2
Embedded derivatives			2,005	2,005		2,005
Other		1	28	29	(31)	(2)
Total	-	$458	$2,100	$2,558	($375)	$2,183

	Level 1	Level 2	Level 3	Gross Derivatives Estimated Fair Value	Netting Adjustments [1]	Total
				(In Millions)		
December 31, 2010:						
Assets:						
U.S. Treasury securities		$920				$920
Obligations of states and political subdivisions		886	$39			925
Foreign governments		412	70			482
Corporate securities		18,040	1,628			19,668
RMBS		3,573	1,068			4,641
CMBS		757	254			1,011
Collateralized debt obligations		5	115			120
Other asset-backed securities		266	280			546
Total fixed maturity securities	-	24,859	3,454			28,313
Perpetual preferred securities		263	12			275
Other equity securities	$3		1			4
Total equity securities	3	263	13			279
Trading securities	91	192	66			349
Other investments			173			173
Derivatives:						
Foreign currency and interest rate swaps		371	4	$375	($331)	44
Forward starting interest rate swaps		71		71	(21)	50
Equity derivatives			287	287	(89)	198
Embedded derivatives			25	25		25
Other		4	40	44	(38)	6
Total derivatives	-	446	356	802	(479)	323
Separate account assets [2]	55,438	123	100			55,661
Total	$55,532	$25,883	$4,162	$802	($479)	$85,098
Liabilities:						
Derivatives:						
Foreign currency and interest rate swaps		$638		$638	($331)	$307
Forward starting interest rate swaps		1		1	(21)	(20)
Equity derivatives			$102	102	(89)	13
Embedded derivatives			618	618		618
Other			23	23	(38)	(15)
Total	-	$639	$743	$1,382	($479)	$903

(1) Netting adjustments represent the impact of offsetting asset and liability positions on the consolidated statement 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 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.

ESTIMATED FAIR VALUE MEASUREMENT

The Codification's Fair Value Measurements and Disclosures Topic defines estimated fair value as the price that would be received to sell the asset or paid to transfer the liability at the measurement date. This "exit price" notion is a market-based measurement that requires a focus on the value that market participants would assign for an asset or liability.

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

FIXED MATURITY, EQUITY AND TRADING SECURITIES

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

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

Where matrix model pricing is not used, particularly for RMBS and other asset-backed securities, estimated fair values are determined by evaluating prices from third-party pricing services and independent brokers or other internally derived valuation models are utilized. The inputs used to measure estimated fair value in the internal valuations include, but are not limited to, benchmark yields, issuer spreads, bids, offers, reported trades, and estimated projected cash flows that incorporate significant inputs such as defaults and delinquency rates, severity, subordination, vintage and prepayment speeds.

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

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

OTHER INVESTMENTS

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

DERIVATIVE INSTRUMENTS

Derivative instruments are reported at estimated fair value using pricing valuation models, which utilize market data inputs or independent broker quotations. Excluding embedded derivatives, as of December 31, 2011, 99% of derivatives based upon notional values were priced by valuation models. The remaining derivatives were priced by broker quotations. The derivatives are valued using mid-market inputs that are predominantly observable in the market. Inputs used to value derivatives include, but are not limited to, interest swap rates, foreign currency forward and spot rates, credit spreads and correlations, interest volatility, equity volatility and equity index levels. In accordance with the Codification's Fair Value Measurements and Disclosures Topic, a credit valuation analysis was performed for all derivative positions to measure the risk that the counterparties to the transaction will be unable to perform under the contractual terms (nonperformance risk) and was determined to be immaterial as of December 31, 2011.

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

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

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

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

VARIABLE ANNUITY GLB EMBEDDED DERIVATIVES

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

Estimated fair value is calculated as an aggregation of estimated fair value and additional risk margins including Behavior Risk Margin, Mortality Risk Margin and Credit Standing Adjustment. The resulting aggregation is reconciled or calibrated, if necessary, to market information that is, or may be, available to the Company, but may not be observable by other market participants, including reinsurance discussions and transactions. Each of the components described below are unobservable in the market place and requires subjectivity by the Company in determining their value.

