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, 2010 and 2009 and for the years ended December 31, 2010, 2009 and 2008 (the **"Audited GAAP Financial Statements"**), and the Company's unaudited GAAP condensed consolidated financial statements, including the notes thereto, as of June 30, 2011 and for the six months ended June 30, 2011 and 2010 (the **"Unaudited Quarterly GAAP Financial Statements"**).

Dated: August 31, 2011

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 $1,231 million aggregate principal amount remained outstanding as of June 30, 2011. PLF issued these instruments in a variety of currencies and with maturities that varied from one to 20 years both to institutional investors in a variety of jurisdictions and to retail investors in the United Kingdom, The Netherlands, Germany and Switzerland.

PLF's principal assets are funding agreements issued by Pacific Life. Each outstanding series of instruments issued by PLF is secured by one or more funding agreements. No instruments of a series have any right to receive payments under a funding agreement related to any other series of instruments. Accordingly, PLF is only able to make timely payments with respect to a series of instruments if Pacific Life has made all required payments under the funding agreements securing such series of instruments. Because PLF's ability to satisfy its obligations under a series of instruments depends upon Pacific Life's performance under the related funding agreements, this 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 Scott 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, 2011 prepared in conformity with GAAP. The information as of June 30, 2011 in this table is derived from the unaudited GAAP condensed financial statements of PLF as of June 30, 2011 and for the six months ended June 30, 2011 and 2010.

	June 30, 2011
Debt:	
Short-term debt	-
Long-term debt	$ 1,231,091,789
Total debt	1,231,091,789
Equity:	
Paid-in capital	1,000
Retained earnings	24,589
Accumulated other comprehensive income	-
Total equity	25,589
Total capitalization	$ 1,231,117,378

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, 2011. 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, 2011. 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, 2011.

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, 2011, and contains a fair review of that period.

Dated: August 31, 2011

/s/ Martin Couch
Martin Couch
Director

/s/ Dianne Scott
Dianne Scott
Director

PACIFIC LIFE INSURANCE COMPANY

Selected Consolidated GAAP Financial Information of the Company

The following 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 as of April 29, 2011, 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, 2011 (other than "life insurance in force" and "employees" included in "Other Data") and for the six months ended June 30, 2011 and 2010 has been derived from the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report.

Effective December 31, 2009, Pacific LifeCorp, Pacific Life's parent, contributed its 100% stock ownership of Aviation Capital Group Corp. ("**ACG**") to Pacific Life. ACG is engaged in the acquisition and leasing of commercial jet aircraft. The financial information contained in the Semi-Annual Report has been prepared by combining the previously separate financial statements of Pacific Life and ACG as if the two entities had been combined as of the beginning of 2008, the first period presented in this Semi-annual Report. This retrospective treatment is prescribed by GAAP whenever a transfer between entities under common control is effected.

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

	Six Months Ended June 30,		Years Ended December 31,		
	2011	2010	2010	2009	2008
			(in millions)		
Unaudited Consolidated Statement of Operations Data:					
Revenues:					
Policy fees and insurance premiums	$1,494	$1,248	$2,367	$2,275	$1,997
Net investment income	1,139	1,090	2,122	1,862	1,994
Net realized investment gain (loss)	(76)	34	(207)	(158)	(1,329)
Net realized investment gain on interest in PIMCO	-	-	-	-	109
Investment advisory fees	132	120	245	208	255
Aircraft leasing revenue	297	302	591	578	571
Other income	112	80	230	137	167
Total revenues	3,098	2,874	5,348	4,902	3,764
Benefits and Expenses:					
Policy benefits paid or provided	944	737	1,351	1,226	1,206
Interest credited to policyholder account balances	665	641	1,317	1,253	1,234
Commission expenses	356	389	831	691	715
Operating and other expenses	657	625	1,264	1,246	1,178
Total benefits and expenses	2,622	2,392	4,763	4,416	4,333
Income (loss) from continuing operations before provision (benefit) for income taxes	476	482	585	486	(569)
Provision (benefit) for income taxes	81	108	63	44	(315)
Income (loss) from continuing operations	395	374	522	442	(254)
Discontinued operations, net of taxes[1]	(6)	-	-	(20)	(6)
Net income (loss)	389	374	522	422	(260)
Less: net (income) loss attributable to the noncontrolling interest from continuing operations	(45)	(33)	(50)	14	3
Net income (loss) attributable to the Company	$ 344	$ 341	$ 472	$ 436	$ (257)

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

	June 30, 2011	December 31, 2010	2009	2008
		($ in millions)		
Unaudited Consolidated Statement of Financial Condition Data:				
Assets:				
Investments	$ 44,341	$ 44,222	$ 41,410	$ 36,752
Cash and cash equivalents	2,164	2,270	1,919	3,397
Restricted cash	945	214	221	227
Deferred policy acquisition costs	4,483	4,435	4,806	5,012
Aircraft leasing portfolio, net	5,641	5,259	5,304	4,999
Other assets	2,815	2,579	2,253	3,276
Separate account assets	56,209	55,683	52,564	41,505
Total assets	$ 116,598	$ 114,662	$ 108,477	$ 95,168
Liabilities and Equity				
Liabilities:				
Policyholder account balances	$ 34,795	$ 35,076	$ 33,984	$ 32,670
Future policy benefits	7,534	7,080	7,403	9,841
Short-term debt	-	-	105	150
Long-term debt	6,839	6,516	5,632	4,459
Other liabilities	2,639	2,377	1,872	1,863
Separate account liabilities	56,209	55,683	52,564	41,505
Total liabilities	108,016	106,732	101,560	90,488
Stockholder's Equity:				
Common stock	30	30	30	30
Paid-in capital	982	982	982	782
Retained earnings	6,703	6,359	6,037	5,426
Accumulated other comprehensive income (loss)	555	308	(363)	(1,802)
Total stockholder's equity	8,270	7,679	6,686	4,436
Noncontrolling interest	312	251	231	244
Total equity	8,582	7,930	6,917	4,680
Total liabilities and equity	$ 116,598	$ 114,662	$ 108,477	$ 95,168
Other Data:				
Life insurance in force	$ 222,117	$ 221,560	$ 220,935	$ 220,822
Employees	2,558	2,541	2,592	2,892

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.

