SEMI-ANNUAL REPORT

Pacific Life Funding, LLC

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

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

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

Unless otherwise specified, the financial information contained in this Semi-annual Report (1) has been prepared in accordance with accounting principles generally accepted in the United States of America (**"GAAP"**), and (2) is derived from the Company's audited GAAP consolidated financial statements, including the notes thereto, as of December 31, 2012 and 2011 (As Adjusted) and for the years ended December 31, 2012, 2011 and 2010 (As Adjusted) (the **"Audited GAAP Financial Statements"**), and the Company's unaudited GAAP condensed consolidated financial statements, including the notes thereto, as of June 30, 2013 and for the six months ended June 30, 2013 and 2012 (the **"Unaudited Quarterly GAAP Financial Statements"**).

Dated: August 30, 2013

INTERIM MANAGEMENT REPORT

PACIFIC LIFE FUNDING, LLC

Background

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

The only business activity of PLF is to issue debt instruments and to purchase funding agreements from Pacific Life. The indentures governing the terms of the instruments issued by PLF prohibit PLF from engaging in any other business activity. PLF has not issued any instruments or purchased any funding agreements since 2005. Between its organization in 1998 and 2005, PLF issued $5,813 million in aggregate principal amount of instruments, of which $866 million aggregate principal amount remained outstanding as of June 30, 2013. PLF issued these instruments in a variety of currencies and with maturities that varied from one to 20 years both to institutional investors in a variety of jurisdictions and to retail investors in the United Kingdom, The Netherlands, Germany and Switzerland.

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

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

Management

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

Capitalization

The authorized share capital of PLF is US$50,000 divided into 50,000 ordinary shares of US$1.00 each, 1,000 of which have been issued. All of the issued shares of PLF are fully paid and are held by MaplesFS Limited (the **"Share Trustee"**) under the terms of a Declaration of Trust dated April 15, 1998 (the **"Declaration of Trust"**) under which the Share Trustee holds the shares in trust. Under the terms of the

Declaration of Trust, so long as there are instruments outstanding, the Share Trustee may not sell or otherwise deal with the shares except to a person previously approved in writing by the indenture trustee for the instruments. It is not anticipated that any distribution will be made on the shares while any instrument is outstanding. When all of the outstanding instruments have matured or otherwise been redeemed, it is expected that the Share Trustee will wind up the trust and make a final distribution to charity. The Share Trustee has no beneficial interest in, and derives no benefit (other than its fee for acting as Share Trustee) from, its holding of the shares.

The following table presents PLF's capitalization as of June 30, 2013 prepared in conformity with GAAP. The information as of June 30, 2013 in this table is derived from the unaudited GAAP condensed financial statements of PLF as of June 30, 2013 and for the six months ended June 30, 2013 and 2012.

	June 30, 2013
Debt:	
Short-term debt	-
Long-term debt	$ 866,463,910
Total debt	866,463,910
Equity:	
Paid-in capital	1,000
Retained earnings	24,609
Total equity	25,609
Total capitalization	$ 866,489,519

Development of PLF's Business

Other than as described herein, there were no developments having a material effect on PLF or its business during the six months ended June 30, 2013. In addition, other than as described herein, there have been no recent developments having a material effect on PLF or its business since June 30, 2013. As of the date of this Semi-annual Report, there exists no condition or event that would constitute an event of default under the terms of the instruments of PLF that are currently outstanding.

There are currently no indications that the business of PLF will change between the date of this report and December 31, 2013.

STATEMENT OF RESPONSIBILITY

Pacific Life Funding, LLC

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

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

- this Semi-annual Report constitutes a review by PLF's management of the business and position of PLF during the six months ended June 30, 2013, and contains a fair review of that period.

Dated: August 30, 2013

s/ Martin Couch
Martin Couch
Director

/s/ Dianne Farjallah
Dianne Farjallah
Director

PACIFIC LIFE INSURANCE COMPANY

Selected Consolidated GAAP Financial Information of the Company

The following tables set forth selected consolidated GAAP financial information for the Company. You should read them in conjunction with the sections of the Semi-annual Report that follow, the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 29, 2013, and the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results may differ from such estimates. Additionally, the results for past accounting periods are not necessarily indicative of the results to be expected for any future accounting period.

The selected consolidated GAAP financial information for the Company as of June 30, 2013 (other than "life insurance in force" and "employees" included in "Other Data") and for the six months ended June 30, 2013 and 2012 has been derived from the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report.

In October 2010, the Financial Accounting Standards Board ("**FASB**"), issued Accounting Standards Update ("**ASU**") 2010-26 to the Accounting Standards Codification's Financial Services – Insurance Topic. ASU 2010-26 significantly amended the guidance applicable to accounting for costs associated with acquiring or renewing insurance contracts. The amendment specified that only 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 specified that costs may only be capitalized based on successful contract acquisition efforts. The financial information presented in the following tables has been adjusted to reflect the retrospective adoption of this guidance.

The Company retrospectively adopted ASU 2010-26 on January 1, 2012. As a result of this accounting change, total equity decreased due to the reduction of the Company's deferred policy acquisition cost ("**DAC**") asset for deferred costs that did not meet the provisions of the revised standard. The impact of the retrospective adoption on previously reported balances as of December 31, 2011 and 2010 was a reduction in the DAC asset of $999 million and $829 million, respectively, and a reduction in total equity of $649 million and $545 million, after tax, respectively. The impact of the retrospective adoption on previously reported net income attributable to the Company for the years ended December 31, 2011 and 2010 was a decrease of $121 million and $6 million, respectively.

	Six Months Ended June 30,		Years Ended December 31,		
	2013	2012	2012	2011	2010
			(in millions)		
Unaudited Consolidated Statement of Operations Data:					
Revenues:					
Policy fees and insurance premiums	$1,661	$1,755	$3,324	$3,081	$2,367
Net investment income	1,151	1,112	2,281	2,186	2,122
Net realized investment gain (loss)	393	(641)	(349)	(661)	(94)
Other than temporary impairments	(6)	(44)	(63)	(153)	(113)
Investment advisory fees	164	144	298	268	245
Aircraft leasing revenue	360	317	660	607	591
Other income	122	99	237	226	230
Total revenues	3,845	2,742	6,388	5,554	5,348
Benefits and Expenses:					
Policy benefits paid or provided	1,169	1,202	2,444	1,951	1,351
Interest credited to policyholder account balances	616	620	1,252	1,318	1,317
Commission expenses	816	140	648	122	836
Operating and other expenses	885	760	1,601	1,441	1,268
Total benefits and expenses	3,486	2,722	5,945	4,832	4,772
Income from continuing operations before provision (benefit) for income taxes	359	20	443	722	576
Provision (benefit) for income taxes	50	(72)	(67)	80	60
Income from continuing operations	309	92	510	642	516
Discontinued operations, net of taxes	-	-	-	(9)	-
Net income	309	92	510	633	516
Less: net income attributable to the noncontrolling interest from continuing operations	(9)	(15)	(68)	(71)	(50)
Net income attributable to the Company	$ 300	$ 77	$ 442	$ 562	$ 466

	June 30, 2013	December 31, 2012	2011	2010
		($ in millions)		
Unaudited Consolidated Statement of Financial Condition Data:				
Assets:				
Investments	$ 48,790	$ 49,546	$ 45,884	$ 44,222
Cash and cash equivalents	1,313	2,256	2,829	2,270
Restricted cash	303	294	280	214
Deferred policy acquisition costs	4,185	4,329	4,264	3,606
Aircraft leasing portfolio, net	7,306	6,760	5,845	5,259
Other assets	3,169	3,305	3,069	2,579
Separate account assets	56,682	55,302	51,450	55,683
Total assets	$ 121,748	$ 121,792	$ 113,621	$ 113,833
Liabilities and Equity				
Liabilities:				
Policyholder account balances	$ 35,408	$ 34,983	$ 34,392	$ 35,076
Future policy benefits	10,327	11,105	9,467	7,080
Debt	7,972	7,765	7,152	6,516
Other liabilities	2,731	3,069	2,633	2,093
Separate account liabilities	56,682	55,302	51,450	55,683
Total liabilities	113,120	112,224	105,094	106,448
Equity:				
Common stock	30	30	30	30
Paid-in capital	982	982	982	982
Retained earnings	6,589	6,489	6,177	5,761
Accumulated other comprehensive income	998	1,648	1,004	361
Total stockholder's equity	8,599	9,149	8,193	7,134
Noncontrolling interest	29	419	334	251
Total equity	8,628	9,568	8,527	7,385
Total liabilities and equity	$ 121,748	$ 121,792	$ 113,621	$ 113,833
Other Data:				
Life insurance in force	$ 297,026	$ 296,620	$ 302,532	$ 221,560
Employees	2,675	2,699	2,701	2,541

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

The following should be read in conjunction with the Selected Consolidated GAAP Financial Information of the Company set forth above and the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report and the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 29, 2013.

Background

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

The Company's primary business operations consist of life insurance, annuities, mutual funds, aircraft leasing and reinsurance. As of June 30, 2013 and December 31, 2012 and 2011, the Company had $121.7 billion, $121.8 billion and $113.6 billion, respectively, in total assets, and total stockholder's equity of $8.6 billion, $9.1 billion and $8.2 billion, respectively. Life insurance in force was $297.0 billion, $296.6 billion and $302.5 billion as of June 30, 2013 and December 31, 2012 and 2011, respectively. Net income attributable to the Company was $300 million for the six months ended June 30, 2013 (the **"2013 Period"**), as compared to $77 million for the six months ended June 30, 2012 (the **"2012 Period"**), and $442 million for the year ended December 31, 2012 as compared to $562 million for the year ended December 31, 2011.

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

Segments

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

The Life Insurance segment provides a broad range of life insurance products through multiple distribution channels operating in the upper income and corporate markets. Principal products include universal life and interest sensitive whole life; indexed universal life; variable universal life; survivor life; variable survivor; variable corporate owned life insurance; and traditional products such as whole life and term life. Distribution channels include regional life offices, marketing organizations, broker-dealer firms, wirehouses and M Financial, an association of independently owned and operated insurance and financial producers. As of June 30, 2013 and December 31, 2012, the Life Insurance segment represented 28% of the Company's total assets.

The Retirement Solutions segment's principal products include a diversified range of variable and fixed annuity products, mutual funds and institutional and structured products, such as structured settlement annuities and group retirement annuities, through multiple distribution sources. Distribution channels include independent planners, financial institutions and national/regional wirehouses. As of June 30, 2013 and December 31, 2012, this segment represented 60% of the Company's total assets.

The Aircraft Leasing segment encompasses the operations of Aviation Capital Group Corp. (**"ACG"**), a wholly owned subsidiary of Pacific Life. This segment focuses on acquiring, leasing, managing and trading commercial jet aircraft, while also engaging in long-term aviation investments in owned aircraft, third-party aircraft management advisory services, aircraft trading activities and aircraft brokerage services. The Aircraft Leasing segment's portfolio included, as of June 30, 2013, 262 owned and managed aircraft. As of June 30, 2013 and December 31, 2012, the Aircraft Leasing segment represented 7% of the Company's total assets.

The Reinsurance segment primarily includes the domestic life portion of the retrocession business acquired in 2011 (which is referred to as "**PL Retro**") and international reinsurance the Company has assumed from Pacific Life Re Limited ("**PLRL**"), a wholly owned subsidiary of Pacific LifeCorp incorporated in the United Kingdom. PL Retro assumes mortality risks from other life reinsurers, with a small amount of morbidity risk as part of larger treaties. PL Retro serves clients primarily in the U.S., Canada and Europe. PLRL provides reinsurance products and services to insurance and annuity providers in the United Kingdom and Ireland, and, through its Singapore branch, to insurers in selected Asian markets. As of June 30, 2013 and December 31, 2012, the Reinsurance segment represented 1% of the Company's total assets.

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

Principal Subsidiaries and Affiliates

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

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

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

The Company's former broker-dealer operations have been reflected as discontinued operations. 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**") is a wholly owned subsidiary of Pacific Life that invests in commercial real estate properties and ventures, and other private equity investments.

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

Pacific Global Advisors LLC (**"PGA"**), a wholly owned subsidiary of Pacific Life, acquired JP Morgan Chase's Pension Advisory Group in 2011. 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.

Pacific Alliance Reinsurance Company of Vermont ("**PAR Vermont**"), a wholly owned subsidiary of Pacific Life, is a captive life reinsurance company domiciled in Vermont. PAR Vermont is licensed as a special purpose financial captive insurance company in accordance with Vermont captive insurance laws and was formed in 2007 to provide reinsurance exclusively to Pacific Life for certain no lapse guarantee rider benefits ("**NLGRs**") of Pacific Life's universal life insurance products subject to AG38 statutory reserving requirements. AG38 results in additional statutory reserves on universal life 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 have been ceded from Pacific Life to PAR Vermont. In August 2011, PAR Vermont was accredited as an authorized reinsurer in Nebraska, making it unnecessary for Pacific Life to provide security for statutory reserve credits taken by Pacific Life. Funded economic reserves and a letter of credit agreement with a maximum commitment amount of $843 million and expiration date of October 2031 support the statutory reserves at PAR Vermont. As of June 30, 2013, the letter of credit amounted to $522 million. The letter of credit agreement is non-recourse to Pacific LifeCorp or any of its affiliates, other than PAR Vermont. The letter of credit facility is supported by an excess reinsurance facility through a Vermont captive reinsurer named Pacific Alliance Excess Reinsurance ("**PAX Re**"); Pacific LifeCorp has provided a capital maintenance agreement for the benefit of PAX Re.

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

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"**) retrocession business, which is referred to as PL Retro. PLRB assumes non-U.S. life retrocession business directly from Manulife companies and certain U.S. life retrocession business through Pacific Life.

In December 2012, Pacific Life formed Pacific Life Reinsurance Company II Limited ("**PLRC**"), a captive insurance company domiciled in Barbados. PLRC was formed to reinsure new non-U.S. life retrocession business written beginning January 1, 2013. PLRC may also reinsure non-U.S. life retrocession business that is novated from Manulife.

Pacific Annuity Reinsurance Company (**"PARC"**) is organized and licensed as an Arizona domiciled captive reinsurance company and is subject to regulatory supervision by the Arizona Department of Insurance. PARC was initially formed as a wholly owned subsidiary of Pacific Life in October 2012. On December 28, 2012, Pacific Life distributed all of PARC's outstanding shares of common stock as a dividend to Pacific LifeCorp.

PARC was formed to reinsure benefits provided by variable annuity contracts and contract rider guarantees issued by Pacific Life. Base annuity contracts are reinsured on a modified coinsurance basis and the contract guarantees are reinsured on a coinsurance with funds withheld basis. On December 1, 2012, the effective date of the reinsurance agreement, Pacific Life initially ceded 5% of its existing variable annuity business to PARC and has ceded and will cede 5% of new business issued thereafter.