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

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

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

SEPARATE ACCOUNT ASSETS

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

LEVEL 3 RECONCILIATION

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

	January 1, 2011	Total Gains or Losses: Included in Earnings	Total Gains or Losses: Included in OCI	Transfers In and/or Out of Level 3 [1]	Purchases	Sales	Settlements	December 31, 2011
				(In Millions)				
Obligations of states and political subdivisions	$39		$3	($33)				$9
Foreign governments	70			14			($3)	81
Corporate securities	1,628	($6)	14	(2)	$366	($164)	(219)	1,617
RMBS	1,068	(66)	55	141	17	(12)	(167)	1,036
CMBS	254		3		47		(53)	251
Collateralized debt obligations	115	3	(2)				(5)	111
Other asset-backed securities	280	2	7	2	31		(26)	296
Total fixed maturity securities [2]	3,454	(67)	80	122	461	(176)	(473)	3,401
Perpetual preferred securities	12			14				26
Other equity securities	1			(1)				-
Total equity securities [2]	13	-	-	13	-	-	-	26
Trading securities [2]	66			(2)	20	(4)	(45)	35
Other investments [2]	173	34	(12)		2	(143)		54
Derivatives, net:								
Foreign currency and interest rate swaps	4			(4)				-
Equity derivatives	185	91			81		120	477
Embedded derivatives	(593)	(1,167)			(52)		37	(1,775)
Other	17	26		(1)			(37)	5
Total derivatives	(387)	(1,050)	-	(5)	29	-	120	(1,293)
Separate account assets [3]	100	2		1	11		(1)	113
Total	$3,419	($1,081)	$68	$129	$523	($323)	($399)	$2,336

	January 1, 2010	Total Gains or Losses: Included in Earnings	Total Gains or Losses: Included in OCI	Transfers In and/or Out of Level 3 [(1)]	Purchases, Sales, Issuances, and Settlements	December 31, 2010
			(In Millions)			
U.S. Treasury securities	$6				($6)	
Obligations of states and political subdivisions	34	$4	($7)	($4)	12	$39
Foreign governments	108		7	(43)	(2)	70
Corporate securities	2,287	38	25	(547)	(175)	1,628
RMBS	3,650	(44)	500	(2,407)	(631)	1,068
CMBS	327		20	(59)	(34)	254
Collateralized debt obligations	104	5	7	2	(3)	115
Other asset-backed securities	235		7	65	(27)	280
Total fixed maturity securities [(2)]	6,751	3	559	(2,993)	(866)	3,454
Perpetual preferred securities	70		3	(42)	(19)	12
Other equity securities			1			1
Total equity securities [(2)]	70	-	4	(42)	(19)	13
Trading securities [(2)]	29	2		27	8	66
Other investments [(2)]	163		6		4	173
Derivatives, net:						
Foreign currency and interest rate swaps	3		1			4
Equity derivatives	282	(173)			76	185
Embedded derivatives	(746)	162			(9)	(593)
Other	14	22			(19)	17
Total derivatives	(447)	11	1	-	48	(387)
Separate account assets [(3)]	101	6			(7)	100
Total	$6,667	$22	$570	($3,008)	($832)	$3,419

(1) Transfers in and/or out are recognized at the end of each quarterly reporting period.
(2) Amounts included in earnings are recognized either in net investment income or net realized investment gain (loss).
(3) The realized/unrealized gains (losses) included in net income for separate account assets are offset by an equal amount for separate account liabilities, which results in a net zero impact on net income for the Company.

During the year ended December 31, 2011, the Company transferred $884 million of fixed maturity securities out of Level 2 and into Level 3, and transferred $762 million of fixed maturity securities out of Level 3 and into Level 2. The net transfers into Level 3 were primarily attributable to the decreased availability and use of market observable inputs to estimate fair value. During the year ended December 31, 2011, the Company did not have any significant transfers between Level 1 and Level 2.

During the year ended December 31, 2010, the Company transferred $923 million of fixed maturity securities out of Level 2 and into Level 3, and transferred $3,916 million of fixed maturity securities out of Level 3 and into Level 2. The net transfers into Level 2 were primarily attributable to the increased use of market observable inputs to estimate fair value for non-agency RMBS. During the first three quarters of 2010, the Company utilized an internally developed weighting of valuations for non-agency RMBS which were reported as Level 3 securities. In the fourth quarter of 2010, the Company determined that there had been an increase in the volume and level of trading activity for these securities and utilized prices obtained from third-party pricing services. As a result, these securities were transferred out of Level 3 and classified as Level 2 securities. During the year ended December 31, 2010, the Company did not have any significant transfers between Level 1 and 2.

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.

	December 31, 2011	December 31, 2010
	(In Millions)	
Corporate securities [1]		($2)
Derivatives, net: [1]		
Equity derivatives	$206	249
Embedded derivatives	(1,165)	164
Other	9	13
Total derivatives	(950)	426
Separate account assets [2]	2	7
Total	($948)	$431

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

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 year and still held at the reporting date.