Background

Pacific Life was established in 1868 and is a stock life insurance company incorporated in the State of Nebraska, United States of America (**"U.S."**), 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 stock holding company incorporated in the State of Delaware, United States of America. Pacific LifeCorp is a direct, wholly-owned subsidiary of Pacific Mutual Holding Company (**"PMHC"**), a mutual insurance holding company incorporated in the State of Nebraska, United States of America. 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 State of 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 include (1) providing life insurance products, individual annuities and mutual funds, (2) offering to individuals, businesses and pension plans a variety of investment products and services, and (3) acquiring and leasing commercial aircraft. As of June 30, 2011 and December 31, 2010 and 2009, the Company had $116.6 billion, $114.7 billion and $108.5 billion, respectively, in total assets, and total stockholder's equity of $8.3 billion, $7.7 billion and $6.7 billion, respectively. Life insurance in force was $222.1 billion, $221.6 billion and $220.9 billion as of June 30, 2011 and December 31, 2010 and 2009, respectively. Net income (loss) attributable to the Company was $344 million for the six months ended June 30, 2011 (the **"2011 Period"**), as compared to $341 million for the six months ended June 30, 2010 (the **"2010 Period"**), and $472 million for the year ended December 31, 2010 as compared to $436 million for the year ended December 31, 2009.

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.

The following discusses the Company's primary operating segments: Life Insurance, Retirement Solutions, Aircraft Leasing and Corporate and Other, as well as its principal subsidiaries and affiliates.

Segments

The Life Insurance segment provides a broad range of life insurance products through multiple distribution channels operating in the upper income and corporate markets. Principal products include universal life, variable universal life, survivor life, interest sensitive whole life, corporate-owned life insurance and traditional products such as whole life and term life. Distribution channels include regional life offices, marketing organizations, broker-dealer firms, wirehouses and M Financial, an association of independently owned and operated insurance and financial producers. As of June 30, 2011 and December 31, 2010, the Life Insurance segment represented 27% of the Company's total assets.

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 sources. Distribution channels include independent planners, financial institutions and

national/regional wirehouses. As of June 30, 2011 and December 31, 2010, this segment represented 59% of the Company's total assets.

The Aircraft Leasing segment encompasses the operations of Aviation Capital Group Corp. (**"ACG"**). This segment focuses primarily on the acquisition and leasing of commercial jet aircraft to airlines worldwide, while also engaging in third-party aircraft management advisory services, aircraft trading activities and aircraft brokerage services. The Aircraft Leasing segment's portfolio included, as of June 30, 2011, 207 consolidated aircraft. As of June 30, 2011 and December 31, 2010, the Aircraft Leasing segment represented 6% of the Company's total assets.

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

Principal Subsidiaries and Affiliates

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

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

PSD is a registered broker-dealer and the underwriter and wholesale distributor of certain of the Company's investment-related products and services, principally variable life and annuity contracts and retail mutual funds. Effective May 1, 2007, a service plan adopted by the Pacific Select Fund, the investment vehicle provided to the Company's variable life insurance policyholders and variable annuity contract owners, went into effect whereby the fund pays PSD, as distributor of the fund, a service fee in connection with services rendered or procured to or for shareholders of the fund or their variable contract owners. These services may include, but are not limited to, payment of compensation to broker-dealers, including PSD itself, and other financial institutions and organizations which assist in providing any of the services.

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

Pacific Asset Holding LLC (**"PAH"**), a wholly-owned subsidiary of Pacific Life, holds certain other investments, primarily private equity and real estate holdings. PAH also held the Company's remaining beneficial economic interest in Pacific Investment Management Company LLC (**"PIMCO"**) until the final remaining interest was sold during 2008 to Allianz of America, Inc., a subsidiary of Allianz SE for $288 million and recognized a pre-tax gain of $109 million.

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

In July 2011, the Company signed an agreement to purchase the life retrocession business of Manulife Financial Corporation, subject to regulatory approval. The transaction is expected to be completed during the third quarter of 2011.

In July 2011, Pacific Life purchased a pension advisory services business, which will conduct business as Pacific Life Global Advisors, LLC (**"PGA"**), a wholly owned subsidiary of Pacific Life. PGA's primary business objective is to provide advisory services to employee benefit plans.

Revenues and Expenses

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

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

Results of Operations

Six Months Ended June 30, 2011 compared to the Six Months Ended June 30, 2010

Net income attributable to the Company was $344 million for the 2011 Period as compared to $341 million for the 2010 Period. The slight increase in net income was the result of lower mark-to-market losses on rider guarantees, net of hedges, lower deferred acquisition cost (**"DAC"**) amortization and reinsurance, partly offset by higher trail commissions in the Retirement Solutions segment. The increase in net income attributable to the Company was partially offset by put option hedging losses in the 2011 Period compared to gains in the 2010 Period and lower net income in products provided by the Corporate and Other segment, partly offset by higher returns from the Corporate surplus portfolio in the Corporate and Other segment. The Life Insurance segment also had lower realized investment gains and higher net death claims. See the discussion of the condensed consolidated statement of operations line items below.

Policy fees and insurance premiums increased $246 million for the 2011 Period to $1,494 million as compared to $1,248 million for the 2010 Period. Policy fees consist of cost-of-insurance charges, expense loads, surrender charges and other fees related to products. This increase was primarily due to sales from a new Retirement Solutions segment product and higher retail contract fees resulting from higher average separate account assets under management, partially offset by decreases in Life Insurance segment policy charges.

Net investment income increased from $1,090 million in the 2010 Period to $1,139 million in the 2011 Period, an increase of 5%. The increase in the 2011 Period as compared to the 2010 Period was primarily related to higher investment income from partnership and joint venture investments and mortgage loans, partially offset by lower investment income from fixed maturity securities.

Net realized investment loss for the 2011 Period amounted to $76 million compared to a gain of $34 million for the 2010 Period. This increase in net realized investment losses of $110 million was primarily related to higher losses from put option hedges, which increased $457 million from a gain of $358 million in the 2010 Period to a loss of $99 million in the 2011 Period. Partially offsetting this was a $324 million gain in the negative mark-to-market of embedded derivatives for variable annuity guarantees, net of hedges, which decreased from a loss of $396 million in the 2010 Period to a loss of $72 million in the 2011 Period. Also contributing to the higher investment losses were higher other than temporary impairments (**"OTTI"**), which increased to $42 million in the 2011 Period as compared to $34 million in the 2010 Period. 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).

Investment advisory fees increased $12 million to $132 million in the 2011 Period from $120 million in the 2010 Period. This increase was primarily attributable to the increase in advisory fees earned on assets under management in the separate accounts. Separate account assets increased by $6.4 billion from $49.8 billion as of June 30, 2010 to $56.2 billion as of June 30, 2011.

Aircraft leasing revenue decreased $5 million to $297 million in the 2011 Period from $302 million in the 2010 Period. This slight decrease of $5 million was primarily the result of an increase in the number of aircraft in transition, partially offset by increased revenue from net aircraft additions.

Other income was $112 million in the 2011 Period as compared to $80 million in the 2010 Period, an increase of $32 million. Other income was higher in the 2011 Period as compared to the 2010 Period due to higher service fee revenue earned by the Retirement Solutions segment. These asset-based fees are calculated on separate account assets, which, as described above, increased in the 2011 Period as compared to the 2010 Period. Also contributing to the increase was $16 million of gains on sales of aircraft in the Aircraft Leasing segment.