Revenues and Expenses

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

Operating earnings result primarily from (1) the spread between the rates earned on invested assets and the rates credited to policyholders, (2) the fees earned on mortality and expense charges on variable products, (3) investment advisory fees earned on separate account assets and (4) income generated from aircraft leasing. Operating earnings are affected by claims experience and the persistency of policies and their continuing premiums and the investment markets. In addition, the Company seeks to increase earnings by carefully managing operating expenses through its budgeting process, monitoring of expense recoveries and improvements through the use of technology. Included in operating expenses are components such as salary and wages, employee benefits, rent, professional services, interest, depreciation and other sundry expenses.

Results of Operations

Six Months Ended June 30, 2013 compared to the Six Months Ended June 30, 2012

Net income attributable to the Company was $300 million for the 2013 Period as compared to $77 million for the 2012 Period. The increase in net income was the result of significant mark-to-market gains in the Retirement Solutions segment on variable annuity rider guarantees, net of reinsurance, hedges and DAC, due to favorable equity markets and higher interest rates. These increases were partially offset in the Corporate and Other segment by increased macro equity and interest rate hedge losses, in addition to a one-time cost incurred in the first quarter in connection with a tender offer that resulted in the retirement of $323 million of the Company's 9.25% $1.0 billion surplus notes. See the discussion of the condensed consolidated statement of operations line items below.

Policy fees and insurance premiums decreased $94 million for the 2013 Period to $1,661 million as compared to $1,755 million for the 2012 Period. Policy fees consist of cost-of-insurance charges, expense loads, surrender charges and other fees related to products. This decrease was primarily from lower sales of the life contingent payout annuities, partially offset by higher fee income driven by an increase in variable annuity assets under management in the Retirement Solutions segment.

Net investment income increased from $1,112 million in the 2012 Period to $1,151 million in the 2013 Period. The increase in the 2013 Period as compared to the 2012 Period was primarily due to an increase in invested assets that generated higher investment income from fixed maturity security investments and mortgage loan and real estate investments, partially offset by lower returns from all other investments.

Net realized investment gain for the 2013 Period amounted to $393 million compared to a loss of $641 million for the 2012 Period. The primary reason for the higher revenues from net realized investment gain was the recognition of net gains from certain embedded derivatives related to variable annuity guaranteed living benefits in the Retirement Solutions segment, net of reinsurance, hedges and rider policy fees in the 2013 Period as compared to net losses in the 2012 Period. These gains were partially offset by net losses in the 2013 Period as compared to the 2012 Period related to the macro equity hedges and macro interest rate hedges in the Corporate and Other segment. See the Unaudited Quarterly GAAP Financial Statements included elsewhere in this Semi-annual Report for additional information on the components of net realized investment gain (loss).

Other than temporary impairment (**"OTTI"**) losses decreased to $6 million in the 2013 Period as compared to $44 million in the 2012 Period mainly due to improvements in projected discounted cash flows from the residential mortgage-backed securities ("**RMBS**") holdings resulting from improvements in the housing market and lower losses on perpetual preferred securities. See the Unaudited Quarterly GAAP Financial Statements included elsewhere in this Semi-annual Report for additional information on the components of OTTI.

Investment advisory fees increased $20 million to $164 million in the 2013 Period from $144 million in the 2012 Period. This increase was primarily attributable to higher average variable annuity assets under management in the Retirement Solutions segment and increases in the Corporate and Other segment due to an increase in investment advisory fees realized by PGA.

Aircraft leasing revenue increased $43 million to $360 million in the 2013 Period from $317 million in the 2012 Period. This increase was primarily the result of net aircraft additions of 16 aircraft to the consolidated portfolio.

Other income was $122 million in the 2013 Period as compared to $99 million in the 2012 Period, an increase of $23 million primarily due to a claims settlement and an increase in the Retirement Solutions segment from increased service and other fees driven by higher average assets under management.

Policy benefits paid or provided decreased $33 million to $1,169 million for the 2013 Period from $1,202 million for the 2012 Period. The decrease was primarily related to the Retirement Solutions segment due to smaller increases in life contingent payout annuity reserves, partially offset by an increase in death benefit payments. The decrease was also attributable to improved claims experience by the Reinsurance segment and the natural unwind of reserves for the retrocession business. These decreases were partially offset by an increase of policy benefits paid or provided in the Life Insurance segment, which was primarily attributable to increased death benefits and a decrease in the amount of reinsurance recoveries.

Interest credited to policyholder account balances decreased slightly to $616 million for the 2013 Period from $620 million for the 2012 Period. This decrease of $4 million was attributable to lower crediting rates across the business lines and a decrease in the Corporate and Other segment primarily from less interest credited as a result of declining liabilities in corporate products. These decreases were mostly offset by an increase in the Retirement Solutions segment from increased average fixed and institutional annuity reserves and an increase in the Life Insurance segment policyholder account values.

Commission expenses for the 2013 Period increased $676 million to $816 million compared to $140 million in the 2012 Period. Commission expenses include components of DAC and vary with the level of sales by business segment due to the mix of products, as well as the change in the embedded derivative, net of hedges and policy fees, related to variable annuity guaranteed living benefits in the Retirement Solutions segment. The commission expenses increase in the 2013 Period as compared to the 2012 Period was due to higher rider-related gains driving DAC amortization in the Retirement Solutions segment.

Operating and other expenses for the 2013 Period increased by $125 million to $885 million as compared to $760 million in the 2012 Period. Operating and other expenses include components of DAC, and the amortization of DAC is dependent on various factors that affect future gross profits by business segment, including the change in the embedded derivative, net of hedges and policy fees, related to variable annuity guaranteed living benefits in the Retirement Solutions segment. Retirement Solutions segment operating and other expenses increased $9 million due to DAC amortization expense driven by higher net rider gains and general expense increases to maintain business growth. Operating and other expenses in the Life Insurance segment increased $5 million due to higher premium taxes as a result of increased sales. The Aircraft Leasing segment had an increase of $54 million in operating expenses primarily due to an increase in expenses related to aircraft that are in transition between lessors, increased compensation expense, aircraft depreciation, operating lease expenses and interest expense. Operating and other expense in the Corporate and Other segment increased $55 million primarily due to increased interest expense from the one-time cost incurred in the first quarter in connection with a tender offer that resulted in the retirement of $323 million of the Company's 9.25% $1.0 billion surplus notes. Corporate and Other segment also had increases for general corporate overhead and subsidiary related expenses.

The provision (benefit) for income taxes for the 2013 Period amounted to $50 million compared to ($72) million for the 2012 Period. This increase in tax expense was primarily due to higher taxable income in the 2013 Period. The taxes in the 2013 Period and in the 2012 Period were lower than the statutory rate primarily due to the separate account dividends received deductions, other tax credits, and the reduction of Aircraft Leasing segment deferred tax liabilities.

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

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

Policy fees and insurance premiums for 2012 were $3,324 million compared to $3,081 million for 2011, an increase of 8%. Policy fees consist of cost-of-insurance charges, expense loads, surrender charges and other fees related to products. The Reinsurance segment had increased premiums due to the acquisition of the PL Retro business in August 2011. In addition, there was an increase in insurance premiums in 2012 as compared to 2011 resulting from the sale of life contingent payout annuities in the Retirement Solutions segment. These increases in insurance premiums were offset somewhat by a decrease in the Life Insurance segment's policy fees principally due to decreased unearned revenue reserve amortization and lower surrender charges, partly offset by increased cost of insurance and policy charges.

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

Net realized investment loss for 2012 amounted to $349 million compared to $661 million for 2011. The primary reason for the lower net realized investment loss was lower net losses from certain embedded derivatives related to variable annuity guaranteed living benefits in the Retirement Solutions segment, net of reinsurance, hedges and rider policy fees in 2012 as compared to 2011. These lower losses were partially offset by net losses in 2012 as compared to net gains in 2011 related to the macro equity hedges and forward starting swaps. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 29, 2013 for additional information on the components of net realized investment gain (loss).

OTTI decreased from $153 million for 2011 to $63 million in 2012 primarily from lower OTTI from the Company's RMBS and corporate securities portfolios. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 29, 2013 for additional information on the components of OTTI.

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

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

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

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

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

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

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

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

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

Net income attributable to the Company increased $96 million from $466 million in 2010 to $562 million in 2011. The increase was primarily due to macro hedging gains during 2011 compared to losses during 2010 and from higher returns from the corporate surplus portfolio in the Corporate and Other segment. Additionally, there were higher gains during 2011 from dedesignated cash flow hedges (forward starting swaps) in the Retirement Solutions segment. These gains were partially offset by slightly lower income in the Aircraft Leasing segment. 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 in insurance premiums and policy fees 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 acquisition of the PL Retro business in 2011. Policy fees also increased in the Life Insurance segment primarily as the result of higher policy charges.

Net investment income increased from $2,122 million in 2010 to $2,186 million in 2011. The increase 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 loss for 2011 was $661 million compared to a net realized investment loss of $94 million for 2010. This increase in net realized investment loss was primarily related to higher net losses from certain embedded derivatives related to variable annuity guaranteed living benefits in the Retirement Solutions segment, net of reinsurance, hedges and rider policy fees in 2011 as compared to 2010, primarily as a result of lower interest rates. Partially offsetting these losses were gains from the Company’s macro hedging in the Corporate and Other segment. In addition, the Company experienced higher gains on forward starting interest rate swaps and foreign currency interest rate swaps in 2011 as compared to 2010. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 29, 2013 for additional information on the components of net realized investment gain (loss).

OTTI increased to $153 million in 2011 as compared to $113 million in 2010 primarily from higher OTTI from the Company's RMBS and corporate securities portfolios. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 29, 2013 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 in 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 an increase in the number of aircraft sold, 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 a reduction in the release of maintenance reserves, based on the timing of lease transitions, into earnings when the liabilities no longer exist, partially offset by an increase in the gains on sales of aircraft. Additionally, the Retirement Solutions segment had higher service and other fees.

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 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 primarily due to the acquisition of the PL Retro business 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 $714 million to $122 million compared to $836 million in 2010. 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 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 in the Life Insurance segment's commission expenses as a result of higher DAC amortization.

Operating and other expenses for 2011 increased by $173 million compared to 2010, from $1,268 million to $1,441 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 in 2011 as compared to 2010, primarily resulting from negative DAC amortization allocated to operating expenses, driven by variable annuity guaranteed living benefit embedded derivatives, hedge losses in 2011 and the Company's change in accounting method relating to the DAC amortization method effective October 1, 2011. The Life Insurance segment had increases in operating and other expenses in 2011 as compared to 2010 primarily as a result of higher DAC amortization and increased premium taxes. The Aircraft Leasing segment had an increase 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 higher due to the acquisition of the PL Retro business in 2011.

The provision for income taxes for 2011 amounted to $80 million compared to $60 million for 2010. The increase in tax expense was primarily due to higher income before tax in 2011. The taxes in 2011 and in 2010 were lower than the statutory rate primarily due to the separate account dividends received deductions and utilization of low income housing and foreign tax credits. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 29, 2013 for additional information on income taxes.

Assets

As of June 30, 2013, the Company had total assets of $121.7 billion as compared to $121.8 billion as of December 31, 2012. The Company had decreases of $0.8 billion in total investments, a decrease of $0.9 billion in cash and cash equivalents, and a decrease of $144 million in DAC, which contributed to the slight decrease in total assets from December 31, 2012 to June 30, 2013. These decreases were partially offset by an increase in separate account assets of $1.4 billion from December 31, 2012 to June 30, 2013 and an increase in the aircraft leasing portfolio, net of $0.5 billion. See the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report for additional information.

As of December 31, 2012, the Company had total assets of $121.8 billion as compared to $113.6 billion as of December 31, 2011. This increase in total assets was partially due to an increase in separate account assets of $3.8 billion from December 31, 2011 to December 31, 2012. Total investments also increased by $3.6 billion from December 31, 2011 to December 31, 2012, primarily due to increases in fixed maturity securities. The Company's aircraft leasing portfolio also increased by $0.9 billion from December 31, 2011 to December 31, 2012. The increase in total assets was partially offset by a $0.6 billion decrease in cash and cash equivalents. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 29, 2013 for additional information.

As of December 31, 2011, the Company had total assets of $113.6 billion as compared to $113.8 billion as of December 31, 2010. This slight decrease in total assets was partly attributable to a decrease in separate account assets of $4.2 billion from December 31, 2010 to December 31, 2011 due primarily to the decline in the equity markets during 2011. 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 $0.7 billion, an increase in the aircraft leasing portfolio of $0.6 billion and an increase in other assets of $0.5 billion.

Liabilities

As of June 30, 2013, the Company had total liabilities of $113.1 billion as compared to $112.2 billion as of December 31, 2012. This increase in total liabilities was partially a result of an increase in separate account liabilities of $1.4 billion from December 31, 2012 to June 30, 2013. The increase in total liabilities was also due to a net increase in long-term debt of $0.2 billion and an increase in policyholder account balances of $0.4 billion. These increases were partially offset by a decrease of $0.8 billion in future policy benefits and $0.3 billion in other liabilities. See the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report for additional information.

As of December 31, 2012, the Company had total liabilities of $112.2 billion as compared to $105.1 billion as of December 31, 2011. This increase in total liabilities was primarily a result of the increase in separate account liabilities of $3.8 billion from December 31, 2011 to December 31, 2012. Future policy benefits also increased $1.6 billion from December 31, 2011 to December 31, 2012. Debt increased by $0.6 billion primarily due to the issuance of debt by the Aircraft Leasing segment. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 29, 2013 for additional information.

As of December 31, 2011, the Company had total liabilities of $105.1 billion as compared to $106.4 billion as of December 31, 2010. This decrease in total liabilities was primarily a result of the decrease in separate account liabilities of $4.2 billion from December 31, 2010 to December 31, 2011, primarily due to the decline in the equity markets during 2011. The decrease was also due to a decrease in policyholder account balances of $0.7 billion. The decrease in liabilities was partially offset by increases in future policy benefits of $2.4 billion, long-term debt of $0.6 billion and other liabilities of $0.5 billion.

Liquidity and Capital Resources

The Company's principal capital resources come from insurance premiums, deposits to policyholder account balances, investment income, sales, maturities, calls and principal repayments of investments and cash flows from other operations, including aircraft leasing revenue. The principal uses of these funds are investment purchases, payment of policy acquisition costs, payment of policyholder benefits, withdrawal of policyholder account balances, income taxes and current operating expenses. Remaining funds not used as noted above are generally used to increase the asset base, to provide funds to meet the need for future policy benefit payments and for writing new business. As described below, total cash and cash equivalents decreased $943 million during the 2013 Period as compared to a decrease of $974 million during the 2012 Period and decreased $573 million during 2012 as compared to an increase of $559 million during 2011 and an increase of $351 million during 2010.