	Year Ended December 31, 2011			Year Ended December 31, 2010		
	Carrying Value Prior to Measurement	Estimated Fair Value After Measurement	Net Investment Loss	Carrying Value Prior to Measurement	Estimated Fair Value After Measurement	Net Investment Loss
			(In Millions)			
Mortgage loans	$8	$3	($5)			
Real estate investments	8	7	(1)	$69	$42	($27)
Aircraft	51	36	(15)	24	20	(4)

MORTGAGE LOANS

During the year ended December 31, 2011, the Company recognized an impairment of $5 million, which is included in OTTIs and is related to two commercial mortgage loans, which are currently in the process of foreclosure. The estimated fair value after measurement is based on the underlying real estate collateral of the two loans. These write-downs to estimated fair value represent nonrecurring fair value measurements that have been classified as Level 3 due to the limited activity and lack of price transparency inherent in the market for such investments.

REAL ESTATE INVESTMENTS

During the years ended December 31, 2011 and 2010, the Company recognized impairments of $1 million and $27 million, respectively, which are included in OTTIs. The impaired investments presented above were accounted for using the cost basis. Real estate investments are evaluated for impairment based on the undiscounted cash flows expected to be received during the estimated holding period. When the undiscounted cash flows are less than the current carrying value of the property (gross cost less accumulated depreciation), the property may be considered impaired and written-down to its estimated fair value. Estimated fair value is determined using a combination of the present value of the expected future cash flows and comparable sales. These write-downs to estimated fair value represent nonrecurring fair value measurements that have been classified as Level 3 due to the limited activity and lack of price transparency inherent in the market for such investments.

AIRCRAFT

During the years ended December 31, 2011 and 2010, the Company recognized impairments of $15 million and $4 million, respectively, which are included in operating and other expenses, as a result of declines in the estimated future cash flows to be received from five and two aircraft, respectively. The Company evaluates carrying values of aircraft based upon changes in market and other physical and economic conditions and records write-offs to recognize losses in the value of aircraft when management believes that, based on future estimated cash flows, the recoverability of the Company's investment in an aircraft has been impaired. The estimated fair value is based on the present value of the future cash flows, which include contractual lease agreements, projected future lease payments as well as a disposition value. Projected future lease payments are based upon current contracted lease rates for similar aircraft and industry trends. The disposition value reflects an aircraft's estimated residual value or estimated sales price. The cash flows were 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 December 31, 2011 and 2010. The Company has not made any changes in the valuation methodologies for nonfinancial assets and liabilities.

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

	December 31, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In Millions)			
Assets:				
Mortgage loans	$7,596	$7,818	$6,693	$6,906
Policy loans	6,812	6,812	6,690	6,690
Other invested assets	193	218	183	190
Cash and cash equivalents	2,829	2,829	2,270	2,270
Restricted cash	280	280	214	214
Liabilities:				
Funding agreements and GICs (1)	4,284	4,632	6,635	7,127
Annuity and deposit liabilities	9,162	9,162	8,335	8,335
Long-term debt	7,152	7,072	6,516	6,775

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

The following methods and assumptions were used to estimate the fair value of these financial instruments as of December 31, 2011 and 2010:

MORTGAGE LOANS

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

POLICY LOANS

Policy loans are not separable from their associated insurance contract and bear no credit risk since they do not exceed the contract's cash surrender value, making these assets fully secured by the cash surrender value of the contracts. Therefore, the carrying amount of the policy loans is a reasonable approximation of their fair value.

OTHER INVESTED ASSETS

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

CASH AND CASH EQUIVALENTS

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

RESTRICTED CASH

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

FUNDING AGREEMENTS AND GICs

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

ANNUITY AND DEPOSIT LIABILITIES

Annuity and deposit liabilities primarily includes policyholder deposits and accumulated credited interest. The estimated fair value of annuity and deposit liabilities approximates carrying value based on an analysis of discounted future cash flows with maturities similar to the product portfolio liabilities.