Policy benefits paid or provided increased $207 million to $944 million for the 2011 Period from $737 million for the 2010 Period. The increase was primarily related to increases in reserves in the Retirement Solutions segment. The Life Insurance segment also experienced an increase, which occured as a result of higher death benefit payments.

Interest credited to policyholder account balances increased to $665 million for the 2011 Period from $641 million for the 2010 Period. This increase of $24 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 the 2011 Period decreased $33 million to $356 million compared to $389 million in the 2010 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 decrease in the 2011 Period as compared to the 2010

Period was due to a decrease in the Life Insurance segment due to lower DAC amortization and a decrease in Retirement Solutions segment resulting from allocated benefits from the unlocking of DAC assumptions net of increased trail commissions.

Operating and other expenses for the 2011 Period increased by $23 million compared to the 2010 Period, to $657 million from $625 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, net of hedges and policy fees, related to variable annuity guaranteed living benefits in the Retirement Solutions segment. For most products, DAC amortization represents a percentage of gross profits. During the 2011 Period, the Retirement Solutions segment had slightly higher operating expenses of $4 million to support business growth. The Aircraft Leasing segment had an increase of $19 million in operating expenses primarily due to higher aircraft maintenance expenses and operating lease expenses. Also included in operating and other expenses is interest expense that increased $5 million in the 2011 Period as compared to the 2010 Period due to the issuance of a $450 million internal surplus note by Pacific Life to Pacific LifeCorp in March 2010. See "Liquidity and Capital Resources" below for further discussion of the surplus note issuance.

The provision for income taxes for the 2011 Period amounted to $81 million compared to $108 million for the 2010 Period. This decrease in tax expense was primarily due to lower taxable income realized by the Company in the 2011 Period. The taxes in the 2011 Period and in the 2010 Period were lower than the statutory rate primarily due to the separate account dividends received deductions and other tax credits.

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

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

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

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

Net realized investment loss for 2010 amounted to ($207) million compared to ($158) million for 2009. The increase in net realized investment loss of $49 million was primarily related to a $440 million negative change in the mark-to-market of certain embedded derivatives related to variable annuity guaranteed living benefits in the Retirement Solutions segment, net of hedges and policy fees, which decreased from a gain of $299 million in 2009 to a loss of $141 million in 2010. Partially offsetting this loss were lower OTTI losses of $199 million, higher realized gains from the sales of investments of $132 million and lower hedging losses in the Corporate and Other segment of $100 million in 2010 as compared to 2009. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated as of April 29, 2011 for additional information on the components of net realized investment gains and losses.

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

Aircraft leasing revenue increased $13 million to $591 million in 2010 from $578 million in 2009. This increase of $13 million was primarily the result of an increase of $60 million from additional aircraft that were put in service during 2009 and 2010, partially offset by a $47 million decline in revenue due to an increase in the number of aircraft sold and non-earning aircraft during 2010, as well as declines in revenues earned from floating rate leases, which are correlated with certain benchmark interest rates.

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

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

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

Commission expenses for 2010 increased $140 million to $831 million compared to $691 million in 2009. Commission expenses include components of DAC and vary with the level of sales by business segment due to the mix of products, as well as the change in the embedded derivative, net of hedges and policy fees, related to variable annuity guaranteed living benefits in the Retirement Solutions segment. The commission expenses in the Retirement Solutions segment were the primary reason for the increase in 2010 as compared to 2009 due to higher DAC amortization.

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

The provision for income taxes for 2010 amounted to $63 million compared to $44 million for 2009. The taxes in 2010 and in 2009 were lower than the statutory rate primarily due to the separate account dividends received deductions.

Year Ended December 31, 2009 compared to the Year Ended December 31, 2008

Net income attributable to the Company for the year ended December 31, 2009 was $436 million as compared to a net loss of $257 million for the year ended December 31, 2008. The increase was primarily due to a decrease in net realized investment loss in 2009 of $1,171 million as compared to 2008. The primary reason for the decrease in net realized investment loss was an $806 million increase in the positive mark-to-market of certain embedded derivatives related to variable annuity guaranteed living benefits in the Retirement Solutions segment, net of hedges and policy fees, in 2009 compared to 2008. Also contributing to the decrease in net realized investment loss in 2009 was lower OTTI of $311 million in 2009 compared to $580 million in 2008. These changes were partially offset by a pre-tax realized investment gain of $109 million that was recorded in relation to the sale of the Company's interest in PIMCO during 2008. See the discussion of consolidated statement of operations line items below.

Policy fees and insurance premiums in 2009 were $2,275 million compared to $1,997 million for 2008, an increase of 14%. Policy fees consist of cost-of-insurance charges, expense loads, surrender charges and other fees related to products. These fees increased in the Life Insurance segment primarily as a result of an increase in amortization of unearned revenue and policy fee assessments. The Retirement Solutions segment also recorded increases to insurance premiums from increases in retirement annuity sales and increases in structured settlement annuity sales. These increases were partially offset by total policy fees that decreased in the Retirement Solutions segment primarily from lower contract fees from lower average assets under management.

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

Net realized investment loss for 2009 amounted to $158 million compared to $1,329 million for 2008, a decrease of $1,171 million. The primary reason for the decrease in net realized investment loss was an $806 million increase in the positive mark-to-market of certain embedded derivatives related to variable annuity guaranteed living benefits in the Retirement Solutions segment, net of hedges and policy fees, in 2009 compared to 2008. Also contributing to the decrease in net realized investment loss in 2009 was lower OTTI of $311 million in 2009 compared to $580 million in 2008. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated as of April 29, 2011 for additional information on the components of net realized investment gains and losses.

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

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

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

Other income decreased $30 million, or 18%, to $137 million in 2009 as compared to $167 million in 2008. The decrease in other income was primarily related to a decrease in the fees earned by PSD in connection with the Pacific Select Fund service plan. These fees are asset-based fees that are calculated on separate account assets and decreased primarily due to lower average separate account assets

during 2009 compared to 2008. See "Assets" below for further discussion of the changes in separate account assets and "Principal Subsidiaries and Affiliates" above for a discussion of PSD and the Pacific Select Fund service plan.

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

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

Commission expenses decreased $24 million, or 3%, to $691 million for 2009 as compared to $715 million for 2008. Commission expenses include components of DAC and vary with the level of sales by business segment due to the mix of products. The decrease in 2009 versus 2008 was due to lower DAC amortization of commission expenses in the Retirement Solutions segment, mostly offset by higher DAC amortization resulting from the annual unlocking process and model revisions in the Life Insurance segment for 2009 as compared to 2008.