Net cash provided by operating activities was $1,505 million during the 2013 Period as compared to $1,413 million in the 2012 Period, and was $3,555 million during 2012, $3,589 million during 2011 and $3,024 million during 2010. Net cash provided by operating activities can vary depending on the level and type of sales, particularly those of annuity and other investment-type products. For example, sales of universal life insurance products and investment-type products result in cash flows that are predominantly shown as cash flows from financing activities rather than as cash flows from operations, while sales of variable products result in cash flows that are predominantly reflected in the separate accounts and are not a part of the cash flow statement.

Net cash used in investing activities was $2,186 million during the 2013 Period as compared to $2,322 million during the 2012 Period, and was $3,905 million during 2012, $1,195 million during 2011 and $2,301 million in 2010. Net cash used in investing activities was lower in the 2013 Period as compared to the 2012 Period primarily due to higher maturities and repayments of fixed maturity and equity securities, higher repayments of mortgage loans, lower change and decrease in restricted cash and net change in cash collateral received or pledged. This change was partially offset by higher purchases and lower sales of fixed maturity and equity securities in the 2013 Period as compared to the 2012 Period. Net cash used in investing activities was higher in 2012 as compared to 2011 primarily due to higher purchases and lower sales of fixed maturity and equity securities, lower repayments of mortgage loans, and net cash outflows for collateral received or pledged as compared to net cash inflows in 2011, partially offset by lower fundings of mortgage loans and real estate and higher proceeds from sale of real estate. Net cash used in investing activities was lower in 2011 as compared to 2010 due to lower purchases of fixed maturity and equity securities and an increase in cash received from the acquisition of the PL Retro business in 2011, partially offset by higher fundings of mortgage loans and real estate and higher purchases and advance payments on aircraft. It is the Company's objective to remain fully invested in assets with maturities and yields that it believes are matched to its product liabilities. As assets mature, are redeemed or are sold, the Company evaluates the available investment alternatives, reinvests according to existing and expected product liabilities and seeks to ensure that sufficient marketable assets and other sources of liquidity are in place to provide for large unexpected demands for cash. Discrepancies between the timing of financial statement preparation and the timing of reinvestment activity sometimes result in the presentation of levels of short-term investments that are not typical of day-to-day operations. These short-term investments are considered cash equivalents.

Net cash used in financing activities was $262 million during the 2013 Period as compared to $65 million during the 2012 Period, and was $223 million during 2012, $1,835 million during 2011 and $372 million in 2010. The increase in cash used in financing activities from the 2012 Period to the 2013 Period was due to higher policyholder account balance withdrawals, the partial retirement of the Company's $1.0 billion surplus notes and higher dividends paid to Pacific LifeCorp. This was partially offset by an increase in the change in short-term debt, higher issuances of long-term debt and higher policyholder account balance deposits. The decline in net cash used in financing activities for 2012 as compared to 2011 primarily related to higher policyholder account balance deposits and lower withdrawals. The increase in net cash used in financing activities in 2011 as compared to 2010 primarily related to higher policyholder account balance withdrawals, partially offset by higher deposits.

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 2012 statutory results, Pacific Life could pay $774 million in ordinary dividends or distributions during 2013, subject to the ten business day notice period described above. Dividends in excess of such amount would be considered "extraordinary" dividends or distributions for purposes of Nebraska law and would be subject to the thirty day notice and non-disapproval requirement described above. During the 2013 Period and the 2012 Period, Pacific Life paid cash dividends as determined on a statutory accounting basis to Pacific LifeCorp of $200 million and $70 million, respectively. During 2012, 2011 and 2010, Pacific Life paid dividends as determined on a statutory accounting basis to Pacific LifeCorp of $133 million, $125 million and $150 million, respectively.

Liquidity and Capital Sources and Requirements

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

The Company believes that its product mix contributes to its strong liquidity position. A primary liquidity concern for the Company is the risk of early contract owner and policyholder withdrawals. The Company closely evaluates and manages this risk. A significant portion of the Company's life insurance, institutional and annuity products contain surrender charges for varying durations or fair value adjustments, reducing the risk that customers will seek withdrawals during the periods when surrender charges or fair value adjustments are in place. Surrender charges or fair value adjustments help the Company to better plan the maturities of its invested assets by reducing the risk that future outflows will exceed anticipated levels. In addition, the Company monitors ACG's liquidity requirements for future commitments to purchase aircraft. ACG meets its liquidity needs to fund future aircraft commitments by accessing the debt and capital markets through various channels, including the domestic U.S. bank loan market, the issuance of asset-backed debt instruments, European Export Credit Agency ("**European ECA**") and U.S. Export-Import Bank ("**Ex-Im Bank**") guaranteed loans and the issuance of various corporate debt instruments. See the discussion below for more information about ACG's sources of liquidity.

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

	June 30, 2013		**December 31, 2012**	
	Amount	**% of Total**	**Amount**	**% of Total**
		($ in millions)		
Subject to discretionary withdrawal:				
With fair value adjustment	$ 4,721	7%	$ 3,594	5%
At book value less current surrender charge of 5% or more	3,610	6%	3,595	6%
At fair value	47,387	73%	46,392	73%
Total with adjustment or at fair value	55,718	86%	53,581	84%
At book value without adjustment	1,989	3%	1,943	3%
Not subject to discretionary withdrawal	7,123	11%	8,242	13%
Total (gross)	64,830	100%	63,766	100%
Reinsurance ceded	88		32	
Total (net)	$ 64,742		$ 63,734	

As noted in the table above, as of June 30, 2013 and December 31, 2012, only 3% of these liabilities were subject to withdrawal at book value without adjustment. The other 97% of these liabilities as of June 30, 2013 and December 31, 2012 were either subject to withdrawal with an adjustment or at fair value or were not subject to discretionary withdrawal. The products are designed in this manner to discourage early withdrawals and protect Pacific Life from liquidity risks. Pacific Life believes the structuring of liabilities in this manner provides it with a stable block of liabilities that reduces its exposure to unexpected cash withdrawals and demands and the adverse financial effects that could occur as a result.

Pacific Life 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%. 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 June 2009, Pacific Life issued an aggregate principal amount of $1.0 billion in surplus notes maturing on June 15, 2039. Pacific Life is required to pay interest on these surplus notes at an annual rate of 9.25%. In January 2013, the Company, with the approval of the Nebraska Department of Insurance, exercised its early settlement right for its 9.25% surplus notes and repurchased and retired $323 million, of the original $1 billion outstanding. The partial retirement of the 9.25% surplus notes was accounted for as an extinguishment of debt and the related amortization of deferred gains of $112 million and the premium paid of $155 million were recognized in interest expense during the six months ended June 30, 2013. As of June 30, 2013, Pacific Life had $677 million of these surplus notes outstanding. Interest is payable semiannually on June 15 and December 15. Pacific Life may redeem the 9.25% surplus notes at its option, subject to the approval of the Nebraska Director of Insurance for such optional redemption and all future payments of interest and principal on these surplus notes can be made only with the prior approval of the 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.

In January 2013, Pacific LifeCorp issued $500 million of senior notes at a fixed interest rate of 5.125%, maturing on January 30, 2043. Interest is payable semiannually on January 30 and July 30. Pacific LifeCorp may redeem all or a portion of the notes at any time at the redemption price described under the terms of the senior notes. Also, in January 2013, the Nebraska Director of Insurance approved the issuance of an internal surplus note by Pacific Life to Pacific LifeCorp for $500 million. Pacific Life is required to pay Pacific LifeCorp interest on the internal surplus note semiannually on January 25 and July 25 at a fixed annual rate of 5.125%, subject to regulatory approval. The internal surplus note matures on January 25, 2043. Pacific Life used the proceeds from the issuance of this internal surplus note primarily for the repurchase of a portion of its 9.25% surplus notes discussed above.

The Company’s principal 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 June 30, 2013 and December 31, 2012 and 2011. In addition, a bank revolving credit facility totaling $400 million is also in place that serves as a back-up line of credit for the commercial paper program. The credit facility matures in November 2016. This facility had no debt outstanding as of June 30, 2013 and December 31, 2012 and 2011. As of June 30, 2013 and December 31, 2012 and 2011, and for the six months ended June 30, 2013 and years ended December 31, 2012 and 2011, Pacific Life was in compliance with its debt covenants related to this credit facility.

PL&A maintains reverse purchase lines of credit with various financial institutions. These borrowings are at variable rates of interest based on collateral and market conditions. There was no debt outstanding in connection with these lines of credit as of June 30, 2013 and December 31, 2012 and 2011.

Pacific Life is a member of the Federal Home Loan Bank (“**FHLB**”) of Topeka. Pacific Life is eligible to receive advances from the FHLB of Topeka based on a percentage of Pacific Life’s statutory general account assets provided it has sufficient available eligible collateral and is in compliance with the FHLB of Topeka requirements, debt covenant restrictions and insurance law and regulations. The Company had available eligible collateral of $958 million and $809 million as of June 30, 2013 and December 31, 2012, respectively. There was no debt outstanding with the FHLB of Topeka as of June 30, 2013 and December 31, 2012 and 2011.

PL&A is a member of the FHLB of San Francisco. PL&A is eligible to receive advances from the FHLB of San Francisco based on a percentage of PL&A’s statutory capital and surplus provided it has sufficient available eligible collateral and is in compliance with the FHLB of San Francisco requirements and insurance law and regulations. PL&A had available eligible collateral of $111 million and $122 million as of June 30, 2013 and December 31, 2012, respectively. As of June 30, 2013 and December 31, 2012 and 2011, PL&A had no debt outstanding with the FHLB of San Francisco.

Two key elements of ACG’s financing strategy are its continued development of a diverse array of financing options and the issuance of debt with maturities appropriate for its long-lived aircraft assets and leases. ACG historically has had access, and expects to continue to have access, to multiple sources of financing, including bank financings, the ABS market, private debt placements in the unsecured debt market and debt guaranteed by Ex-Im Bank and the European ECAs. ACG has revolving credit agreements with banks for an aggregate of $800 million borrowing capacity. Interest on these loans is at variable rates, payable monthly. The facilities expire on various dates from October 2013 through April 2016. There was $483 million, $292 million and zero outstanding in connection with ACG’s revolving credit agreements as of June 30, 2013 and December 31, 2012 and 2011, respectively. This credit facility is recourse only to ACG.

Dividends and Distributions from Subsidiaries

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

The payment of dividends and other distributions by PL&A to Pacific Life is subject to restrictions set forth in the insurance laws of the State of Arizona. These laws require that PL&A notify the Arizona Department of Insurance of the declaration of any dividend or distribution to be paid by PL&A to Pacific Life. PL&A may not pay an "extraordinary" dividend or distribution to Pacific Life until the Arizona Department of Insurance has either (i) approved the payment of the dividend or distribution or (ii) not disapproved the payment of the dividend or distribution within thirty days after receiving notice of the declaration of the dividend or distribution. For purposes of applicable Arizona law, an "extraordinary" dividend or distribution is a dividend or distribution of cash or other property whose fair market value, together with that of other dividends or distributions made by PL&A to Pacific Life within the preceding twelve months, exceeds the 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 2012 statutory results, PL&A could pay $35 million in dividends to Pacific Life in 2013 without prior regulatory approval. PL&A did not pay any dividends to Pacific Life during the six months ended June 30, 2013 or during the years ended December 31, 2012 or 2011.

General

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

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

Prospects for the Remainder of 2013

While results for the six months ended June 30, 2013 are in line with the Company's forecasts, there can be no assurance that these results will be indicative of the Company's performance during the remaining six months of 2013 or for the entire fiscal year of 2013 and provide no guarantee of future performance where actual results may differ materially.

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

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

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

Principal Risks and Uncertainties

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

- difficult economic conditions and volatility in the equity and credit markets and the global economy;

- changes in the valuation of derivatives relating to, and fluctuation in reserves held in respect of, guaranteed minimum benefit riders;

- changes in interest rates;

- changes in capital and credit market conditions, including the effectiveness of governmental and regulatory measures in the U.S. and elsewhere in stabilizing such markets;

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

- requirements to post collateral or make payments related to declines in value of specified assets, including in connection with declines in estimated fair value of fixed maturity securities, cash or cash equivalents posted as collateral under derivative contracts in the ordinary course of business, funding agreements and certain indebtedness;

- adverse legislative or regulatory developments;

- changes to the calculation of reserves and impact of Regulation XXX and Actuarial Guidance 38;

- 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;

- changes in tax laws and the interpretation thereof;

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

- performance of the Company's investment portfolio, which could suffer reduced returns or losses adversely affecting its profitability, capitalization and liquidity;

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

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

- market capacity constraints on statutory reserve financings;

- litigation and regulatory investigations;

- lack of available, affordable or adequate reinsurance or retrocessional coverage;
- the inability of Pacific LifeCorp, the parent company of Pacific Life, to access its credit facilities and the availability of credit to the Company as a whole;
- deviations from assumptions regarding future persistency, mortality and interest rates used in calculating reserve amounts and pricing the Company's products;
- lower demand for aircraft or the availability of credit to ACG;
- the uncertain financial condition of aircraft and engine manufacturers;
- the impaired financial condition and liquidity of ACG's lessees and defaults under ACG's leases;
- the inability of ACG to recover its investment in aircraft through re-leasing or selling;
- the impact on ACG of high concentrations of particular models of aircraft;
- the advent of superior aircraft technology or introduction of new lines of aircraft on ACG;
- the inability to attract and retain key personnel;
- the occurrence of events that would require the acceleration of the amortization of DAC;
- the impact of current international tensions between the U.S. and other nations, including any terrorist attack, or on-going military and other actions, or a large-scale pandemic;
- exposure to unidentified or unanticipated risks;
- foreign currency risk;
- a computer system failure or security breach; and
- global climate changes.

Recently Adopted Accounting Pronouncements

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

Legal Proceedings

The Company is a respondent in a number of legal proceedings, some of which involve allegations for extra-contractual damages. Although the Company is confident of its position in these matters, success is not a certainty and a judge or jury could rule against the Company. In the opinion of management, the outcome of such proceedings is not likely to have a material adverse effect on the Company's condensed consolidated financial position. The Company believes adequate provision has been made in its condensed consolidated financial statements for all probable and estimable losses for litigation and indemnification claims against the Company. For a further discussion, see the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report.

Ratings

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

Rating Agency	Rating	Rating Structure	Ratings Outlook
Moody's Investors Service, Inc.	A1 (Good)	Fifth highest of 21 ratings	Stable
Standard and Poor's Rating Services	A+ (Strong)	Fifth highest of 21 ratings	Stable
Fitch Ratings	A+ (Strong)	Fifth highest of 21 ratings	Stable
A.M. Best Company, Inc.	A+ (Superior)	Second highest of 16 ratings	Stable

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

Employees

As of June 30, 2013, 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, United States of America, in a 285,000 square-foot office building it owns. The Company also owns and leases office space at various locations throughout the U.S. Other principal leases include other subsidiary home offices, regional life and other sales offices and storage facilities. The Company believes that its facilities are adequate for its present needs in all material respects.