LONG-TERM DEBT

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

15. OTHER COMPREHENSIVE INCOME

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

	Years Ended December 31,		
	2011	2010	2009
	(In Millions)		
Unrealized gain (loss) on derivatives and securities available for sale, net:			
Gross holding gain (loss):			
Securities available for sale	$1,054	$1,272	$2,594
Derivatives	(9)	15	(146)
Income tax expense	(365)	(438)	(861)
Reclassification adjustment:			
Sale of securities available for sale - net realized investment gain	(106)	(139)	(13)
OTTI recognized on securities available for sale	137	75	271
Derivatives - net investment income	22		(1)
Derivatives - net realized investment gain	(18)		
Derivatives - interest credited	48	24	26
Income tax benefit	(29)	(1)	(98)
Allocation of holding gain to DAC	(94)	(255)	(415)
Allocation of holding gain (loss) to future policy benefits	(54)	41	85
Income tax expense	52	75	113
Cumulative effect of adoption of new accounting pronouncement			(263)
Income tax expense			93
Unrealized gain on derivatives and securities available for sale, net	638	669	1,385
Other, net:			
Holding gain (loss) on other securities	(12)	9	22
Income tax (expense) benefit	4	(4)	(8)
Net unrealized gain (loss) on other securities	(8)	5	14
Other, net of tax	(4)	(3)	33
Other, net	(12)	2	47
Total other comprehensive income, net	$626	$671	$1,432

16. REINSURANCE

Reinsurance receivables and payables generally include amounts related to claims, reserves and reserve related items. Reinsurance receivables, included in other assets, were $507 million and $326 million as of December 31, 2011 and 2010, respectively. Reinsurance payables, included in other liabilities, were $146 million and $47 million as of December 31, 2011 and 2010, respectively.

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

	Years Ended December 31,		
	2011	2010	2009
	(In Millions)		
Direct premiums	$1,051	$626	$666
Reinsurance assumed (1)	256	122	60
Reinsurance ceded (2)	(325)	(339)	(323)
Insurance premiums	$982	$409	$403

(1) Included are $18 million, $11 million and $4 million of assumed premiums from Pacific Life Re Limited (PLR), an affiliate of the Company and a wholly owned subsidiary of Pacific LifeCorp, for the years ended December 31, 2011, 2010 and 2009, respectively. PLR is incorporated in the United Kingdom (UK) and provides reinsurance to insurance and annuity providers in the UK, Ireland and to insurers in selected markets in Asia. Also included for the year ended December 31, 2010 is $59 million of assumed premiums from PAR Bermuda.

(2) Included are $21 million of reinsurance ceded to PAR Bermuda for the years ended December 31, 2010 and 2009.

17. EMPLOYEE BENEFIT PLANS

PENSION PLANS

Prior to December 31, 2007, Pacific Life provided a defined benefit pension plan (ERP) covering all eligible employees of the Company. The Company amended the ERP to terminate effective December 31, 2007. In September 2009, the Company received regulatory approval to commence the final termination of the ERP and payment of plan benefits to the participants. The Company completed the final distribution of plan assets to participants in December 2009. The Company recognized settlement costs of $72 million during the year ended December 31, 2009.

Pacific Life maintains supplemental employee retirement plans (SERPs) for certain eligible employees. As of December 31, 2011 and 2010, the projected benefit obligation was $46 million and $44 million, respectively. The fair value of plan assets as of December 31, 2011 and 2010 was zero. The net periodic benefit expense of the SERPs was $5 million, $5 million and $4 million for the years ended December 31, 2011, 2010 and 2009, respectively.

The Company incurred a net pension expense of $5 million, $5 million and $79 million for the years ended December 31, 2011, 2010 and 2009, respectively, as detailed in the following table:

	Years Ended December 31,					
	2011		2010		2009	
	ERP	SERP	ERP	SERP	ERP	SERP
	(In Millions)		(In Millions)		(In Millions)	
Components of the net periodic pension expense:						
Service cost - benefits earned during the year		$2		$2		$2
Interest cost on projected benefit obligation		2		2	$12	2
Expected return on plan assets					(12)	
Settlement costs					72	
Amortization of net loss, net obligations and prior service cost		1		1	3	
Net periodic pension expense	-	$5	-	$5	$75	$4

Significant plan assumptions:

	December 31, 2011	December 31, 2010
Weighted-average assumptions used to determine benefit obligations for the SERP:		
Discount rate	4.00%	4.75%
Salary rate	4.50%	4.50%

	Years Ended December 31, 2011	2010	2009
Weighed-average assumptions used to determine the ERP's net periodic pension expense:			
Discount rate	N/A	N/A	6.30%
Expected long-term return on plan assets	N/A	N/A	N/A

The salary rate used to determine the net periodic pension expense for the SERP was 4.50% for the years ended December 31, 2011, 2010 and 2009.

Pacific Life's expected SERP contribution payments are as follows for the years ending December 31 *(In Millions)*:

2012	2013	2014	2015	2016	2017-2021
$5	$4	$4	$4	$3	$14

RETIREMENT INCENTIVE SAVINGS PLAN

Pacific Life provides a Retirement Incentive Savings Plan (RISP) covering all eligible employees of Pacific LifeCorp and certain of its subsidiaries. The RISP matches 75% of each employee's contributions, up to a maximum of 6% of eligible employee compensation in cash. Contributions made by the Company to the RISP, including the matching contribution, amounted to $28 million, $27 million and $26 million for the years ended December 31, 2011, 2010 and 2009, respectively, and are included in operating expenses.