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

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

Assets

As of June 30, 2011, the Company had total assets of $116.6 billion as compared to $114.7 billion as of December 31, 2010. An increase in separate account assets from $55.7 billion at December 31, 2010 to $56.2 billion at June 30, 2011 contributed to the increase in total assets. In addition, restricted cash increased by $0.7 billion, aircraft leasing portfolio, net increased by $0.3 billion and other assets

increased by $0.3 billion from December 31, 2010 to June 30, 2011. See the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report for additional information.

As of December 31, 2010, the Company had total assets of $114.7 billion as compared to $108.5 billion as of December 31, 2009. This increase in total assets was partially due to an increase in separate account assets from $52.6 billion at December 31, 2009 to $55.7 billion at December 31, 2010. Total investments also increased from $41.4 billion as of December 31, 2009 to $44.2 billion as of December 31, 2010, primarily due to increases in fixed maturity securities. Cash and cash equivalents also increased by $0.4 billion and other assets increased by $0.3 billion from December 31, 2009 to December 31, 2010. This increase was partially offset by a $0.4 billion decrease to DAC. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated as of April 29, 2011 for additional information.

As of December 31, 2009, the Company had total assets of $108.5 billion as compared to $95.2 billion as of December 31, 2008. This increase in total assets was primarily attributable to the increase in separate account assets from $41.5 billion as of December 31, 2008 to $52.6 billion as of December 31, 2009, primarily due to positive returns in the equity markets between December 31, 2008 and December 31, 2009. Also contributing to the increase in total assets was an increase of $4.7 billion in total investments primarily due to increases in fixed maturity securities, mortgage loans and equity securities, partially offset by a decrease in policy loans and other investments. These increases in total assets were also partially offset by a decrease in cash and cash equivalents of $1.5 billion and a decrease in other assets of $1.0 billion due to decreases in net deferred tax assets and reinsurance receivables, which decreases were partially offset by increases in premium receivables. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated as of April 29, 2011 for additional information.

Liabilities

As of June 30, 2011, the Company had total liabilities of $108.0 billion as compared to $106.7 billion as of December 31, 2010. This increase in total liabilities was partially a result of the increase in separate account liabilities from $55.7 billion as of December 31, 2010 to $56.2 billion as of June 30, 2011. This increase was also due to a net increase in long-term debt of $0.3 billion primarily from the issuance by ACG of $750 million of senior unsecured notes in April 2011, net of reductions in other ACG long-term debt. The increase in total liabilities was also attributable to increases in future policy benefits of $0.4 billion.

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

As of December 31, 2009, the Company had total liabilities of $101.6 billion as compared to $90.5 billion as of December 31, 2008. This increase in total liabilities was primarily attributable to the increase in separate account liabilities from $41.5 billion as of December 31, 2008 to $52.6 billion as of December 31, 2009, primarily due to positive returns in the equity markets between December 31, 2008 and December 31, 2009. In addition, long-term debt increased $1.1 billion primarily due to the issuance by Pacific Life of $1.0 billion of surplus notes in June 2009. See "Liquidity and Capital Resources" below for further discussion of the surplus note issuance. Total liabilities also increased as a result of a $1.3 billion increase to policyholder account balances. These increases were partially offset by a $2.4 billion decrease in future policy benefits.

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 $106 million during the 2011 Period as compared to an increase of $583 million during the 2010 Period and increased $351 million during 2010 as compared to a decrease of $1,478 million during 2009. Total cash and cash equivalents increased $2,703 million during 2008.

Net cash provided by operating activities was $1,529 million during the 2011 Period as compared to $1,208 million in the 2010 Period, and was $3,024 million during 2010 as compared to $2,410 million in 2009 and $2,456 million in 2008. 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 flow from financing activities rather than as cash flow from operations, while sales of variable products result in cash flows that are predominantly reflected in the separate accounts and are not a part of the cash flow statement.

Net cash provided by (used in) investing activities was ($914) million during the 2011 Period as compared to ($92) million in the 2010 Period, and was ($2,301) million during 2010 as compared to ($5,334) million during 2009 and $837 million in 2008. Net cash used in investing activities was higher in the 2011 Period as compared to the 2010 Period due to lower sales partially offset by lower purchases of fixed maturity and equity securities available for sale. The higher net cash used in investing activities was also attributable to higher fundings of mortgage loans and real estate partially offset by higher repayments of mortgage loans. The increase in net cash used in investing activities was also due to increased purchases and advanced payments in the aircraft leasing portfolio. Net cash used in investing activities was lower in 2010 as compared to 2009 due to higher fixed maturity and equity securities sales, partially offset by an increase in purchases. The increase in net cash used in investing activities in 2009 was due to increased purchases of fixed maturity and equity securities in 2009. The Company had reduced purchases of fixed maturity and equity securities during 2008 resulting in increased investing cash flow. It is the Company's objective to remain fully invested in assets with maturities and yields that it believes are matched to its product liabilities. As assets mature, are redeemed or are sold, the Company evaluates the available investment alternatives, reinvests according to existing and expected product liabilities as well as seeks to ensure that sufficient marketable assets and other sources of liquidity are in place to provide for large unexpected demands for cash. Discrepancies between the timing of financial statement preparation and the timing of reinvestment activity sometimes result in the presentation of levels of short-term investments that are not typical of day-to-day operations. These short-term investments are considered cash equivalents. Also contributing to the lower cash outflows in 2010 as compared to 2009 was the net change in cash collateral received or pledged. The Company also had fluctuations in payments for nonhedging derivative settlements and change in collateral received or pledged during 2010, 2009 and 2008. The decrease in 2010 from 2009 in cash payments for nonhedging derivative settlements was due to a decrease in settlements on total return swap derivatives used to hedge variable annuity risks. The increase from 2008 to 2009 in cash payments for nonhedging derivative settlements was due to instruments which are tied to the return of the S&P 500 Index. In 2009, on an aggregate basis, the Company returned cash collateral to counterparties due to a decrease in the net aggregate exposure resulting from a decrease in the derivative positions' market value.

Net cash provided by (used in) financing activities was ($721) million during the 2011 Period as compared to ($533) million in the 2010 Period, and was ($372) million during 2010 as compared to $1,446 million in 2009 and ($590) million during 2008. The increase in net cash used in financing activities in the 2011 Period as compared to the 2010 Period primarily related to higher policyholder account balance withdrawals, partially offset by a $150 million cash dividend Pacific Life paid to Pacific LifeCorp in March 2010. The decrease in 2010 as compared to 2009 primarily related to lower policyholder account balance deposits and withdrawals. Also contributing to the decrease was an increase in payments of long-term

debt. Pacific Life also paid a $150 million cash dividend to Pacific LifeCorp in March 2010 and Pacific LifeCorp made a $200 million contribution to Pacific Life in 2009. The increase in 2009 as compared to 2008 primarily related to the issuance by Pacific Life of an aggregate principal amount of $1.0 billion of surplus notes in June 2009 and a $200 million contribution from Pacific LifeCorp to Pacific Life in 2009, compared to a $345 million cash dividend paid by Pacific Life to Pacific LifeCorp in 2008. Also, changes in universal life and investment-type product account balances and changes in short-term and long-term debt were additional drivers of the change in cash flows from financing activities.