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

Unaudited GAAP Condensed Financial Statements of Pacific Life Funding, LLC as of June 30, 2013 and for the six months ended June 30, 2013 and 2012

Unaudited GAAP Condensed Consolidated Financial Statements of Pacific Life Insurance Company and Subsidiaries as of June 30, 2013 and December 31, 2012 and for the six months ended June 30, 2013 and 2012

Pacific Life Funding, LLC

CONDENSED BALANCE SHEET
(Expressed in United States Dollars)
(Unaudited)

(In Thousands)	June 30, 2013
ASSETS	
Cash and cash equivalents	$26
Funding Agreements	866,464
Accrued interest receivable	24,803
TOTAL ASSETS	$891,293
LIABILITIES AND MEMBER'S EQUITY	
Liabilities:	
Notes payable	$866,464
Accrued interest payable	24,803
TOTAL LIABILITIES	891,267
Member's Equity:	
Share capital	1
Retained earnings	25
TOTAL MEMBER'S EQUITY	26
TOTAL LIABILITIES AND MEMBER'S EQUITY	$891,293

See Notes to Condensed Financial Statements

Pacific Life Funding, LLC

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

(In Thousands)	Six Months Ended June 30, 2013	2012
REVENUES		
Interest on Funding Agreements	$20,655	$22,626
Foreign exchange gain on Funding Agreements	-	2,290
Foreign exchange gain on notes payable	48,353	-
TOTAL REVENUES	69,008	24,916
EXPENSES		
Interest on notes payable	20,655	22,626
Foreign exchange loss on notes payable	-	2,290
Foreign exchange loss on Funding Agreements	48,353	-
TOTAL EXPENSES	69,008	24,916
NET INCOME	$0	$0
RETAINED EARNINGS, BEGINNING OF PERIOD	$25	$25
Net income	0	0
RETAINED EARNINGS, END OF PERIOD	$25	$25

See Notes to Condensed Financial Statements

Pacific Life Funding, LLC

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

(In Thousands)	Six Months Ended June 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$0	$0
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in accrued interest receivable	2,472	787
Change in accrued interest payable	(2,472)	(787)
NET CASH PROVIDED BY OPERATING ACTIVITIES	-	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of Funding Agreements	3,349	28,560
NET CASH PROVIDED BY INVESTING ACTIVITIES	3,349	28,560
CASH FLOWS FROM FINANCING ACTIVITIES		
Redemption of notes payable	(3,349)	(28,560)
NET CASH USED IN FINANCING ACTIVITIES	(3,349)	(28,560)
NET CHANGE IN CASH AND CASH EQUIVALENTS	-	-
Cash and cash equivalents, beginning of period	26	26
CASH AND CASH EQUIVALENTS, END OF PERIOD	$26	$26
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$23,127	$23,413

See Notes to Condensed Financial Statements

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

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The information set forth in the accompanying condensed balance sheet as of June 30, 2013 and the accompanying condensed statements of operations and retained earnings and cash flows for the six months ended June 30, 2013 and 2012 is unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted. The information presented reflects all adjustments, including normal recurring adjustments that, in the opinion of management, are necessary to present fairly the financial position and results of operations of the Company for the periods indicated. Results of operations for the interim periods presented are not necessarily indicative of the results of operations for the full year.

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

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

The Company has evaluated events subsequent to June 30, 2013 through August 21, 2013, the date the condensed financial statements were available to be issued.

3. TRANSACTIONS WITH AFFILIATES

The Funding Agreements, included on the condensed balance sheet, were purchased from Pacific Life. In addition, the Company has an agreement in which certain general operating and administrative expenses of the Company are paid directly by Pacific Life. During the six months ended June 30, 2013 and 2012, Pacific Life paid $78 thousand and $72 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 August 2013 to February 2021.

The following schedule details the notes payable outstanding as of June 30, 2013. The detail schedule for the Funding Agreements is not included, but would contain similar information, except that the schedule would reflect the investments related to the Instruments.

4. FUNDING AGREEMENTS/NOTES PAYABLE (CONTINUED)

June 30, 2013:

Issue	Currency	Principal Denominated in Currency of Issuance (In Thousands)	Maturity	Interest Rate	Principal	Cumulative Foreign Currency Translation	Carrying Value
						($ In Thousands)	
Series 11 Tranche 1	EUR	36,500	3/12/2019	4.70 %	$40,880	$6,565	$47,445
Series 36 Tranche 1	EUR	29,000	9/29/2020	3 mth EURIBOR + .37%	25,418	12,277	37,695
Series 39 Tranche 1	GBP	25,000	12/7/2015	5.81 %	35,500	2,417	37,917
Series 40 Tranche 1	EUR	27,000	2/5/2021	3 mth EURIBOR + .43%	25,313	9,784	35,097
Series 47 Tranche 1	GBP	150,000	8/16/2013	6.00 %	214,000	13,503	227,503
Series 47 Tranche 2	GBP	50,000	8/16/2013	6.00 %	72,900	2,935	75,835
Series 66 Tranche 1	HKD	160,000	7/31/2014	5.00 %	20,600	28	20,628
Series 67 Tranche 1	GBP	200,000	1/20/2015	5.13 %	375,000	(71,662)	303,338
Series 68 Tranche 1	HKD	200,000	1/26/2015	4.28 %	25,664	121	25,785
Series PLF003 Tranche 1	EUR	25,358	2/15/2014	4.00 %	33,219	(257)	32,962
Series PLF012 Tranche 1	EUR	10,000	3/15/2015	3.80 %	12,860	138	12,998
Series PLF019 Tranche 1	EUR	5,016	6/15/2017	4.00 %	6,340	180	6,520
Series PLF029 Tranche 1	GBP	650	11/15/2013	4.65 %	1,159	(173)	986
Series PLF031 Tranche 1	EUR	1,350	12/15/2015	3.80 %	1,580	175	1,755
TOTAL					$890,433	($23,969)	$866,464

5. SHARE CAPITAL

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

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

As of June 30, 2013, one thousand ordinary shares had been issued at par to MaplesFS Limited.

Pacific Life Insurance Company and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

(In Millions)	June 30, 2013	December 31, 2012
ASSETS		
Investments:		
Fixed maturity securities available for sale, at estimated fair value	$31,961	$32,183
Equity securities available for sale, at estimated fair value	127	152
Mortgage loans	7,832	7,729
Policy loans	6,962	6,998
Other investments (includes VIE assets of $0 and $441)	1,908	2,484
TOTAL INVESTMENTS	48,790	49,546
Cash and cash equivalents (includes VIE assets of $0 and $14)	1,313	2,256
Restricted cash (includes VIE assets of $191 and $198)	303	294
Deferred policy acquisition costs	4,185	4,329
Aircraft leasing portfolio, net (includes VIE assets of $1,493 and $1,559)	7,306	6,760
Other assets (includes VIE assets of $22 and $26)	3,169	3,305
Separate account assets	56,682	55,302
TOTAL ASSETS	$121,748	$121,792
LIABILITIES AND EQUITY		
Liabilities:		
Policyholder account balances	$35,408	$34,983
Future policy benefits	10,327	11,105
Debt (includes VIE debt of $741 and $865)	7,972	7,765
Other liabilities (includes VIE liabilities of $295 and $292)	2,731	3,069
Separate account liabilities	56,682	55,302
TOTAL LIABILITIES	113,120	112,224
Commitments and contingencies (Note 15)		
Stockholder's Equity:		
Common stock - $50 par value; 600,000 shares authorized, issued and outstanding	30	30
Paid-in capital	982	982
Retained earnings	6,589	6,489
Accumulated other comprehensive income	998	1,648
Total Stockholder's Equity	8,599	9,149
Noncontrolling interest	29	419
TOTAL EQUITY	8,628	9,568
TOTAL LIABILITIES AND EQUITY	$121,748	$121,792

The abbreviation VIE above means variable interest entity.

See Notes to Condensed Consolidated Financial Statements

Pacific Life Insurance Company and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(In Millions)	Six Months Ended June 30, 2013	2012
REVENUES		
Policy fees and insurance premiums	$1,661	$1,755
Net investment income	1,151	1,112
Net realized investment gain (loss)	393	(641)
OTTI, consisting of $7 and $140 in total, net of $1 and $96 recognized in OCI	(6)	(44)
Investment advisory fees	164	144
Aircraft leasing revenue	360	317
Other income	122	99
TOTAL REVENUES	3,845	2,742
BENEFITS AND EXPENSES		
Policy benefits paid or provided	1,169	1,202
Interest credited to policyholder account balances	616	620
Commission expenses	816	140
Operating and other expenses	885	760
TOTAL BENEFITS AND EXPENSES	3,486	2,722
INCOME BEFORE PROVISION (BENEFIT) FOR INCOME TAXES	359	20
Provision (benefit) for income taxes	50	(72)
Net income	309	92
Less: net income attributable to the noncontrolling interest	(9)	(15)
NET INCOME ATTRIBUTABLE TO THE COMPANY	$300	$77

The abbreviation OTTI above means other than temporary impairment losses.

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

See Notes to Condensed Consolidated Financial Statements

Pacific Life Insurance Company and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(In Millions)	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
NET INCOME	$309	$92
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) on securities:		
Unrealized holding gain (loss) arising during period	(615)	374
Reclassification adjustment for (gain) loss included in net income	(35)	2
Unrealized gain (loss) on securities	(650)	376
Foreign currency translation adjustments	2	1
Other comprehensive income (loss)	(648)	377
Comprehensive income (loss)	(339)	469
Less: comprehensive income attributable to the noncontrolling interest	(11)	(16)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO THE COMPANY	($350)	$453

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)

(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, JANUARY 1, 2012	**$30**	**$982**	**$6,177**	**$1,018**	**($14)**	**$8,193**	**$334**	**$8,527**
Comprehensive income:								
Net income			77			77	15	92
Other comprehensive income				376		376	1	377
Total comprehensive income						453		469
Dividend to parent			(70)			(70)		(70)
Change in equity of noncontrolling interest							(3)	(3)
BALANCES, JUNE 30, 2012	**$30**	**$982**	**$6,184**	**$1,394**	**($14)**	**$8,576**	**$347**	**$8,923**
BALANCES, JANUARY 1, 2013	**$30**	**$982**	**$6,489**	**$1,661**	**($13)**	**$9,149**	**$419**	**$9,568**
Comprehensive loss:								
Net income			300			300	9	309
Other comprehensive loss				(650)		(650)	2	(648)
Total comprehensive loss						(350)		(339)
Dividend to parent			(200)			(200)		(200)
Change in equity of noncontrolling interest							(29)	(29)
Deconsolidation of Investment Funds (Note 5)							(372)	(372)
BALANCES, JUNE 30, 2013	**$30**	**$982**	**$6,589**	**$1,011**	**($13)**	**$8,599**	**$29**	**$8,628**

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In Millions)	Six Months Ended June 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$309	$92
Adjustments to reconcile net income to net cash provided by operating activities:		
Net accretion on fixed maturity securities	(41)	(53)
Depreciation and amortization	215	176
Deferred income taxes	46	(72)
Net realized investment (gain) loss	(393)	641
Other than temporary impairments	6	44
Net change in deferred policy acquisition costs	341	(280)
Interest credited to policyholder account balances	616	620
Net change in future policy benefits and other insurance liabilities	371	673
Other operating activities, net	35	(426)
NET CASH PROVIDED BY OPERATING ACTIVITIES BEFORE DISCONTINUED OPERATIONS	1,505	1,415
Net cash used in operating activities of discontinued operations		(2)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,505	1,413
CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed maturity and equity securities available for sale:		
Purchases	(3,107)	(2,841)
Sales	665	1,190
Maturities and repayments	1,237	965
Repayments of mortgage loans	487	128
Fundings of mortgage loans and real estate	(613)	(488)
Net change in policy loans	36	50
Change in restricted cash	(9)	(425)
Terminations of derivative instruments, net	(12)	180
Proceeds from nonhedging derivative settlements	52	103
Payments for nonhedging derivative settlements	(344)	(358)
Net change in cash collateral received or pledged	(132)	(329)
Purchases of and advance payments on aircraft leasing portfolio	(703)	(772)
Other investing activities, net	257	275
NET CASH USED IN INVESTING ACTIVITIES	(2,186)	(2,322)

(Continued)

See Notes to Condensed Consolidated Financial Statements

Pacific Life Insurance Company and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In Millions)	Six Months Ended June 30, 2013	2012
(Continued)		
CASH FLOWS FROM FINANCING ACTIVITIES		
Policyholder account balances:		
Deposits	$2,766	$2,466
Withdrawals	(3,012)	(2,767)
Net change in short-term debt	191	
Issuances of long-term debt	825	600
Partial retirement of surplus notes	(478)	
Payments of long-term debt	(327)	(292)
Dividend to parent	(200)	(70)
Other financing activities, net	(27)	(2)
NET CASH USED IN FINANCING ACTIVITIES	(262)	(65)
Net change in cash and cash equivalents	(943)	(974)
Cash and cash equivalents, beginning of period	2,256	2,829
CASH AND CASH EQUIVALENTS, END OF PERIOD	$1,313	$1,855
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Income taxes paid, net	$57	$23
Interest paid	$131	$72

See Notes to Condensed Consolidated Financial Statements

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Pacific Life Insurance Company (Pacific Life) was established in 1868 and is domiciled in the State of Nebraska as a stock life insurance company. Pacific Life is an indirect subsidiary of Pacific Mutual Holding Company (PMHC), a Nebraska mutual holding company, and a wholly owned subsidiary of Pacific LifeCorp, an intermediate Delaware stock holding company. Pacific Life and its subsidiaries and affiliates have primary business operations consisting of life insurance, annuities, mutual funds, aircraft leasing and reinsurance.

2. BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The information set forth in the accompanying condensed consolidated statements of financial condition as of June 30, 2013 and the accompanying condensed consolidated statements of operations, comprehensive income, equity and cash flows for the six months ended June 30, 2013 and 2012 is unaudited and has been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim reporting. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The information presented reflects all adjustments, including normal recurring adjustments that, in the opinion of management, are necessary to present fairly the financial position and results of operations of Pacific Life Insurance Company and subsidiaries (the Company) for the periods indicated. Results of operations for the interim periods presented are not necessarily indicative of the results of operations for the full year. The condensed consolidated statement of financial condition as of December 31, 2012 was derived from the audited consolidated financial statements as of and for the year ended December 31, 2012. Therefore, the information included in these unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements as of and for the year ended December 31, 2012.

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

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

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

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

Certain reclassifications have been made to the 2012 condensed consolidated financial statements to conform to the 2013 financial statement presentation.

The Company has evaluated events subsequent to June 30, 2013 through August 22, 2013, the date the condensed consolidated financial statements were available to be issued.