POSTRETIREMENT BENEFITS

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

The net periodic postretirement benefit cost for each of the years ended December 31, 2011, 2010 and 2009 was $1 million. As of December 31, 2011 and 2010, the accumulated benefit obligation was $23 million and $19 million, respectively. The fair value of the plan assets as of December 31, 2011 and 2010 was zero.

The discount rate used in determining the accumulated postretirement benefit obligation was 4.25% and 4.85% for 2011 and 2010, respectively.

Benefit payments for the year ended December 31, 2011 amounted to $2 million. The expected benefit payments are as follows for the years ending December 31 *(In Millions)*:

2012	2013	2014	2015	2016	2017-2021
$2	$2	$2	$2	$2	$9

OTHER PLANS

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

18. INCOME TAXES

The provision for income taxes is as follows:

	Years Ended December 31,		
	2011	2010	2009
	(In Millions)		
Current	$5	$7	($407)
Deferred	141	56	451
Provision for income taxes from continuing operations	146	63	44
Benefit from income taxes from discontinued operations	(4)		(11)
Total	$142	$63	$33

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

	Years Ended December 31,		
	2011	2010	2009
	(In Millions)		
Provision for income taxes at the statutory rate	$318	$205	$170
Separate account dividends received deduction	(95)	(106)	(93)
Singapore Transfer	(32)	(17)	
LIHTC and foreign tax credits	(17)	(18)	(19)
Internal Revenue Service settlement	(7)		
Other	(21)	(1)	(14)
Provision for income taxes from continuing operations	$146	$63	$44

During 2010 and 2011, ACG transferred aircraft assets and related liabilities to foreign subsidiaries and affiliates in Singapore (collectively referred to as the Singapore Transfer). The Singapore Transfer reduced the provision for income taxes for the year ended December 31, 2011 and 2010 by $32 million and $17 million, respectively, primarily due to the reversal of deferred taxes related to bases differences in the interest 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.

It is the practice and intention of the Company to reinvest the earnings of its non-U.S. subsidiaries in those operations. In addition to those basis differences transferred during 2011 and 2010, as of December 31, 2011, the Company has not made a provision for U.S. or additional foreign withholding taxes on approximately $6.5 million of foreign subsidiary undistributed earnings that are essentially permanent in duration. Generally, such amounts become subject to U.S. taxation upon the remittance of dividends and under certain other circumstances. It is not practicable to estimate the amount of deferred tax liability related to investments in these foreign subsidiaries.

A reconciliation of the changes in the unrecognized tax benefits is as follows (*In Millions*):

Balance at January 1, 2009	$434
Additions and deletions	(420)
Balance at December 31, 2009	14
Additions and deletions	
Balance at December 31, 2010	14
Additions and deletions	(14)
Balance at December 31, 2011	$0

During the year ended December 31, 2009, the Company's contingency related to the accounting for uncertainty in income taxes decreased by $420 million. The Company resolved an uncertain tax accounting position on certain tax deductions resulting in a $402 million decrease. The Company also effectively settled $18 million of the gross uncertain tax position related to separate account Dividends Received Deductions (DRD), which resulted in the realization of $9 million of tax benefits.

During the year ended December 31, 2011, the Company effectively settled $14 million of the gross uncertain tax position related to separate account DRD, which resulted in the realization of $7 million of tax benefits. All realized tax benefits and related interest are recognized as a discrete item that will impact the effective tax rate in the accounting period in which the uncertain tax position is ultimately settled.

No unrecognized tax benefits will be realized over the next twelve months.

During the years ended December 31, 2011, 2010 and 2009, the Company paid an insignificant amount of interest and penalties to state tax authorities.

The net deferred tax liability, included in other liabilities, is comprised of the following tax effected temporary differences:

	December 31, 2011	December 31, 2010
	(In Millions)	
Deferred tax assets:		
Investment valuation	$590	$247
Tax net operating loss carryforwards	510	220
Policyholder reserves	349	672
Tax credit carryforwards	313	312
Deferred compensation	57	54
Aircraft maintenance reserves	13	24
Dividends to policyholders	8	8
Other	16	24
Total deferred tax assets	1,856	1,561
Deferred tax liabilities:		
DAC	(1,546)	(1,257)
Depreciation	(671)	(625)
Hedging	(116)	(81)
Partnership income	(63)	(59)
Reinsurance	(20)	(27)
Other	(117)	(48)
Total deferred tax liabilities	(2,533)	(2,097)
Net deferred tax liability from continuing operations	(677)	(536)
Unrealized gain on derivatives and securities available for sale	(485)	(143)
Minimum pension liability and other adjustments	(8)	(12)
Net deferred tax liability	($1,170)	($691)

The tax net operating loss carryforwards relate to Federal tax losses incurred in 1998 through 2011 with a 20-year carryforward for non-life losses and a 15-year carryforward for life losses, and California tax losses incurred in 2004 through 2011 with a ten-year carryforward.