The payment of dividends by Pacific Life to Pacific LifeCorp is subject to restrictions set forth in the insurance laws of the State of Nebraska. Under these laws, Pacific Life must deliver notice to the Nebraska Department of Insurance of any dividend or distribution to Pacific LifeCorp within five business days after declaration of the dividend or distribution, and may not pay the dividend or distribution to Pacific LifeCorp within the ten business day period following delivery of such notice unless the Nebraska Department of Insurance approves payment of the dividend or distribution within such ten business day period. In addition, Pacific Life may not pay an "extraordinary" dividend or distribution to Pacific LifeCorp until the Nebraska Department of Insurance has either (i) approved the payment of the dividend or distribution or (ii) not disapproved the payment of the dividend or distribution within thirty days after receiving notice of the declaration of the dividend or distribution. For purposes of applicable State of 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 its 2010 statutory results, Pacific Life could pay $688 million in ordinary dividends or distributions during 2011, 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 State of Nebraska law and would be subject to the thirty day notice and non-disapproval requirement described above. During the 2010 Period, Pacific Life paid a cash dividend to Pacific LifeCorp of $150 million. No dividends were paid by Pacific Life during the 2011 Period or during 2009. During 2008, Pacific Life paid a cash dividend to Pacific LifeCorp of $345 million. In July 2011, Pacific Life declared a cash dividend to Pacific LifeCorp of $125 million.

Liquidity and Capital Sources and Requirements

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

The Company believes that its product mix contributes to its strong liquidity position. A primary liquidity concern for the Company is the risk of early contract owner and policyholder withdrawals. The Company closely evaluates and manages this risk. A significant portion of the Company's life insurance, institutional and annuity products contain surrender charges for varying durations or fair value adjustments, reducing the risk that customers will seek withdrawals during the periods when surrender charges or fair value adjustments are in place. Surrender charges or fair value adjustments help the Company to better plan the maturities of its invested assets by reducing the risk that future outflows will exceed anticipated levels.

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

	June 30, 2011		December 31, 2010	
	Amount	% of Total	Amount	% of Total
	($ in millions)			
Subject to discretionary withdrawal:				
With fair value adjustment	$ 3,423	5%	$ 3,831	6%
At book value less current surrender charge of 5% or more	3,435	5%	3,293	5%
At fair value	47,248	73%	46,959	72%
Total with adjustment or at fair value	54,106	83%	54,083	83%
At book value without adjustment	1,886	3%	1,900	3%
Not subject to discretionary withdrawal	8,937	14%	9,409	14%
Total (gross)	64,929	100%	65,392	100%
Reinsurance ceded	–		–	
Total (net)	$ 64,929		$ 65,392	

As noted in the table above, as of June 30, 2011 and December 31, 2010, only 3% of these liabilities were subject to withdrawal at book value without adjustment. The other 97% of these liabilities as of June 30, 2011 and December 31, 2010 were either subject to withdrawal with an adjustment or at fair value or were not subject to discretionary withdrawal. The products are designed in this manner to discourage early withdrawals and protect Pacific Life from liquidity risks. Pacific Life believes the structuring of liabilities in this manner provides it with a stable block of liabilities that reduces its exposure to unexpected cash withdrawals and demands and the adverse financial effects that could occur as a result.

In June 2009, Pacific Life issued an aggregate principal amount of $1.0 billion of surplus notes maturing on June 15, 2039. Pacific Life is required to pay interest on these surplus notes at an annual rate of 9.25%. Pacific Life also has outstanding $150 million of surplus notes due December 30, 2023 on which Pacific Life is required to pay interest at an annual rate of 7.90%. For both of these surplus notes, all future payments of interest and principal can be made only with the prior approval of the Nebraska Director of Insurance. The Company has entered into interest rate swaps to convert some of these fixed rate obligations to variable rate obligations based upon the London InterBank Offered Rate. See Note 10 in the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report for additional information.

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

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

Additional sources of liquidity include facilities for short-term borrowing to meet working capital requirements. Pacific Life maintains a $700 million commercial paper program. There was no commercial paper debt outstanding as of June 30, 2011 and December 31, 2010 and 2009. In addition, a bank revolving credit facility totaling $400 million is also in place that serves as a back-up line of credit for the commercial paper program. The credit facility matures in June 2012 and does not contain a material

adverse change clause. This facility had no debt outstanding as of June 30, 2011 and December 31, 2010 and 2009. As of June 30, 2011 and December 31, 2010 and 2009, and for the six months ended June 30, 2011 and years ended December 31, 2010 and 2009, 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, 2011 and December 31, 2010 and 2009.

Pacific Life is a member of the Federal Home Loan Bank (**"FHLB"**) of Topeka. Pacific Life has approval from the FHLB of Topeka to advance amounts up to 40% of Pacific Life's statutory general account assets provided it has available collateral and is in compliance with debt covenant restrictions and insurance laws and regulations. There was no debt outstanding with the FHLB of Topeka as of June 30, 2011 and December 31, 2010 and 2009. The Company had zero, zero and $127 million of additional funding capacity from eligible collateral as of June 30, 2011, December 31, 2010 and December 31, 2009, respectively.

PL&A is a member of the FHLB of San Francisco. PL&A is eligible to borrow from the FHLB of San Francisco amounts based on a percentage of statutory capital and surplus and could borrow amounts up to $122 million. Of this amount, half, or $61 million, can be borrowed for terms other than overnight, out to a maximum term of nine months. These borrowings are at variable rates of interest, collateralized by certain mortgage loan and government securities. As of June 30, 2011 and December 31, 2010 and 2009, PL&A had no debt outstanding with the FHLB of San Francisco.

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

ACG has a revolving credit agreement with a bank for a $200 million borrowing facility. Interest is at variable rates and the facility matures in October 2013. There was no debt outstanding in connection with this revolving credit agreement as of June 30, 2011 and December, 31, 2010.

ACG had a revolving credit agreement with a bank for a $105 million borrowing facility, which matured and was repaid in March 2010. The amount outstanding as of December 31, 2009 was $105 million.