3. NEW ACCOUNTING PRONOUNCEMENTS

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

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

In May 2011, the FASB issued ASU 2011-04, which modifies the Codification's Fair Value Measurements and Disclosures Topic. The Company adopted this new guidance as of December 31, 2012 and applied it prospectively. This guidance only impacted financial statement disclosures and had no impact on the Company's condensed 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, however, in December 2011, the FASB deferred a portion of the presentation requirements by issuing ASU 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05". ASU 2011-05 requires a company to present each component of net income along with total net income, each component of other comprehensive income (OCI) along with a total for OCI, and a total amount for comprehensive income. The Company adopted ASU 2011-05 as of December 31, 2012 after considering the deferral in ASU 2011-12 and has included the condensed consolidated statements of comprehensive income immediately following the condensed consolidated statements of operations. Retrospective adoption of this amendment did not have an impact on the Company's financial position, results of operations or cash flows.

Effective January 1, 2012, the Company adopted ASU 2011-08 to the Codification's Intangibles - Goodwill and Other Topic, which provides guidance on goodwill impairment testing that simplifies how an entity tests goodwill for impairment. This guidance allows a company to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value as a basis for determining whether it needs to perform the quantitative two-step goodwill impairment test. Only if the company determines, based on qualitative assessment, that it is more likely than not that a reporting unit's fair value is less than its carrying value will it be required to calculate the fair value of the reporting unit. The adoption had no impact on the Company's condensed consolidated financial statements.

In July 2010, the FASB issued ASU 2010-20 to the Codification's Receivables Topic for "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses", which requires enhanced disclosures related to the allowance for credit losses and the credit quality of a company's financing receivable portfolio. New disclosures are intended to provide additional information regarding the nature of the risk associated with financing receivables and how the assessment of the risk is used to estimate the allowance for credit losses. The Company adopted this new guidance as of December 31, 2012 and applied it retrospectively. This guidance impacted its financial statement disclosures and had no impact on the Company's condensed consolidated financial statements.

4. STATUTORY FINANCIAL INFORMATION AND DIVIDEND RESTRICTIONS

STATUTORY ACCOUNTING PRACTICES

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

As of June 30, 2013 and December 31, 2012, Pacific Life had two permitted practices. Under the first permitted practice, Pacific Life 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 June 30, 2013 and December 31, 2012, the underlying separate account assets had unrealized gains of $5 million and zero, respectively. Under the second permitted practice, investments in Working Capital Finance Notes (WCFN), an investment being considered by the NAIC for admissibility, are recorded as admitted assets provided they are rated as an NAIC 1 or 2 investment by the NAIC Securities Valuation Office. As of June 30, 2013 and December 31, 2012, admitted WCFN investments totaled $90 million and $92 million, respectively.

The NE DOI has a prescribed accounting practice for certain synthetic guaranteed interest contract (GIC) reserves that differs from NAIC SAP. The NE DOI reserve method is based on an annual accumulation of 30% of the contract fees on synthetic GICs and is subject to a maximum of 150% of the annualized contract fees. This reserve amounted to $49 million and $43 million as of June 30, 2013 and December 31, 2012, respectively, and has been recorded by Pacific Life. The NAIC SAP basis for this reserve equals the excess, if any, of the value of guaranteed contract liabilities over the market value of the assets in the segregated portfolio less deductions based on asset valuation reserve factors. As of June 30, 2013 and December 31, 2012, the reserve for synthetic GICs using the NAIC SAP basis was zero.

STATUTORY NET INCOME AND SURPLUS

Statutory net income of Pacific Life was $305 million and $705 million for the six months ended June 30, 2013 and 2012, respectively. Statutory capital and surplus of Pacific Life was $6,271 million and $6,175 million as of June 30, 2013 and December 31, 2012, 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 June 30, 2013 and December 31, 2012, Pacific Life, its wholly owned, Arizona domiciled life insurance subsidiary, Pacific Life & Annuity Company (PL&A) and Pacific Alliance Reinsurance Company of Vermont (PAR Vermont), a Vermont-based life reinsurance company wholly owned by Pacific Life, exceeded the minimum risk-based capital requirements.

NO LAPSE GUARANTEE RIDER REINSURANCE

Certain no lapse guarantee rider (NLGR) benefits of Pacific Life's universal life (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 March 31, 2010 are ceded from Pacific Life to PAR Vermont under a reinsurance agreement. In August 2011, PAR Vermont was accredited as an authorized reinsurer in Nebraska. Funded economic reserves and a letter of credit approved as an admitted asset for PAR Vermont for statutory accounting was issued and will continue to be held in a trust with Pacific Life as beneficiary. See Note 15.

VARIABLE ANNUITY REINSURANCE

Pacific Annuity Reinsurance Company (PARC) is organized and licensed as an Arizona domiciled captive reinsurance company and is subject to regulatory supervision by the Arizona Department of Insurance. PARC was initially formed as a wholly owned subsidiary of Pacific Life in October 2012. On December 28, 2012, Pacific Life distributed all of PARC’s outstanding shares of common stock as a dividend to Pacific LifeCorp of $60 million.

PARC was formed to reinsure benefits provided by variable annuity contracts and contract rider guarantees issued by Pacific Life. Base annuity contracts are reinsured on a modified coinsurance basis and the contract guarantees are reinsured on a coinsurance with funds withheld basis. On December 1, 2012, the effective date of the reinsurance agreement, Pacific Life initially ceded 5% of its existing variable annuity business to PARC and ceded 5% of new business issued thereafter.

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 2012 statutory results, Pacific Life could pay $774 million in dividends in 2013 to Pacific LifeCorp without prior approval from the NE DOI, subject to the notification requirement. During the six months ended June 30, 2013 and 2012, Pacific Life paid cash dividends to Pacific LifeCorp of $200 million and $70 million, respectively.

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 2012 statutory results, PL&A could pay $35 million in dividends to Pacific Life in 2013 without prior regulatory approval. No dividends were paid during the six months ended June 30, 2013 and 2012.

5. VARIABLE INTEREST ENTITIES

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

The following table presents, as of June 30, 2013 and December 31, 2012, (i) the consolidated assets, consolidated liabilities and maximum exposure to loss relating to VIEs, which the Company has consolidated because it is the primary beneficiary or (ii) the net carrying amount of and maximum exposure to loss relating to VIEs in which the Company holds a significant variable interest, but has not consolidated because it is not the primary beneficiary *(In Millions)*:

	Primary Beneficiary			Not Primary Beneficiary	
June 30, 2013:	Consolidated Assets	Consolidated Liabilities	Maximum Exposure to Loss	Net Carrying Amount	Maximum Exposure to Loss
Aircraft securitizations	$1,706	$1,036	$702		
Investment funds				$95	$95
Asset-backed securities				84	84
Total	$1,706	$1,036	$702	$179	$179
December 31, 2012:					
Aircraft securitizations	$1,782	$1,139	$678		
Investment funds	456	18	69	$40	$40
Asset-backed securities				106	106
Total	$2,238	$1,157	$747	$146	$146

AIRCRAFT SECURITIZATIONS

Aviation Capital Group Corp. (ACG), a wholly owned subsidiary of Pacific Life engaged in the acquisition and leasing of commercial aircraft, 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 condensed 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 10). VIE non-recourse debt consolidated from ACG Trust III was $580 million and $632 million as of June 30, 2013 and December 31, 2012, respectively. As of June 30, 2013 and December 31, 2012, the maximum exposure to loss, based on the Company's interest in ACG Trust III, was $414 million and $407 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 condensed 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 10). VIE non-recourse debt consolidated from ACG Trust II was $161 million and $215 million as of June 30, 2013 and December 31, 2012, respectively. As of June 30, 2013 and December 31, 2012, the maximum exposure to loss was $288 million and $271 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 ACG 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 June 30, 2013 and December 31, 2012, the maximum exposure to loss, based on carrying value, was zero.

INVESTMENT FUNDS

Investment funds are primarily private equity funds, which are limited partnerships that invest in private equity investments for outside investors. The largest investment fund (the Funds) was a partnership where the Company was the primary beneficiary prior to June 30, 2013. Prior to June 30, 2013, the Company had determined itself to be the primary beneficiary since it had a controlling financial interest in the Funds. The Funds were consolidated into the condensed consolidated financial statements of the Company until June 30, 2013. As of June 30, 2013, the Company has determined itself not to be the primary beneficiary since it no longer has a controlling financial interest in the Funds. As such, the Funds are no longer consolidated into the condensed consolidated financial statements on a prospective basis. As of June 30, 2013, no gain or loss was recognized on the deconsolidation of the Funds as the underlying assets were carried at fair value. As of June 30, 2013, the retained interest in the Funds was $72 million and is accounted for under the equity method and included in other investments. The Company has not guaranteed the performance, liquidity or obligations of the Funds, and the Company's maximum exposure to loss is equal to the carrying amounts of its retained interests. VIE non-recourse debt consolidated from the Funds was $18 million as of December 31, 2012 (Note 10).

The following table summarizes, as of June 30, 2013, the assets and liabilities of the Funds that were deconsolidated (*In Millions*).

Cash and cash equivalents	$8
Other investments	442
Total assets	$450
VIE debt	$6
Noncontrolling interest	372
Retained interest	72
Total liabilities and noncontrolling interest	$450

In 2012, ACG made a limited partnership investment in an aviation-related limited partnership investment fund (Aviation Fund) for which it is a minority investor and not the sponsor. The Aviation Fund's investment focus is on aviation-related assets, including aircraft, aviation-related asset-backed securities and securitized aircraft. The Aviation Fund is a VIE due to the lack of control by equity investors. In addition to its limited partnership investment, ACG agreed to provide aircraft-related management services for any aircraft, engine or tangible asset acquired by the Aviation Fund for a fee and minority interest in the general partnership. The Aviation Fund is not consolidated as ACG determined it was not the primary beneficiary as it does not have the authority to direct the activities of the VIE that most significantly impact the VIE's economic performance. As of June 30, 2013 and December 31, 2012, the carrying amount of its limited partnership investment and maximum exposure to loss was $23 million and $40 million, respectively, and is included in other investments.

ASSET-BACKED SECURITIES

As part of the Company's investment strategy, the Company purchases primarily investment grade beneficial interests issued from bankruptcy-remote special purpose entities (SPEs), which are collateralized by financial assets including corporate debt. The Company has not guaranteed the performance, liquidity or obligations of the SPEs, and the Company's maximum exposure to loss is limited to its carrying value of the beneficial interests in the SPEs. The Company has no liabilities related to these VIEs. The Company has determined that it is not the primary beneficiary of these entities since it does not have the power to direct their financial activities. Therefore, the Company does not consolidate these entities. The investments are reported as fixed maturity securities available for sale.

OTHER NON-CONSOLIDATED VIEs

As part of normal investment activities, the Company will make passive investments in structured securities and limited partnerships for which it is not the sponsor. The structured security investments include residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), collateralized debt obligations, and other asset-backed securities which are reported in fixed maturities securities available for sale. The limited partnership investments include private equity funds and real estate funds which are reported in other investments. For these investments, the Company determined it is not the primary beneficiary due to the relative size of the Company's investment in comparison to the original amount issued by the VIEs. In addition, the Company does not have the authority to direct the activities of these VIEs that most significantly impact the VIEs economic performance. The Company's maximum exposure to loss is limited to the amount of its carrying value. See Note 7 for the carrying amount and estimated fair value of the structured security investments. The Company's carrying value of limited partnerships was $887 million and $906 million as of June 30, 2013 and December 31, 2012, respectively. The Company's unfunded commitment to the limited partnerships was $433 million and $476 million as of June 30, 2013 and December 31, 2012, respectively.

6. DEFERRED POLICY ACQUISITION COSTS

Components of the DAC asset are as follows:

	Six Months Ended June 30,	
	2013	2012
	(In Millions)	
Balance, January 1	$4,329	$4,264
Additions:		
Capitalized during the period	289	237
Amortization:		
Allocated to commission expenses	(626)	52
Allocated to operating expenses	(4)	(9)
Total amortization	(630)	43
Allocated to OCI	197	(3)
Balance, June 30	$4,185	$4,541

During the six months ended June 30, 2013 and 2012, the Company revised certain assumptions used to develop estimated gross profits (EGPs) for its products subject to DAC amortization. This resulted in an increase of $88 million and $11 million in DAC amortization expense for the six months ended June 30, 2013 and 2012, respectively.

The Company defers sales inducements and amortizes them over the life of the policy using the same methodology and assumptions used to amortize DAC. The capitalized sales inducement balance included in the DAC asset was $621 million and $681 million as of June 30, 2013 and 2012, respectively.

7. INVESTMENTS

The net carrying amount, gross unrealized gains and losses, and estimated fair value of fixed maturity and equity securities available for sale are shown below. The net carrying amount of fixed maturity securities represents amortized cost adjusted for OTTI recognized in earnings and terminated fair value hedges. The net carrying amount of equity securities represents cost adjusted for OTTI. See Note 11 for information on the Company's estimated fair value measurements and disclosure.

	Net Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In Millions)			
June 30, 2013:				
U.S. Government	$91	$7	$1	$97
Obligations of states and political subdivisions	799	81	11	869
Foreign governments	720	59	9	770
Corporate securities	23,277	1,919	351	24,845
RMBS	3,700	185	110	3,775
CMBS	697	28	16	709
Collateralized debt obligations	85	13		98
Other asset-backed securities	730	71	3	798
Total fixed maturity securities	$30,099	$2,363	$501	$31,961
Perpetual preferred securities	$129	$11	$18	$122
Other equity securities	1	4		5
Total equity securities	$130	$15	$18	$127

	Net Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In Millions)			
December 31, 2012:				
U.S. Government	$47	$10		$57
Obligations of states and political subdivisions	790	153		943
Foreign governments	661	102		763
Corporate securities	21,964	2,981	$82	24,863
RMBS	3,901	245	130	4,016
CMBS	638	47		685
Collateralized debt obligations	111	9	1	119
Other asset-backed securities	652	85		737
Total fixed maturity securities	$28,764	$3,632	$213	$32,183
Perpetual preferred securities	$144	$13	$22	$135
Other equity securities	12	5		17
Total equity securities	$156	$18	$22	$152

The Company has investments in perpetual preferred securities that are issued primarily by European financial institutions. The net carrying amount and estimated fair value of the available for sale perpetual preferred securities was $230 million and $212 million, respectively, as of June 30, 2013. Included in these amounts are perpetual preferred securities carried in trusts with a net carrying amount and estimated fair value of $101 million and $90 million, respectively, that are held in fixed maturity securities 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 June 30, 2013, by contractual repayment date of principal, are shown below. Expected maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Net Carrying Amount	Gross Unrealized		Estimated Fair Value
		Gains	Losses	
		(In Millions)		
Due in one year or less	$1,045	$40	$1	$1,084
Due after one year through five years	5,909	506	15	6,400
Due after five years through ten years	10,305	734	185	10,854
Due after ten years	7,628	786	171	8,243
	24,887	2,066	372	26,581
Mortgage-backed and asset-backed securities	5,212	297	129	5,380
Total fixed maturity securities	$30,099	$2,363	$501	$31,961

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

	Total		
	Number	Estimated Fair Value	Gross Unrealized Losses
		(In Millions)	
June 30, 2013:			
U.S. Government	3	$48	$1
Obligations of states and political subdivisions	6	127	11
Foreign governments	19	146	9
Corporate securities	636	5,918	351
RMBS	140	1,353	110
CMBS	21	275	16
Other asset-backed securities	25	164	3
Total fixed maturity securities	850	8,031	501
Perpetual preferred securities	6	41	18
Other investments	15	38	2
Total other investments	21	79	20
Total	871	$8,110	$521

	Less Than 12 Months			12 Months or Greater		
	Number	Estimated Fair Value	Gross Unrealized Losses	Number	Estimated Fair Value	Gross Unrealized Losses
		(In Millions)			(In Millions)	
June 30, 2013:						
U.S. Government	3	$48	$1			
Obligations of states and political subdivisions	6	127	11			
Foreign governments	19	146	9			
Corporate securities	598	5,529	298	38	$389	$53
RMBS	63	597	17	77	756	93
CMBS	21	275	16			
Other asset-backed securities	25	164	3			
Total fixed maturity securities	735	6,886	355	115	1,145	146
Perpetual preferred securities				6	41	18
Other investments	8	18	1	7	20	1
Total other investments	8	18	1	13	61	19
Total	743	$6,904	$356	128	$1,206	$165

	Total		
	Number	Estimated Fair Value	Gross Unrealized Losses
		(In Millions)	
December 31, 2012:			
Corporate securities	153	$1,601	$82
RMBS	102	1,171	130
Collateralized debt obligations	1	54	1
Total fixed maturity securities	256	2,826	213
Perpetual preferred securities	6	36	22
Other investments	11	41	2
Total other investments	17	77	24
Total	273	$2,903	$237

	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, 2012:						
Corporate securities	88	$921	$16	65	$680	$66
RMBS	10	91	2	92	1,080	128
Collateralized debt obligations				1	54	1
Total fixed maturity securities	98	1,012	18	158	1,814	195
Perpetual preferred securities				6	36	22
Other investments	7	23	1	4	18	1
Total other investments	7	23	1	10	54	23
Total	105	$1,035	$19	168	$1,868	$218

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

The table below presents non-agency RMBS and CMBS by investment rating from independent rating agencies and vintage year of the underlying collateral as of June 30, 2013.