The tax credit carryforwards relate to LIHTC, foreign tax credits, and alternative minimum tax (AMT) credits generated from 2000 to 2011. The LIHTC begin to expire in 2020. The foreign tax credits begin to expire in 2016. Foreign tax credits and tax net operating loss carryforwards of $153 million expire between 2016 and 2021. AMT credits and tax net operating loss carryforwards of $29 million possess no expiration date. The remainder will expire between 2022 and 2031.

The Codification's Income Taxes Topic requires the reduction of deferred tax assets by a valuation allowance if, based on the weight of available evidence, it is more likely than not that a portion or all of the deferred tax assets will not be realized. Based on management's assessment, it is more likely than not that the Company's deferred tax assets will be realized through future taxable income, including the reversal of deferred tax liabilities.

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

19. SEGMENT INFORMATION

The Company has four operating segments: Life Insurance, Retirement Solutions, Aircraft Leasing and Reinsurance, a new segment formed as a result of the acquisition of the retrocession business disclosed in Note 5. These segments are managed separately and have been identified based on differences in products and services offered. All other activity is included in the Corporate and Other segment.

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

The 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 and national/regional wirehouses.

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 life retrocession business, which was acquired in August 2011 (Note 5). Also included in the Reinsurance segment is international reinsurance the Company has assumed from PLR.

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. Discontinued operations (Note 6) are also included in the Corporate and Other segment.

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

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 December 31, 2011 and 2010, the Company had foreign investments with an estimated fair value of $8.2 billion and $8.0 billion, respectively. Aircraft leased to foreign customers were $5.3 billion and $5.1 billion as of December 31, 2011 and 2010, respectively. Revenues derived from any customer did not exceed 10% of consolidated total revenues for the years ended December 31, 2011, 2010 and 2009.

The following is segment information as of and for the year ended December 31, 2011:

	Life Insurance	Retirement Solutions	Aircraft Leasing	Reinsurance	Corporate and Other	Total
			(In Millions)			
REVENUES						
Policy fees and insurance premiums	$1,182	$1,701		$198		$3,081
Net investment income	954	818		4	$410	2,186
Net realized investment gain (loss)	83	(1,076)	($3)		335	(661)
OTTIs	(38)	(33)			(82)	(153)
Investment advisory fees	22	233			13	268
Aircraft leasing revenue			607			607
Other income	13	159	48	3	3	226
Total revenues	2,216	1,802	652	205	679	5,554
BENEFITS AND EXPENSES						
Policy benefits	429	1,343		179		1,951
Interest credited	736	302			280	1,318
Commission expenses	428	(352)		6	1	83
Operating expenses	352	168	99	18	113	750
Depreciation of aircraft			255			255
Interest expense			194		94	288
Total benefits and expenses	1,945	1,461	548	203	488	4,645
Income from continuing operations before provision (benefit) for income taxes	271	341	104	2	191	909
Provision (benefit) for income taxes	84	25	(7)	1	43	146
Income from continuing operations	187	316	111	1	148	763
Discontinued operations, net of taxes					(9)	(9)
Net income	187	316	111	1	139	754
Less: net income attributable to the noncontrolling interest from continuing operations			(6)		(65)	(71)
Net income attributable to the Company	$187	$316	$105	$1	$74	$683
Total assets	$31,334	$66,764	$7,389	$568	$8,565	$114,620
DAC	1,350	3,843		70		5,263
Separate account assets	5,698	45,752				51,450
Policyholder and contract liabilities	22,400	16,926		244	4,289	43,859
Separate account liabilities	5,698	45,752				51,450

The following is segment information as of and for the year ended December 31, 2010:

	Life Insurance	Retirement Solutions	Aircraft Leasing	Reinsurance	Corporate and Other	Total
REVENUES			*(In Millions)*			
Policy fees and insurance premiums	$1,092	$1,265		$10		$2,367
Net investment income	924	748			$450	2,122
Net realized investment gain (loss)	55	(73)	($2)		(74)	(94)
OTTIs	(21)	(10)			(82)	(113)
Investment advisory fees	21	224				245
Aircraft leasing revenue			591			591
Other income	11	141	57	2	19	230
Total revenues	2,082	2,295	646	12	313	5,348
BENEFITS AND EXPENSES						
Policy benefits	432	923		(4)		1,351
Interest credited	700	282			335	1,317
Commission expenses	355	475			1	831
Operating expenses	297	339	60		65	761
Depreciation of aircraft			241			241
Interest expense			178		84	262
Total benefits and expenses	1,784	2,019	479	(4)	485	4,763
Income (loss) from continuing operations before provision (benefit) for income taxes	298	276	167	16	(172)	585
Provision (benefit) for income taxes	93	(9)	41	6	(68)	63
Net income (loss)	205	285	126	10	(104)	522
Less: net income attributable to the noncontrolling interest from continuing operations			(9)		(41)	(50)
Net income (loss) attributable to the Company	$205	$285	$117	$10	($145)	$472
Total assets	$30,337	$67,415	$6,893	$2	$10,015	$114,662
DAC	1,598	2,836			1	4,435
Separate account assets	5,982	49,701				55,683
Policyholder and contract liabilities	21,776	13,743		(5)	6,642	42,156
Separate account liabilities	5,982	49,701				55,683

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

	Life Insurance	Retirement Solutions	Aircraft Leasing	Reinsurance	Corporate and Other	Total
REVENUES			(In Millions)			
Policy fees and insurance premiums	$1,063	$1,209		$3		$2,275
Net investment income	892	610	$1		$359	1,862
Net realized investment gain (loss)		311	7		(165)	153
OTTIs	(63)	(53)			(195)	(311)
Investment advisory fees	18	190				208
Aircraft leasing revenue			578			578
Other income	10	112	13		2	137
Total revenues	1,920	2,379	599	3	1	4,902
BENEFITS AND EXPENSES						
Policy benefits	363	863				1,226
Interest credited	681	193			379	1,253
Commission expenses	353	337			1	691
Operating expenses	290	285	59		148	782
Depreciation of aircraft			227			227
Interest expense			182		55	237
Total benefits and expenses	1,687	1,678	468		583	4,416
Income (loss) from continuing operations before provision (benefit) for income taxes	233	701	131	3	(582)	486
Provision (benefit) for income taxes	66	147	39	1	(209)	44
Income (loss) from continuing operations	167	554	92	2	(373)	442
Discontinued operations, net of taxes					(20)	(20)
Net income (loss)	167	554	92	2	(393)	422
Less: net (income) loss attributable to the noncontrolling interest from continuing operations			(9)		23	14
Net income (loss) attributable to the Company	$167	$554	$83	$2	($370)	$436

20. TRANSACTIONS WITH AFFILIATES

PLFA serves as the investment adviser for the Pacific Select Fund, an investment vehicle provided to the Company's variable life insurance policyholders and variable annuity contract owners, and the Pacific Life Funds, the investment vehicle for the Company's mutual fund products. 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 $294 million, $291 million and $244 million for the years ended December 31, 2011, 2010 and 2009, respectively. In addition, Pacific Life provides certain support services to the Pacific Select Fund, the Pacific Life Funds and other affiliates based on an allocation of actual costs. These fees amounted to $10 million, $8 million and $9 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Additionally, the Pacific Select Fund and Pacific Life Funds have service and other plans whereby the funds pay PSD, as distributor of the fund, a service fee in connection with services rendered to or procured 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 years ended December 31, 2011, 2010 and 2009, PSD received $115 million, $100 million and $86 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 $1.3 billion and $1.5 billion as of December 31, 2011 and 2010, respectively. The estimated fair values of the derivatives were net liabilities of $78 million and $62 million as of December 31, 2011 and 2010, respectively.

21. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

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

Years Ending December 31:	
2012	$610
2013 through 2016	913
2017 and thereafter	124
Total	$1,647

The Company leases office facilities under various operating leases, which in most, but not all cases, are noncancelable. Rent expense, which is included in operating and other expenses, in connection with these leases was $10 million, $9 million and $8 million for the years ended December 31, 2011, 2010 and 2009, respectively. In connection with the sale of a block of business in 2005, PL&A is contingently liable until March 31, 2013 for certain future rent and expense obligations, not to exceed $6 million, related to an office lease that has been assigned to the buyer. Aggregate minimum future commitments are as follows *(In Millions)*:

Years Ending December 31:	
2012	$11
2013 through 2016	23
2017 and thereafter	11
Total	$45