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

ACG has also established corporate note programs aimed at raising debt financing for the repayment of existing debt and for general corporate purposes. In April 2010, ACG issued $255 million of senior unsecured notes in a private placement offering with maturities ranging from 2015 to 2020 at fixed interest rates ranging from 5.71% to 7.20%. In October 2010, ACG issued $600 million of senior unsecured notes at a fixed interest rate of 7.125%, maturing on October 15, 2020. In April 2011, ACG issued $750 million of senior unsecured notes at a fixed interest rate of 6.750%, maturing on April 6, 2021. Each of these issuances of senior notes 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 other 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 State of 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 2010 statutory results, PL&A could pay $28 million in dividends to Pacific Life in 2011 without prior regulatory approval. PL&A did not pay any dividends to Pacific Life during the six months ended June 30, 2011 or during the years ended December 31, 2010 or 2009.

General

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

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

Prospects for the Remainder of 2011

While results for the six months ended June 30, 2011 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 2011 or for the entire fiscal year of 2011 and provide no guarantee of future performance where actual results may differ materially. The recent downgrade by Standard & Poor's Ratings Services of the United States of America's long-term sovereign credit rating and the subsequent volatility of the bond and financial markets as a result of the downgrade and other national and global economic events could have a negative future impact on the Company's investment portfolio and operating segments. 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. As discussed above and in the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report, Pacific Life completed a $1.0 billion surplus note offering in June 2009; however, this may not be indicative of the Company's ability to access capital markets in the future. Additionally, in February 2010, Pacific LifeCorp, Pacific Life's parent company, issued $450 million of senior notes, the proceeds of which were contributed to Pacific Life. This offering may not be indicative of Pacific LifeCorp's ability to access the capital markets in the future and potentially make related capital contributions to Pacific Life.

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.

In addition, in response to recent events involving certain financial institutions and the financial markets, United States President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the **"Dodd-Frank Act"**). Although the precise impact of the Dodd-Frank Act on the Company's business has not yet been fully determined, certain aspects of the Dodd-Frank Act will likely affect the businesses in which the Company engages and may reduce its profitability.

Similarly, 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.

As previously mentioned, the following subsequent events occurred. In July 2011, the Company signed an agreement to purchase the life retrocession business of Manulife Financial Corporation, subject to regulatory approval. The transaction is expected to be completed during the third quarter of 2011. Also, in July 2011, Pacific Life purchased a pension advisory services business, which will conduct business as PGA. PGA's primary business objective is to provide advisory services to employee benefit plans.

Principal Risks and Uncertainties

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

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

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

- the ability of ACG to recover its entire investment in the aircraft in its fleet through re-leasing or selling;

- changes in tax laws and the interpretation thereof;

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

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

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

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

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

- market capacity constraints on statutory reserve financings;

- litigation and regulatory investigations;

- lack of available, affordable or adequate reinsurance;

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

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

- the inability to attract and retain key personnel;

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

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

- geopolitical and other events, including war, civil disturbances, acts of terrorism, outbreaks of epidemic diseases and natural disasters;

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

- exposure to unidentified or unanticipated risks;

- a computer system failure or security breach; and

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

Although the Company is confident of its position in these matters, success is not a certainty and it is possible that in any case a judge or jury could rule against the Company. In the opinion of management, the outcome of such proceedings is not likely to have a material adverse effect on the Company's consolidated financial position. The Company believes adequate provision has been made in its consolidated financial statements for all probable and estimable losses for litigation and indemnification claims against the Company. For a further discussion, see Note 16 to Pacific Life's 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. A negative outlook indicates that the rating could change based on certain future events relating to the financial condition of the rated entity. Pacific Life's financial strength ratings and outlook as of the date of this 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, 2011, the Company had over 2,500 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 leases office space at various locations throughout the U.S. Other principal leases include other subsidiary home offices, regional life and other sales offices and storage facilities. In February 2008, the Company completed construction of a new office building in Aliso Viejo, California, United States of America. 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, 2011 and for the six months ended June 30, 2011 and 2010

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Unaudited GAAP Condensed Consolidated Financial Statements of Pacific Life Insurance Company and Subsidiaries as of June 30, 2011 and December 31, 2010 and for the six months ended June 30, 2011 and 2010

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Pacific Life Funding, LLC

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

(In Thousands)	June 30, 2011
ASSETS	
Cash and cash equivalents	$26
Funding Agreements	1,231,092
Accrued interest receivable	37,556
TOTAL ASSETS	$1,268,674
LIABILITIES AND MEMBER'S EQUITY	
Liabilities:	
Notes payable	$1,231,092
Accrued interest payable	37,556
TOTAL LIABILITIES	1,268,648
Member's Equity:	
Share capital	1
Retained earnings	25
TOTAL MEMBER'S EQUITY	26
TOTAL LIABILITIES AND MEMBER'S EQUITY	$1,268,674

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, 2011	2010
REVENUES		
Interest on Funding Agreements	$34,375	$39,980
Foreign exchange gain on notes payable	0	172,614
Foreign exchange gain on Funding Agreements	33,944	0
TOTAL REVENUES	68,319	212,594
EXPENSES		
Interest on notes payable	34,375	39,980
Foreign exchange loss on Funding Agreements	0	172,614
Foreign exchange loss on notes payable	33,944	0
TOTAL EXPENSES	68,319	212,594
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)

	Six Months Ended June 30,	
(In Thousands)	2011	2010
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	9,665	8,285
Change in accrued interest payable	(9,665)	(8,285)
Amortization on Funding Agreements		371
Amortization on notes payable		(371)
NET CASH PROVIDED BY OPERATING ACTIVITIES	-	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of Funding Agreements	295,000	88,691
NET CASH PROVIDED BY INVESTING ACTIVITIES	295,000	88,691
CASH FLOWS FROM FINANCING ACTIVITIES		
Redemption of notes payable	(295,000)	(88,691)
NET CASH USED IN FINANCING ACTIVITIES	(295,000)	(88,691)
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	$44,040	$48,636

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The information set forth in the accompanying condensed balance sheet as of June 30, 2011 and the accompanying condensed statements of operations and retained earnings and cash flows for the six months ended June 30, 2011 and 2010 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 Pacific Life Funding, LLC 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 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, 2011 through August 27, 2011, the date the condensed financial statements were available to be issued.

3. TRANSACTIONS WITH AFFILIATES

The Funding Agreements, included on the 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, 2011 and 2010, Pacific Life paid $58 thousand and $111 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 2011 to September 2021.