Rating	Net Carrying Amount	Estimated Fair Value	Rating as % of Net Carrying Amount	Vintage Breakdown 2004 and Prior	2005	2006	2007	2008 and Thereafter
	($ In Millions)							
Prime RMBS:								
AAA	$33	$32	2%					2%
AA	31	31	1%	1%				
A	107	111	6%	5%	1%			
BAA	194	203	10%	8%	2%			
BA and below	1,529	1,534	81%	13%	33%	29%	6%	
Total	$1,894	$1,911	100%	27%	36%	29%	6%	2%
Alt-A RMBS:								
AAA	$5	$5	1%	1%				
AA	31	31	4%	3%	1%			
A	13	14	2%	2%				
BAA	49	52	7%	3%	4%			
BA and below	604	551	86%	10%	20%	23%	33%	
Total	$702	$653	100%	19%	25%	23%	33%	0%
Sub-prime RMBS:								
AAA	$12	$12	4%	4%				
AA	4	4	1%	1%				
A	23	23	8%	8%				
BAA	34	34	11%	11%				
BA and below	229	217	76%	60%	14%	1%	1%	
Total	$302	$290	100%	84%	14%	1%	1%	0%
CMBS:								
AAA	$301	$314	45%	8%	1%	1%	15%	20%
AA	177	187	26%	7%				19%
A	129	121	19%					19%
BAA	39	36	6%					6%
BA and below	28	29	4%				4%	
Total	$674	$687	100%	15%	1%	1%	19%	64%

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

Pacific Life is a member of the Federal Home Loan Bank (FHLB) of Topeka. As of June 30, 2013, the Company has received advances of $150 million 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 June 30, 2013, fixed maturity securities with an estimated fair value of $167 million are in a custodial account pledged as collateral for the funding agreements. The Company is required to purchase stock in the FHLB of Topeka each time it receives an advance. As of June 30, 2013, the Company holds FHLB of Topeka stock with an estimated fair value of $8 million, which is recorded in other investments.

PL&A is a member of the FHLB of San Francisco. As of June 30, 2013, no assets are pledged as collateral. As of June 30, 2013, 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.

As of June 30, 2013, fixed maturity securities and cash and cash equivalents with estimated fair values of $398 million and $39 million, respectively, have been pledged as collateral in reinsurance trusts.

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

	Six Months Ended June 30,	
	2013	2012
	(In Millions)	
Fixed maturity securities	$765	$746
Equity securities	24	8
Mortgage loans	207	212
Real estate	64	61
Policy loans	101	102
Partnerships and joint ventures	65	56
Other	7	8
Gross investment income	1,233	1,193
Investment expense	82	81
Net investment income	$1,151	$1,112

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

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(In Millions)	
Fixed maturity securities:		
Gross gains on sales	$33	$60
Gross losses on sales	(1)	(4)
Total fixed maturity securities	32	56
Equity securities:		
Gross gains on sales	34	
Gross losses on sales		(5)
Total equity securities	34	(5)
Trading securities	(4)	7
Real estate	7	32
Variable annuity guaranteed living benefit embedded derivatives	712	(260)
Variable annuity guaranteed living benefit policy fees	127	111
Variable annuity derivatives - total return swaps	(251)	(352)
Variable annuity derivatives - equity put options		(36)
Equity put options	(214)	(207)
Foreign currency and interest rate swaps	(76)	64
Forward starting interest rate swaps		(77)
Synthetic GIC policy fees	21	21
Indexed universal life embedded derivatives	(68)	(10)
Call options	68	15
Other	5	
Total	$393	($641)

The table below summarizes the OTTI by investment type:

	Recognized in Earnings	Included in OCI	Total
		(In Millions)	
Six months ended June 30, 2013:			
Corporate securities	$2		$2
RMBS	4	$1	5
OTTI - fixed maturity securities	$6	$1	$7
Six months ended June 30, 2012:			
Corporate securities	$5		$5
RMBS	25	$96	121
Equity securities	9		9
OTTI - fixed maturity and equity securities	39	96	135
Mortgage loans	5		5
Total OTTI	$44	$96	$140

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

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(In Millions)	
Cumulative credit loss, January 1	$240	$268
Additions for credit impairments recognized on:		
Securities not previously other than temporarily impaired	2	9
Securities previously other than temporarily impaired	2	16
Total additions	4	25
Reductions for credit impairments previously recognized on:		
Securities due to an increase in expected cash flows and time value of cash flows	(2)	(1)
Securities sold	(8)	(19)
Total subtractions	(10)	(20)
Cumulative credit loss, June 30	$234	$273

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

	Gross Unrealized Losses		
	OTTI Investments	Non-OTTI Investments	Total
		(In Millions)	
June 30, 2013:			
U.S. Government		$1	$1
Obligations of states and political subdivisions		11	11
Foreign governments		9	9
Corporate securities		351	351
RMBS	$81	29	110
CMBS		16	16
Other asset-backed securities		3	3
Total fixed maturity securities	$81	$420	$501
Perpetual preferred securities		$18	$18
Total equity securities	-	$18	$18
December 31, 2012:			
Corporate securities		$82	$82
RMBS	$103	27	130
Collateralized debt obligations	1		1
Total fixed maturity securities	$104	$109	$213
Perpetual preferred securities		$22	$22
Total equity securities	-	$22	$22

Trading securities, included in other investments, totaled $202 million and $208 million as of June 30, 2013 and December 31, 2012, respectively. The cumulative net unrealized gains on trading securities held as of June 30, 2013 and December 31, 2012 were $7 million and $10 million, respectively. Net unrealized gains (losses) recognized in net realized investment gain (loss) on trading securities still held at the reporting date were ($7) million and $6 million as of June 30, 2013 and 2012, respectively.

Mortgage loans totaled $7,832 million and $7,729 million as of June 30, 2013 and December 31, 2012, respectively. Mortgage loans are collateralized by commercial properties primarily located throughout the U.S. As of June 30, 2013, $1,366 million, $1,224 million, $1,053 million, $892 million and $720 million were located in California, Washington, Texas, District of Columbia and New York, respectively. As of June 30, 2013, $259 million was located in Canada.

The Company did not have any mortgage loans with accrued interest more than 180 days past due as of June 30, 2013 and 2012. As of June 30, 2013, there were two loans in the amount of $6 million that were considered impaired. As the estimated fair value of the collateral on these loans was higher than their carrying amount, no impairment loss was recorded. As of June 30, 2012, there was one loan in the amount of $66 million that was considered impaired. Since the estimated fair value of the collateral on this loan was greater than the carrying amount of the loan, no impairment loss was recorded. During the six months ended June 30, 2012, three loans totaling $288 million were foreclosed upon and became real estate owned investments. An impairment loss totaling $5 million was recorded on one of these loans during the foreclosure process as the estimated value of the underlying collateral was lower than the carrying amount. As of June 30, 2013, there was no single mortgage loan investment that exceeded 10% of stockholder's equity.

Real estate investments totaled $551 million and $581 million as of June 30, 2013 and December 31, 2012, respectively, and are included in other investments. There were no real estate write-downs during the six months ended June 30, 2013 and 2012.

8. AIRCRAFT LEASING PORTFOLIO, NET

Aircraft leasing portfolio, net, consists of the following:

	June 30, 2013	December 31, 2012
	(In Millions)	
Aircraft	$6,664	$5,955
Aircraft consolidated from VIEs	2,279	2,353
	8,943	8,308
Accumulated depreciation	1,637	1,548
Aircraft leasing portfolio, net	$7,306	$6,760

As of June 30, 2013 and December 31, 2012, aircraft with a carrying amount of $4,241 million and $4,431 million, respectively, were assigned as collateral to secure debt (Notes 5 and 10).

During the six months ended June 30, 2013 and 2012, ACG recognized aircraft impairments of $14 million and zero, respectively, which are included in operating and other expenses.

During the six months ended June 30, 2013 and 2012, ACG recognized gains (losses) on the sale of aircraft of ($2) million and $7 million, respectively, which are included in other income. Aircraft held for sale totaled $106 million and $151 million as of June 30, 2013 and December 31, 2012, respectively, and are included in aircraft leasing portfolio, net.

See Note 15 for future aircraft purchase commitments.

9. DERIVATIVES AND HEDGING ACTIVITIES

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

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

DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS

The Company has certain insurance and reinsurance contracts that are considered to have embedded derivatives. When it is determined that the embedded derivative possesses economic and risk characteristics that are not clearly and closely related to those of the host contract, and that a separate instrument with the same terms would qualify as a derivative instrument, it is separated from the host contract and accounted for as a stand-alone derivative.

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

GLBs on variable annuity contracts issued between January 1, 2007 and March 31, 2009 are partially 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 and equity put options based upon the S&P 500 Index (S&P 500) and the EAFE Index (Europe, Australia, Asia and Far East) to economically hedge the equity risk of the guarantees in its variable annuity products. The total return swaps provide periodic payments to the Company in exchange for the total return and changes in fair value of the S&P 500 and changes in fair value of the EAFE indices in the form of a payment or receipt, depending on whether the return relative to the indices on trade date is positive or negative, respectively. The equity put options involve the exchange of an upfront payment for the return, at the end of the option agreement, of the equity index below a specified strike price. Payments, amortization of upfront premiums 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.

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

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

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

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

	Notional Amount	
	June 30, 2013	December 31, 2012
	(In Millions)	
Variable annuity GLB embedded derivatives	$36,657	$37,308
Variable annuity derivatives - total return swaps	1,532	2,634
Variable annuity derivatives - equity put options		998
Equity put options	5,135	5,135
Synthetic GICs	20,305	20,194
Foreign currency and interest rate swaps	4,977	7,221
Indexed universal life embedded derivatives	1,356	1,091
Call options	1,243	977
Other	919	604

Notional amount represents a standard of measurement of the volume of derivatives. Notional amount is not a quantification of market risk or credit risk and is not recorded in the condensed consolidated statements of financial condition. Notional amounts generally represent those amounts used to calculate contractual cash flows to be exchanged and are not paid or received, except for certain contracts such as currency swaps. Notional amounts for variable annuity GLB embedded derivatives represents deposits into variable annuity contracts covered by embedded derivative riders as a measurement of volume. 12.92% and 12.85% of the notional is reinsured by third-party reinsurers as of June 30, 2013 and December 31, 2012, respectively. 4.15% and 4.33% of the notional is reinsured by an affiliated reinsurer as of June 30, 2013 and December 31, 2012, respectively.

The following table summarizes amounts recognized in net realized investment gain (loss) for derivatives not designated as hedging instruments. Gains and losses include the changes in estimated fair value of the derivatives and amounts realized on terminations. The amounts presented do not include the periodic net payments and amortization of $308 million and $320 million for the six months ended June 30, 2013 and 2012, respectively, which are recognized in net realized investment gain (loss).

	Amount of Gain (Loss) Recognized in Net Income on Derivatives	
	Six Months Ended June 30,	
	2013	2012
	(In Millions)	
Variable annuity derivatives - total return swaps	($10)	($126)
Equity put options	(160)	(153)
Foreign currency and interest rate swaps [1]	(140)	(55)
Forward starting interest rate swaps		(77)
Call options	93	36
Other	3	12
Embedded derivatives:		
Variable annuity GLB embedded derivatives	712	(260)
Indexed universal life embedded derivatives	(68)	(10)
Other	(1)	(6)
Total	$429	($639)

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

DERIVATIVES DESIGNATED AS CASH FLOW HEDGES

The Company primarily uses interest rate swaps to manage its exposure to variability in cash flows due to changes in benchmark interest rates. These cash flows include those associated with existing liabilities. The maximum length of time over which the Company was hedging its exposure to variability in future cash flow in the non-insurance company operations (primarily ACG) for forecasted transactions did not exceed 20 years.

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). Hedge ineffectiveness related to cash flow hedges was zero for the six months ended June 30, 2013 and 2012.

Amounts reclassified from accumulated OCI (AOCI) to earnings resulting from the discontinuance of cash flow hedges due to forecasted cash flows that were no longer probable of occurring were zero and ($5) million for the six months ended June 30, 2013 and 2012, respectively. Over the next twelve months, the Company anticipates that $10 million of deferred losses on derivative instruments in AOCI will be reclassified to earnings consistent with when the hedged forecasted transaction affects earnings. For the six months ended June 30, 2013, 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 outstanding derivatives designated as cash flow hedges with notional amounts for interest rate swaps of $1,009 million and $1,184 million as of June 30, 2013 and December 31, 2012, respectively. The Company had gains recognized in OCI for changes in estimated fair value for derivatives designated as cash flow hedges for interest rate swaps of $28 million and $10 million for the six months ended June 30, 2013 and 2012, respectively. These amounts do not include the periodic net settlements of the derivatives.