In 2011, ACG entered into a sale leaseback transaction of one commercial aircraft on long-term lease to a U.S. airline. As a result of this transaction, the Company has committed to an operating lease, the expense of which is included in operating and other expenses, expiring March 2023. In 2010, ACG entered into a sale leaseback transaction of two commercial aircraft on long-term lease to a U.S. airline. As a result of this transaction, the Company has committed to two operating leases, the expense of which is included in operating and other expenses, expiring December 2025. Aggregate minimum future lease commitments and minimum rentals to be received in the future are as follows *(In Millions)*:

	Minimum Future Commitments	Minimum Rentals to be Received
Years Ending December 31:		
2012	$8	$13
2013 through 2016	38	54
2017 and thereafter	80	81
Total	$126	$148

As of December 31, 2011, ACG has commitments with major aircraft manufacturers and other third-parties to purchase aircraft at an estimated delivery price of $7,569 million with delivery from 2012 through 2020. These purchase commitments may be funded:

- up to $1,239 million in less than one year,
- an additional $2,333 million in one to three years,
- an additional $1,522 million in three to five years, and
- an additional $1,779 million thereafter.

As of December 31, 2011, deposits related to these agreements totaled $696 million and are included in other assets.

In connection with the acquisition of the life retrocession business as discussed in Note 5, Pacific Life entered into agreements to reinsure a block of U.S. life reinsurance business on a 100% coinsurance basis. The underlying reinsurance is comprised of coinsurance and YRT treaties. Upon closing the transaction in August 2011, Pacific Life retroceded the majority of the underlying YRT treaties on a 100% modified coinsurance basis to PLRB effective July 1, 2011 (PLRB Agreement). The PLRB Agreement will be accounted for under deposit accounting under U.S. GAAP and as reinsurance under statutory accounting practices. The statutory accounting reserve credit is afforded by virtue of collateral posted by PLRB for the benefit of Pacific Life by a $430 million letter of credit issued to PLRB by third-party banks. In connection with the letter of credit agreement, Pacific LifeCorp entered into a capital maintenance agreement to ensure PLRB will have sufficient capital to meet its obligations. Additionally, certain assets related to the life retrocession business have been pledged and placed in reinsurance trusts (Note 8). If the estimated fair market value of the pledged assets in these trusts fall below a minimum value, as defined in the transaction agreements, the Company is required to promptly deposit additional funds into the trusts to account for any shortfall.

On March 29, 2010, the Company entered into an agreement with PLR to guarantee the performance of unaffiliated reinsurance obligations of PLR. For the years ended December 31, 2011 and 2010, the Company earned $2 million under the agreement for its guarantee. This guarantee is secondary to a similar 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 consolidated financial statements.

In connection with the reinsurance of NLGR benefits ceded from Pacific Life to PAR Vermont (Note 2), PAR Bermuda and PAR Vermont entered into a three year letter of credit agreement with a group of banks in April 2009. This agreement allows for the issuance of letters of credit with an expiration date of March 2012 to PAR Bermuda and PAR Vermont for up to a combined total amount of $650 million. As of December 31, 2010, the letter of credit issued from this facility for PAR Bermuda was cancelled. In November 2011, PAR Vermont replaced its $650 million letter of credit agreement with a new letter of credit agreement with a maximum commitment amount of $843 million and a 20 year term. As of December 31, 2011, the letter of credit amounted to $416 million. The new agreement is non-recourse to Pacific LifeCorp or any of its affiliates, other than PAR Vermont.

In connection with an acquisition in 2005, ACG assumed residual value support agreements with remaining expiration dates ranging from 2013 to 2015. The gross remaining residual value exposure under these agreements was $89 million and $99 million as of December 31, 2011 and 2010, respectively. As of December 31, 2011, the Company has estimated that it has no measurable liability under the remaining residual value guarantee agreements.

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 it is possible that in any case a judge or jury could rule against the Company. In the opinion of management, the outcome of such proceedings is not likely to have a material adverse effect on the Company's consolidated financial position. The Company believes adequate provision has been made in its consolidated financial statements for all probable and estimable losses for litigation claims against the Company.

CONTINGENCIES - IRS REVENUE RULING

In 2007, the IRS issued Revenue Ruling 2007-54, which provided the IRS' interpretation of tax law regarding the computation of the 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. Although no guidance has been issued, if the IRS ultimately adopts the interpretation contained in Revenue Ruling 2007-54, the Company could lose a substantial amount of DRD tax benefits, which could have a material adverse effect on the Company's consolidated financial statements.

CONTINGENCIES - OTHER

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

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

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

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

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

See Note 10 for discussion of contingencies related to derivative instruments.

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