The following schedule details the notes payable outstanding as of June 30, 2011. 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, 2011:

Issue	Currency	Principal Denominated in Currency of Issuance *(In Thousands)*	Maturity	Interest Rate	Principal	Foreign Currency Gains (Losses) *($ In Thousands)*	Carrying Value
Series 11 Tranche 1	EUR	36,500	3/12/2019	4.70 %	$40,880	$12,039	$52,919
Series 23 Tranche 1	EUR	100,000	12/12/2011	(A)	103,250	41,734	144,984
Series 25 Tranche 1	EUR	90,000	8/17/2011	6.08 %	90,855	39,631	130,486
Series 33 Tranche 1	USD	28,560	9/15/2021	6 mth USD LIBOR + .40%	28,560		28,560
Series 36 Tranche 1	EUR	29,000	9/29/2020	3 mth EURIBOR + .37%	25,418	16,627	42,045
Series 39 Tranche 1	GBP	25,000	12/7/2015	5.81 %	35,500	4,636	40,136
Series 40 Tranche 1	EUR	27,000	2/5/2021	3 mth EURIBOR + .43%	25,313	13,834	39,147
Series 47 Tranche 1	GBP	150,000	8/16/2013	6.00 %	214,000	26,816	240,816
Series 47 Tranche 2	GBP	50,000	8/16/2013	6.00 %	72,900	7,372	80,272
Series 66 Tranche 1	HKD	160,000	7/31/2014	5.00 %	20,600	(38)	20,562
Series 67 Tranche 1	GBP	200,000	1/20/2015	5.13 %	375,000	(53,911)	321,089
Series 68 Tranche 1	HKD	200,000	1/26/2015	4.28 %	25,664	39	25,703
Series PLF003 Tranche 1	EUR	25,358	2/15/2014	4.00 %	33,219	3,546	36,765
Series PLF007 Tranche 1	GBP	1,010	2/15/2013	5.00 %	1,906	(285)	1,621
Series PLF012 Tranche 1	EUR	10,000	3/15/2015	3.80 %	12,860	1,639	14,499
Series PLF014 Tranche 1	GBP	256	3/15/2013	4.80 %	484	(73)	411
Series PLF015 Tranche 1	GBP	500	5/15/2013	5.00 %	959	(156)	803
Series PLF019 Tranche 1	EUR	5,016	6/15/2017	4.00 %	6,340	932	7,272
Series PLF029 Tranche 1	GBP	650	11/15/2013	4.65 %	1,159	(115)	1,044
Series PLF031 Tranche 1	EUR	1,350	12/15/2015	3.80 %	1,580	378	1,958
TOTAL					$1,116,447	$114,645	$1,231,092

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

5. 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, 2011, one thousand ordinary shares had been issued at par to QSPV Limited.

Pacific Life Insurance Company and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

(In Millions)	June 30, 2011	December 31, 2010
ASSETS		
Investments:		
Fixed maturity securities available for sale, at estimated fair value	$27,867	$28,313
Equity securities available for sale, at estimated fair value	348	279
Mortgage loans	7,135	6,693
Policy loans	6,688	6,690
Other investments (includes VIE assets of $332 and $263, respectively)	2,303	2,247
TOTAL INVESTMENTS	44,341	44,222
Cash and cash equivalents (includes VIE assets of $13 and $4, respectively)	2,164	2,270
Restricted cash (includes VIE assets of $219 and $170, respectively)	945	214
Deferred policy acquisition costs	4,483	4,435
Aircraft leasing portfolio, net (includes VIE assets of $2,018 and $2,154, respectively)	5,641	5,259
Other assets (includes VIE assets of $36 and $40, respectively)	2,815	2,579
Separate account assets	56,209	55,683
TOTAL ASSETS	$116,598	$114,662
LIABILITIES AND EQUITY		
Liabilities:		
Policyholder account balances	$34,795	$35,076
Future policy benefits	7,534	7,080
Long-term debt (includes VIE debt of $1,275 and $1,592, respectively)	6,839	6,516
Other liabilities (includes VIE liabilities of $397 and $388, respectively)	2,639	2,377
Separate account liabilities	56,209	55,683
TOTAL LIABILITIES	108,016	106,732
Commitments and contingencies (Note 16)		
Stockholder's Equity:		
Common stock - $50 par value; 600,000 shares authorized, issued and outstanding	30	30
Paid-in capital	982	982
Retained earnings	6,703	6,359
Accumulated other comprehensive income	555	308
Total Stockholder's Equity	8,270	7,679
Noncontrolling interest	312	251
TOTAL EQUITY	8,582	7,930
TOTAL LIABILITIES AND EQUITY	$116,598	$114,662

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, 2011	2010
REVENUES		
Policy fees and insurance premiums	$1,494	$1,248
Net investment income	1,139	1,090
Net realized investment gain (loss)	(34)	68
OTTIs, consisting of $183 and $187 in total, net of $141 and $153 recognized in OCI, respectively	(42)	(34)
Investment advisory fees	132	120
Aircraft leasing revenue	297	302
Other income	112	80
TOTAL REVENUES	3,098	2,874
BENEFITS AND EXPENSES		
Policy benefits paid or provided	944	737
Interest credited to policyholder account balances	665	641
Commission expenses	356	389
Operating and other expenses	657	625
TOTAL BENEFITS AND EXPENSES	2,622	2,392
INCOME FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES	476	482
Provision for income taxes	81	108
INCOME FROM CONTINUING OPERATIONS	395	374
Discontinued operations, net of taxes	(6)	
Net income	389	374
Less: net income attributable to the noncontrolling interest from continuing operations	(45)	(33)
NET INCOME ATTRIBUTABLE TO THE COMPANY	$344	$341

The abbreviation OTTIs 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 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, 2010	**$30**	**$982**	**$6,037**	**($359)**	**($4)**	**$6,686**	**$231**	**$6,917**
Comprehensive income:								
Net income			341			341	33	374
Other comprehensive income				609	1	610	(2)	608
Total comprehensive income						951		982
Dividend paid to parent			(150)			(150)		(150)
Change in equity of noncontrolling interest							(15)	(15)
BALANCES, JUNE 30, 2010	**$30**	**$982**	**$6,228**	**$250**	**($3)**	**$7,487**	**$247**	**$7,734**
BALANCES, JANUARY 1, 2011	**$30**	**$982**	**$6,359**	**$310**	**($2)**	**$7,679**	**$251**	**$7,930**
Comprehensive income (loss):								
Net income			344			344	45	389
Other comprehensive income (loss)				254	(7)	247	1	248
Total comprehensive income						591		637
Change in equity of noncontrolling interest							15	15
BALANCES, JUNE 30, 2011	**$30**	**$982**	**$6,703**	**$564**	**($9)**	**$8,270**	**$312**	**$8,582**