CONDENSED CONSOLIDATED FINANCIAL STATEMENT IMPACT

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

The following table summarizes the gross asset or liability derivative estimated fair value and excludes the impact of offsetting asset and liability positions held with the same counterparty, cash collateral payables and receivables and income accruals. See Note 11.

	Asset Derivatives Estimated Fair Value		Liability Derivatives Estimated Fair Value	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
	(In Millions)		(In Millions)	
Derivatives designated as hedging instruments:				
Interest rate swaps			$56	$84 [5]
Total derivatives designated as hedging instruments	-	-	56	84
Derivatives not designated as hedging instruments:				
Variable annuity derivatives - total return swaps	$7	[1]		11 [1]
	15	[5]	2	17 [5]
Equity put options	5	$87 [1]	2	[1]
	30	88 [5]	66	31 [5]
Call options	74	33 [1]		
	28	24 [5]		
Foreign currency and interest rate swaps	54	89 [1]	66	98 [1]
	40	127 [5]	265	204 [5]
Other	3	1 [5]	13	24 [5]
Embedded derivatives:				
Variable annuity GLB embedded derivatives (including reinsurance contracts)	105	293 [2]	901	1,801 [3]
Indexed universal life embedded derivatives			160	104 [4]
Other			27	16 [4]
Total derivatives not designated as hedging instruments	361	742	1,502	2,306
Total derivatives	$361	$742	$1,558	$2,390

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

Cash collateral received from counterparties was $98 million and $175 million as of June 30, 2013 and December 31, 2012, 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 $154 million and $99 million as of June 30, 2013 and December 31, 2012, 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 June 30, 2013 and December 31, 2012, the Company had also accepted collateral consisting of various securities with an estimated fair value of $8 million and $81 million, respectively, which are held in separate custodial accounts. The Company is permitted by contract to sell or repledge this collateral and as of June 30, 2013 and December 31, 2012, none of the collateral had been repledged. As of June 30, 2013 and December 31, 2012, the Company did not provide any securities as collateral.

OFFSETTING ASSETS AND LIABILITIES

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

	Gross Amounts of Recognized Assets/Liabilities [(1)]	Gross Amounts Offset in the Statement of Financial Condition [(2)]	Net Amounts Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition- Financial Instruments	Net Amount
			(In Millions)		
June 30, 2013:					
Derivative assets	$245	($230)	$15	($8)	$7
Derivative liabilities	489	(288)	201		201
December 31, 2012:					
Derivative assets	$449	($402)	$47	($35)	$12
Derivative liabilities	489	(327)	162		162

(1) As of June 30, 2013 and December 31, 2012, derivative assets include (expense) or income accruals of ($10) million and $6 million, respectively, and derivative liabilities include expense accruals of $21 million and $26 million, respectively.
(2) As of June 30, 2013 and December 31, 2012, the Company received excess cash collateral of $4 million and $2 million, respectively, and provided excess cash collateral of $1 million and $1 million, respectively, which is not included in the table.

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 (OTC) derivatives as of June 30, 2013 was $7 million. The maximum exposure to any single counterparty was $4 million at June 30, 2013.

For all OTC derivative transactions, 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 June 30, 2013, 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 June 30, 2013, is $262 million for which the Company has posted collateral of $152 million. If certain of the Company's financial strength ratings were to fall one notch as of June 30, 2013, the Company would have been required to post an additional $43 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.

10. DEBT

Debt consists of the following:

	June 30, 2013	December 31, 2012
	(In Millions)	
Short-term debt:		
Credit facility recourse only to ACG	$483	$292
Total short-term debt	$483	$292
Long-term debt:		
Surplus notes	$1,771	$1,600
Deferred gains from derivative hedging activities	289	409
Non-recourse long-term debt:		
Debt recourse only to ACG	3,945	3,793
ACG non-recourse debt	453	503
Other non-recourse debt	290	303
ACG VIE debt (Note 5)	741	847
Other VIE debt (Note 5)		18
Total long-term debt	$7,489	$7,473

SHORT-TERM DEBT

Pacific Life maintains a $700 million commercial paper program. There was no commercial paper debt outstanding as of June 30, 2013 and December 31, 2012. In addition, Pacific Life has a bank revolving credit facility of $400 million maturing in November 2016 that serves as a back-up line of credit for the commercial paper program. This facility had no debt outstanding as of June 30, 2013 and December 31, 2012. As of and during the six months ended June 30, 2013, Pacific Life was in compliance with the debt covenants related to this facility.

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

Pacific Life is eligible to receive advances from the FHLB of Topeka based on a percentage of Pacific Life's statutory general account assets provided it has sufficient available eligible collateral and is in compliance with the FHLB of Topeka requirements, debt covenant restrictions and insurance law and regulations. The Company had available eligible collateral of $958 million and $809 million as of June 30, 2013 and December 31, 2012, respectively. The Company had no debt outstanding with the FHLB of Topeka as of June 30, 2013 and December 31, 2012.

PL&A is eligible to receive advances from the FHLB of San Francisco based on a percentage of PL&A's statutory capital and surplus provided it has sufficient available eligible collateral and is in compliance with the FHLB of San Francisco requirements and insurance law and regulations. PL&A had available eligible collateral of $111 million and $122 million as of June 30, 2013 and December 31, 2012, respectively. PL&A had no debt outstanding with the FHLB of San Francisco as of June 30, 2013 and December 31, 2012.

As of June 30, 2013, ACG has revolving credit agreements with banks for an $800 million borrowing capacity. Interest on these loans is payable monthly and ranged from 1.9% to 2.7% as of June 30, 2013 and was 2.7% as of December 31, 2012. The facilities expire at various dates ranging from October 2013 through January 2016. There was $483 million and $292 million outstanding in connection with these revolving credit agreements as of June 30, 2013 and December 31, 2012, respectively. These credit agreements are recourse only to ACG.

LONG-TERM DEBT

On January 22, 2013, the Company, with the approval of the NE DOI, exercised its early settlement right for its 9.25% surplus notes and repurchased and retired $323 million, of the original $1 billion outstanding. The partial retirement of the 9.25% surplus notes was accounted for as an extinguishment of debt and the related amortization of deferred gains (see below) of $112 million and the premium paid of $155 million were recognized in interest expense during the six months ended June 30, 2013. On June 30, 2013, Pacific Life had $677 million of surplus notes outstanding at a fixed interest rate of 9.25%, maturing on June 15, 2039. Interest is payable semiannually on June 15 and December 15. Pacific Life may redeem the 9.25% surplus notes at its option, subject to the approval of the 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. The interest rate swaps were designated as fair value hedges of these surplus notes. During the year ended December 31, 2011, the interest rate swaps were terminated and deferred gains of $364 million as of the termination date were recorded as an increase to the carrying amount of these surplus notes and will be amortized as a reduction to interest expense over the remaining life of these surplus notes using the effective interest method. The resulting effective interest rate of these surplus notes is 6.4%. Total unamortized deferred gains were $239 million and $357 million as of June 30, 2013 and December 31, 2012, respectively.

Pacific Life has $150 million of surplus notes outstanding at a fixed interest rate of 7.9%, maturing on December 30, 2023. Interest is payable semiannually on June 30 and December 30. The 7.9% surplus notes may not be redeemed at the option of Pacific Life or any holder of the surplus notes. The 7.9% surplus notes are unsecured and subordinated to all present and future senior indebtedness and policy claims of Pacific Life. All future payments of interest and principal on the 7.9% surplus notes can be made only with the prior approval of the Nebraska Director of Insurance. The Company entered into interest rate swaps converting these surplus notes to variable rate notes. The interest rate swaps were designated as fair value hedges of these surplus notes. During the year ended December 31, 2011, the interest rate swaps were terminated and deferred gains of $56 million as of the termination date were recorded as an increase to the carrying amount of these surplus notes and will be amortized as a reduction to interest expense over the remaining life of these surplus notes using the effective interest method. The resulting effective interest rate of these surplus notes is 4.0%. Total unamortized deferred gains were $50 million and $52 million as of June 30, 2013 and December 31, 2012, respectively.

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.

In January 2013, the Nebraska Director of Insurance approved the issuance of an internal surplus note by Pacific Life to Pacific LifeCorp for $500 million with net cash proceeds of $494 million. The original issue discount of $6 million will be amortized over the life of the internal surplus note. Pacific Life is required to pay Pacific LifeCorp interest on the internal surplus note semiannually on January 25 and July 25 at a fixed annual rate of 5.125%, subject to regulatory approval. The internal surplus note matures on January 25, 2043.

ACG enters into various secured loans that are guaranteed by the U.S. Export-Import bank or by the European Export Credit Agencies. Interest on these loans is payable quarterly and ranged from 0.5% to 4.3% as of June 30, 2013 and December 31, 2012. As of June 30, 2013, $1,554 million was outstanding on these loans with maturities ranging from 2014 to 2024. As of December 31, 2012, $1,627 million was outstanding on these loans. These loans are recourse only to ACG.

ACG enters into various senior unsecured notes and loans with third-parties. Interest on these notes and loans is payable quarterly or semi-annually and ranged from 2.0% to 7.2% as of June 30, 2013 and December 31, 2012. As of June 30, 2013, $2,391 million was outstanding on these notes and loans with maturities ranging from 2014 to 2023. As of December 31, 2012, $2,113 million was outstanding on these notes and loans. These notes and loans are recourse only to ACG.

ACG entered into various secured bank loans to finance aircraft orders and deposits. These loans were paid off in 2013. As of December 31, 2012, $53 million was outstanding on these loans. These loans were 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 2.7% to 3.6% as of June 30, 2013 and 2.7% to 3.2% as of December 31, 2012. As of June 30, 2013, $453 million was outstanding on these facilities and loans with maturities ranging from 2013 to 2017. As of December 31, 2012, $503 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 (PAH), a wholly owned subsidiary of Pacific Life, enters into various real estate property related loans with various third-parties. Interest on these loans accrues at fixed and variable rates and is payable monthly. Fixed rates ranged from 3.6% to 5.4% as of June 30, 2013 and December 31, 2012. Variable rates ranged from 2.3% to 2.8% as of June 30, 2013 and 2.4% to 4.5% as of December 31, 2012. As of June 30, 2013, there was $290 million outstanding on these loans with maturities during 2015 through 2019. As of December 31, 2012, there was $303 million outstanding on these loans. All of these loans are secured by real estate properties and are non-recourse to the Company.

11. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The Codification's Fair Value Measurements and Disclosures Topic establishes a hierarchy that prioritizes the inputs of valuation methods used to measure estimated fair value for financial assets and financial liabilities that are carried at estimated fair value. The determination of estimated fair value requires the use of observable market data when available. The hierarchy consists of the following three levels that are prioritized based on observable and unobservable inputs.

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

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in inactive markets; and model-derived valuations for which all significant inputs are observable market data. Level 2 instruments include most fixed maturity securities that are valued using inputs that are derived principally from or corroborated by observable market data.

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

The following tables present, by estimated fair value hierarchy level, the Company's financial assets and financial liabilities that are carried at estimated fair value as of June 30, 2013 and December 31, 2012.

	Level 1	Level 2	Level 3	Gross Derivatives Estimated Fair Value	Netting Adjustments [1]	Total
				(In Millions)		
June 30, 2013:						
Assets:						
U.S. Government		$97				$97
Obligations of states and political subdivisions		809	$60			869
Foreign governments		717	53			770
Corporate securities		22,962	1,883			24,845
RMBS		3,762	13			3,775
CMBS		703	6			709
Collateralized debt obligations		1	97			98
Other asset-backed securities		421	377			798
Total fixed maturity securities	-	29,472	2,489	-	-	31,961
Perpetual preferred securities		122				122
Other equity securities			5			5
Total equity securities	-	122	5	-	-	127
Trading securities	$72	93	37			202
Other investments			12			12
Derivatives:						
Foreign currency and interest rate swaps		94		$94	($106)	(12)
Equity derivatives			159	159	(75)	84
Embedded derivatives			105	105		105
Other		2	1	3	(3)	-
Total derivatives	-	96	265	361	(184)	177
Separate account assets [2]	56,392	115	141			56,648
Total	$56,464	$29,898	$2,949	$361	($184)	$89,127
Liabilities:						
Derivatives:						
Foreign currency and interest rate swaps		$387		$387	($106)	$281
Equity derivatives			$70	70	(75)	(5)
Embedded derivatives			1,088	1,088		1,088
Other			13	13	(3)	10
Total	-	$387	$1,171	$1,558	($184)	$1,374

	Level 1	Level 2	Level 3	Gross Derivatives Estimated Fair Value	Netting Adjustments [1]	Total
			(In Millions)			
December 31, 2012:						
Assets:						
U.S. Government		$57				$57
Obligations of states and political subdivisions		911	$32			943
Foreign governments		705	58			763
Corporate securities		22,650	2,213			24,863
RMBS		4,008	8			4,016
CMBS		659	26			685
Collateralized debt obligations		2	117			119
Other asset-backed securities		370	367			737
Total fixed maturity securities	-	29,362	2,821	-	-	32,183
Perpetual preferred securities		118	17			135
Other equity securities	$13		4			17
Total equity securities	13	118	21	-	-	152
Trading securities	16	141	51			208
Other investments	4	108	12			124
Derivatives:						
Foreign currency and interest rate swaps		216		$216	($225)	(9)
Equity derivatives			232	232	(123)	109
Embedded derivatives			293	293		293
Other		1		1	(1)	-
Total derivatives	-	217	525	742	(349)	393
Separate account assets [2]	55,003	138	128			55,269
Total	$55,036	$30,084	$3,558	$742	($349)	$88,329
Liabilities:						
Derivatives:						
Foreign currency and interest rate swaps		$386		$386	($225)	$161
Equity derivatives			$59	59	(123)	(64)
Embedded derivatives			1,921	1,921		1,921
Other		1	23	24	(1)	23
Total	-	$387	$2,003	$2,390	($349)	$2,041

(1) Netting adjustments represent the impact of offsetting asset and liability positions on the condensed 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 table above differ from the amounts presented in the condensed consolidated statements of financial condition because cash and receivables for securities, and investment income due and accrued are not subject to the guidance under the Codification's Fair Value Measurements and Disclosures Topic.

LEVEL 3 RECONCILIATION

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

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

	January 1, 2012	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	June 30, 2012
				(In Millions)				
Obligations of states and political subdivisions	$9			($9)				-
Foreign governments	81		$6	17			($2)	$102
Corporate securities	1,617	$10	32	51	$92	($82)	(48)	1,672
RMBS	1,036	(21)	81	(243)	6	(2)	(72)	785
CMBS	251	1	9	(189)	4	(10)	(41)	25
Collateralized debt obligations	111	13	(5)			(15)		104
Other asset-backed securities	296	1	8	(25)	66		(31)	315
Total fixed maturity securities	3,401	4	131	(398)	168	(109)	(194)	3,003
Perpetual preferred securities	26	(4)	9	(4)		(16)		11
Other equity securities			5					5
Total equity securities	26	(4)	14	(4)	-	(16)	-	16
Trading securities	35				18		(10)	43
Other investments	54	1			1			56
Derivatives, net:								
Equity derivatives	506	(296)					80	290
Embedded derivatives	(1,775)	(277)			(30)		8	(2,074)
Other	(24)	4						(20)
Total derivatives	(1,293)	(569)	-	-	(30)	-	88	(1,804)
Separate account assets (2)	113	5			10	(12)		116
Total	$2,336	($563)	$145	($402)	$167	($137)	($116)	$1,430

(1) Transfers in and/or out are recognized at the end of each quarter.

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

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

During the six months ended June 30, 2012, the Company transferred $350 million of fixed maturity securities out of Level 2 and into Level 3, and transferred $748 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 availability and use of market observable inputs to estimate fair value. During the six months ended June 30, 2012, the Company did not have any significant transfers between Levels 1 and 2.

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

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

	Net Investment Income	Net Realized Investment Gain (Loss)	OTTI	Operating and Other Expenses	Total
Six months ended June 30, 2012:			*(In Millions)*		
Corporate securities	$9	$6	($5)		$10
RMBS	(3)		(18)		(21)
CMBS		1			1
Collateralized debt obligations	1	12			13
Other asset-backed securities	1				1
Total fixed maturity securities	8	19	(23)	-	4
Perpetual preferred securities		(4)			(4)
Total equity securities	-	(4)	-	-	(4)
Other investments	1				1
Equity derivatives		(296)			(296)
Embedded derivatives		(277)			(277)
Other		8		($4)	4
Total derivatives	-	(565)	-	(4)	(569)
Separate account assets		5			5
Total	$9	($545)	($23)	($4)	($563)

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

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(In Millions)	
Trading securities [1]	$1	
Derivatives, net: [1]		
Equity derivatives	(66)	($203)
Embedded derivatives	662	(274)
Other		9
Total derivatives	596	(468)
Separate account assets [2]	6	4
Total	$603	($464)

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

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

The following table presents certain quantitative information on significant unobservable inputs used in the fair value measurement for Level 3 assets and liabilities as of June 30, 2013 (*$ In Millions*).

	Estimated Fair Value Asset (Liability)	Predominant Valuation Method	Significant Unobservable Inputs	Range (Weighted Average)
Obligations of states and political subdivisions	$60	Discounted cash flow	Spread [(1)]	260-399 (333)
Foreign governments	53	Discounted cash flow	Spread [(1)]	40-261 (239)
Corporate securities	1,883	Discounted cash flow	Spread [(1)]	2-839 (246)
		Collateral value [(3)]	Collateral value	23-102 (73)
		Market pricing	Quoted prices [(2)]	50-127 (100)
RMBS	13	Discounted cash flow	Prepayment rate	12%
			Default rate	1%
			Severity	40%
			Spread [(1)]	185
CMBS	6	Discounted cash flow	Prepayment rate	0%
			Default rate	1%
			Severity	30%
			Spread [(1)]	196-460 (251)
Collateralized debt obligations	97	Market pricing	Quoted prices [(2)]	24-100 (86)
Other asset-backed securities	377	Discounted cash flow	Spread [(1)]	72-622 (198)
		Market pricing	Quoted prices [(2)]	62-113 (99)
		Cap at call price	Call price	100
Other equity securities	5	Market comparable companies	EBITDA [(4)] multiple	4x
Trading securities	37	Market pricing	Quoted prices [(2)]	96-107 (103)
Other investments	12	Redemption value [(5)]	Redemption value	100
Equity derivatives	89	Option pricing model	Equity volatility	17%-38%
Embedded derivatives	(983)	Option pricing techniques	Equity volatility	17%-38%
			Mortality:	
			Ages 0-40	0.01%-0.07%
			Ages 41-60	0.06%-0.49%
			Ages 61-120	0.44%-100%
			Mortality improvement	0.20%-1.40%
			Withdrawal utilization	0%-80%
			Lapse rates	1.00%-100%
			Credit standing adjustment	0.59%-1.75%
Other derivatives	(12)	Market pricing	Quoted prices [(2)]	
Separate account assets	141	Net asset value		
Total	$1,778			

(1) Range and weighted average are presented in basis points over the benchmark interest rate curve and include adjustments attributable to illiquidity premiums, expected duration, structure and credit quality.

(2) Independent third-party quotations were used in the determination of estimated fair value.

[3] Valuation based on the Company's share of estimated fair values of the underlying assets held in the trusts.

[4] The abbreviation EBITDA means earnings before interest, taxes, depreciation and amortization.

[5] Represents FHLB common stock that is valued at the contractual amount that will be received upon redemption.

The Company did not have material nonfinancial assets or liabilities measured at fair value on a nonrecurring basis resulting from impairments as of June 30, 2013 and 2012. The Company has not made any changes in the valuation methodologies for nonfinancial assets and liabilities.

12. INCOME TAXES

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

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(In Millions)	
Current	$4	
Deferred	46	($72)
Total	$50	($72)

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

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(In Millions)	
Provision for income taxes at the statutory rate	$126	$7
Separate account dividends received deduction	(40)	(42)
Singapore Transfer	(20)	(18)
Low income housing and foreign tax credits	(11)	(12)
Other	(5)	(7)
Provision (benefit) for income taxes	$50	($72)

As of June 30, 2013 and December 31, 2012, the Company had no unrecognized tax benefits. The Company does not expect any material changes in unrecognized tax benefits during the next twelve months.

ACG transfers aircraft assets and related liabilities to foreign subsidiaries and affiliates in Singapore (collectively referred to as the Singapore Transfer). The Singapore Transfer reduced the provision and increased the benefit from income taxes for the six months ended June 30, 2013 and 2012 by $20 million and $18 million, respectively, primarily due to the reversal of deferred taxes related to basis 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.

PMHC 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, and is auditing the Company's tax returns for the tax years ended December 31, 2009 and 2010. The Company does not expect the Federal audits to result in any material assessments. The State of California concluded audits for tax years 2003 and 2004 without material assessment.

13. SEGMENT INFORMATION

The Company has four operating segments: Life Insurance, Retirement Solutions, Aircraft Leasing and Reinsurance. These segments are managed separately and have been identified based on differences in products and services offered. All other activity is included in the Corporate and Other segment.

The Life Insurance segment provides a broad range of life insurance products through multiple distribution channels operating in the upper income and corporate markets. Principal products include universal life, indexed 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.

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

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

The Reinsurance segment primarily includes the domestic retrocession business acquired in August 2011. Also included in the Reinsurance segment is international reinsurance the Company has assumed from Pacific Life Re Limited (PLR), an affiliate of the Company and wholly owned subsidiary of Pacific LifeCorp. PLR is incorporated in the United Kingdom (UK) and provides reinsurance to insurance and annuity providers in the UK and Ireland and to insurers in selected markets in Asia.

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

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

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

The Company generates the majority of its revenues and net income from customers located in the U.S. As of June 30, 2013 and December 31, 2012, the Company had foreign investments with an estimated fair value of $9.5 billion and $9.8 billion, respectively. Aircraft leased to foreign customers was $6.4 billion and $5.8 billion as of June 30, 2013 and December 31, 2012, respectively. Revenues derived from any customer did not exceed 10% of consolidated total revenues for the six months ended June 30, 2013 and 2012.

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

	Life Insurance	Retirement Solutions	Aircraft Leasing	Reinsurance	Corporate and Other	Total
			(In Millions)			
REVENUES						
Policy fees and insurance premiums	$557	$879		$225		$1,661
Net investment income	519	501	$4	7	$120	1,151
Net realized investment gain (loss)	16	651		1	(275)	393
OTTI	(4)	(1)			(1)	(6)
Investment advisory fees	12	131			21	164
Aircraft leasing revenue			360			360
Other income	6	92	6	2	16	122
Total revenues	1,106	2,253	370	235	(119)	3,845
BENEFITS AND EXPENSES						
Policy benefits	279	735		155		1,169
Interest credited	388	166			62	616
Commission expenses	156	651		9		816
Operating expenses	164	201	73	14	57	509
Depreciation of aircraft			160			160
Interest expense			108		108	216
Total benefits and expenses	987	1,753	341	178	227	3,486
Income (loss) before provision (benefit) for income taxes	119	500	29	57	(346)	359
Provision (benefit) for income taxes	36	131	(12)	20	(125)	50
Net income (loss)	83	369	41	37	(221)	309
Less: net income attributable to the noncontrolling interest					(9)	(9)
Net income (loss) attributable to the Company	$83	$369	$41	$37	($230)	$300
Total assets	$34,006	$73,553	$8,279	$616	$5,294	$121,748
DAC	1,120	3,005		60		4,185
Separate account assets	6,447	50,235				56,682
Policyholder and contract liabilities	24,520	19,047		246	1,922	45,735
Separate account liabilities	6,447	50,235				56,682

The following is segment information for the six months ended June 30, 2012:

	Life Insurance	Retirement Solutions	Aircraft Leasing	Reinsurance	Corporate and Other	Total
			(In Millions)			
REVENUES						
Policy fees and insurance premiums	$554	$958		$243		$1,755
Net investment income	502	442		7	$161	1,112
Net realized investment gain (loss)	19	(600)	($3)		(57)	(641)
OTTI	(12)	(9)			(23)	(44)
Investment advisory fees	11	117			16	144
Aircraft leasing revenue			317			317
Other income	6	80	10	2	1	99
Total revenues	1,080	988	324	252	98	2,742
BENEFITS AND EXPENSES						
Policy benefits	201	769		232		1,202
Interest credited	379	149			92	620
Commission expenses	193	(63)		10		140
Operating expenses	159	192	44	12	45	452
Depreciation of aircraft			146			146
Interest expense			97		65	162
Total benefits and expenses	932	1,047	287	254	202	2,722
Income (loss) before provision (benefit) for income taxes	148	(59)	37	(2)	(104)	20
Provision (benefit) for income taxes	44	(69)	(7)		(40)	(72)
Net income (loss)	104	10	44	(2)	(64)	92
Less: net income attributable to the noncontrolling interest			(2)		(13)	(15)
Net income (loss) attributable to the Company	$104	$10	$42	($2)	($77)	$77
The following is segment information as of December 31, 2012:						
Total assets	$33,837	$73,180	$7,957	$647	$6,171	$121,792
DAC	1,046	3,221		62		4,329
Separate account assets	6,223	49,079				55,302
Policyholder and contract liabilities	23,839	19,398		268	2,583	46,088
Separate account liabilities	6,223	49,079				55,302

14. TRANSACTIONS WITH AFFILIATES

Pacific Life Fund Advisors LLC, a wholly owned subsidiary of Pacific Life, serves as the investment adviser for the Pacific Select Fund, an investment vehicle provided to the Company's variable life insurance policyholders and variable annuity contract owners, and the Pacific Life Funds, the investment vehicle for the Company's mutual fund products. Investment advisory and other fees are based primarily upon the net asset value of the underlying portfolios. These fees, included in investment advisory fees and other income, amounted to $172 million and $148 million for the six months ended June 30, 2013 and 2012, respectively.

Additionally, the Pacific Select Fund and Pacific Life Funds have service and other plans whereby the funds pay Pacific Select Distributors, Inc. (PSD), a wholly owned broker-dealer subsidiary of Pacific Life, as distributor of the fund, a service fee in connection with services rendered or procured to or for shareholders of the fund or their variable annuity and life insurance contract owners. These services may include, but are not limited to, payment of compensation to broker-dealers, including PSD itself, and other financial institutions and organizations, which assist in providing any of the services. For the six months ended June 30, 2013 and 2012, PSD received $64 million and $58 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 $1.2 billion and $1.3 billion as of June 30, 2013 and December 31, 2012, respectively. The estimated fair values of the derivatives were net liabilities of $81 million as of June 30, 2013 and December 31, 2012.

15. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

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

Twelve Months Ending June 30:	
2014	$802
2015 through 2016	787
2017 through 2018	177
2019 and thereafter	11
Total	$1,777

As of June 30, 2013, ACG has commitments with major aircraft manufacturers and other third-parties to purchase aircraft at an estimated delivery price of $7,817 million with delivery from 2013 through 2021. These purchase commitments may be funded:

- up to $924 million in less than one year,
- an additional $1,598 million in one to three years,
- an additional $1,226 million in three to five years, and
- an additional $3,603 million thereafter.

As of June 30, 2013, deposits related to these agreements totaled $466 million and are included in other assets.

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 yearly renewable term (YRT) treaties. Pacific Life retroceded the majority of the underlying YRT treaties on a 100% modified coinsurance basis to Pacific Life Reinsurance (Barbados) Limited (PLRB), a wholly owned subsidiary of Pacific LifeCorp (PLRB Agreement). The PLRB Agreement is 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 retrocession business have been pledged and placed in reinsurance trusts (Note 7). If the estimated fair market value of the pledged assets in these trusts fall below a minimum value, the Company is required to promptly deposit additional funds into the trusts to account for any shortfall.

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

On January 1, 2013, Pacific Life entered into an agreement with Pacific Life Reinsurance Company II Limited (PLRC), a Barbados-based life reinsurance company formed in 2012 and wholly owned by Pacific Life, to guarantee the performance of unaffiliated reinsurance obligations of PLRC. PLRC pays Pacific Life a fee for its guarantee.

In connection with the reinsurance of NLGR benefits ceded from Pacific Life to PAR Vermont, PAR Vermont has a credit agreement with a maximum commitment amount of $843 million and a 20 year term expiring October 2031. As of June 30, 2013, the letter of credit amounted to $522 million. This 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 expiration dates ranging from 2013 to 2014. The gross remaining residual value exposure under these agreements was $49 million and $89 million as of June 30, 2013 and December 31, 2012, respectively. As of June 30, 2013, 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 a judge or jury could rule against the Company. In the opinion of management, the outcome of such proceedings is not likely to have a material adverse effect on the Company's condensed consolidated financial statements. The Company believes adequate provision has been made in its condensed consolidated financial statements for all probable and estimable losses for litigation claims against the Company.

CONTINGENCIES - IRS REVENUE RULING

In 2007, the IRS issued Revenue Ruling 2007-54, which provided the IRS' interpretation of tax law regarding the computation of the Dividends Received Deductions (DRD) and Revenue Ruling 2007-61, which suspended Revenue Ruling 2007-54 and indicated the IRS would address the proper interpretation of tax law in a regulation project that is on the IRS' priority guidance plan. 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 condensed consolidated financial statements.

CONTINGENCIES - OTHER

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

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

The Asset Purchase Agreements of Aviation Trust, ACG Trust II and ACG Trust III (Note 5) provide that Pacific LifeCorp will guarantee the performance of certain obligations of ACG, as well as provide certain indemnifications, and that Pacific Life will assume certain obligations of ACG arising from the breach of certain representations and warranties under the Asset Purchase Agreements. Management believes that obligations, if any, related to these guarantees are not likely to have a material adverse effect on the Company's condensed consolidated financial statements. The financial debt obligations of 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 9 for discussion of contingencies related to derivative instruments.

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