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In Millions)	Six Months Ended June 30, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income from continuing operations	$395	$374
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Net accretion on fixed maturity securities	(60)	(73)
Depreciation and amortization	153	143
Deferred income taxes	84	3
Net realized investment (gain) loss	34	(68)
Other than temporary impairments	42	34
Net change in deferred policy acquisition costs	(57)	58
Interest credited to policyholder account balances	665	641
Net change in future policy benefits and other insurance liabilities	578	405
Net change in other assets	(57)	(95)
Net change in other liabilities	(147)	(102)
Other operating activities, net	(101)	(112)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,529	1,208
CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed maturity and equity securities available for sale:		
Purchases	(2,212)	(2,764)
Sales	1,960	2,459
Maturities and repayments	1,090	1,022
Repayments of mortgage loans	609	262
Fundings of mortgage loans and real estate	(1,079)	(362)
Net change in policy loans	2	59
Change in restricted cash	(731)	(631)
Purchases of derivative instruments	1	(14)
Terminations of derivative instruments	(137)	(112)
Proceeds from nonhedging derivative settlements	5	38
Payments for nonhedging derivative settlements	(193)	(104)
Net change in cash collateral received or pledged	292	399
Purchases of and advance payments on aircraft leasing portfolio	(717)	(309)
Other investing activities, net	196	(35)
NET CASH USED IN INVESTING ACTIVITIES	(914)	(92)

(Continued)

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In Millions)	Six Months Ended June 30, 2011	2010
(Continued)		
CASH FLOWS FROM FINANCING ACTIVITIES		
Policyholder account balances:		
Deposits	$2,101	$2,059
Withdrawals	(3,208)	(2,895)
Net change in short-term debt		(105)
Issuances of long-term debt	861	898
Payments of long-term debt	(491)	(323)
Dividend paid to parent		(150)
Other financing activities, net	16	(17)
NET CASH USED IN FINANCING ACTIVITIES	(721)	(533)
Net change in cash and cash equivalents	(106)	583
Cash and cash equivalents, beginning of period	2,270	1,919
CASH AND CASH EQUIVALENTS, END OF PERIOD	$2,164	$2,502
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Income taxes paid, net	$37	$99
Interest paid	$101	$85

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, and aircraft leasing.

2. BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The information set forth in the accompanying condensed consolidated statement of financial condition as of June 30, 2011 and the accompanying condensed consolidated statements of operations, equity and cash flows for the six months ended June 30, 2011 and 2010 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 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, 2010 was derived from the audited consolidated financial statements as of and for the year ended December 31, 2010. 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, 2010.

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 2010 condensed consolidated financial statements to conform to the 2011 financial statement presentation.

3. NEW ACCOUNTING PRONOUNCEMENTS

FUTURE ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

In October 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-26 to the FASB Accounting Standards Codification's (Codification) Financial Services – Insurance Topic. ASU 2010-26 significantly amends the guidance applicable to accounting for costs associated with acquiring or renewing insurance contracts. This update addresses the diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. The amendment specifies the following costs incurred in the acquisition of new and renewal contracts should be capitalized: 1) incremental direct costs of contract acquisition and 2) certain costs related directly to underwriting, policy issuance and processing, medical and inspecting, and sales force contract selling activities. This amendment also specifies that costs may only be capitalized based on successful contract acquisition efforts. Previously, insurance entities were able to capitalize costs relating to successful and unsuccessful contract acquisition efforts. The amendment is effective on January 1, 2012 and can be applied prospectively or retrospectively. The Company is currently evaluating the impact of this guidance on its 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. The amendment requires a company to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The amendment is effective on January 1, 2012 and will not have an impact on the Company's financial position, results of operations or cash flows, however, adoption will result in the presentation of a new statement of consolidated comprehensive income immediately following the condensed consolidated statement of operations.

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.

Pacific Life has one permitted practice approved by the NE DOI that differs from statutory accounting practices adopted by the National Association of Insurance Commissioners (NAIC). This permitted practice relates to the valuation of certain statutory separate account assets that are carried at book value instead of estimated fair value. Pacific Life's statutory capital and surplus as of June 30, 2011 and December 31, 2010 did not reflect unrealized losses of $27 million and $24 million, respectively, with regard to this permitted practice.

Pacific Life uses a NE DOI prescribed accounting practice for certain synthetic guaranteed interest contract (GIC) reserves that differs from statutory accounting practices adopted by the NAIC. As of June 30, 2011 and December 31, 2010, this NE DOI prescribed accounting practice resulted in statutory reserves of $33 million and $27 million, respectively, as opposed to statutory reserves of zero, using statutory accounting practices adopted by the NAIC.

STATUTORY NET INCOME (LOSS) AND SURPLUS

Statutory net income (loss) of Pacific Life was $335 million and ($106) million for the six months ended June 30, 2011 and 2010, respectively. Statutory capital and surplus of Pacific Life was $6,177 million and $5,867 million as of June 30, 2011 and December 31, 2010, respectively.

RISK-BASED CAPITAL

Risk-based capital is a method developed by the NAIC to measure the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The formulas for determining the amount of risk-based capital specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Additionally, certain risks are required to be measured using actuarial cash flow modeling techniques, subject to formulaic minimums. The adequacy of a company's actual capital is measured by a comparison to the risk-based capital results. Companies below minimum risk-based capital requirements are classified within certain levels, each of which requires specified corrective action. As of June 30, 2011 and December 31, 2010, 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. U.S. GAAP benefit reserves for such riders are based on guidance in the Codification's Financial Services – Insurance Topic for accounting and reporting of certain non traditional long-duration contracts and separate accounts. Substantially all the U.S. GAAP benefit reserves relating to NLGRs issued after June 30, 2005 through March 31, 2010 were ceded from Pacific Life to Pacific Alliance Reinsurance Ltd. (PAR Bermuda), a Bermuda-based life reinsurance company wholly owned by Pacific LifeCorp and PAR Vermont under reinsurance agreements. Effective October 1, 2010, 100% of the PAR Bermuda reinsurance was novated to PAR Vermont, consolidating all such NLGR reinsurance in PAR Vermont. Funded economic reserves and an irrevocable letter of credit held in the PAR Vermont trust account with Pacific Life as beneficiary provide security for statutory reserve credits taken by Pacific Life. See Note 16 for further discussion of this letter of credit.

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 2010 statutory results, Pacific Life could pay $688 million in dividends in 2011 to Pacific LifeCorp without prior approval from the NE DOI, subject to the notification requirement. No dividends were paid during the six months ended June 30, 2011. During the six months ended June 30, 2010, Pacific Life paid a cash dividend to Pacific LifeCorp of $150 million.

The maximum amount of ordinary dividends that can be paid by PL&A to Pacific Life without restriction cannot exceed the lesser of 10% of statutory surplus as regards to policyholders, or the statutory net gain from operations. Based on this limitation and 2010 statutory results, PL&A could pay $28 million in dividends to Pacific Life in 2011 without prior regulatory approval from the Arizona Department of Insurance. No dividends were paid during the six months ended June 30, 2011 and 2010.

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, 2011 and December 31, 2010, the consolidated assets, consolidated liabilities and maximum exposure to loss relating to VIEs, which the Company (i) has consolidated because it is the primary beneficiary or (ii) total assets of and maximum exposure to loss relating to VIEs in which the Company holds a significant variable interest, but has not consolidated because it is not the primary beneficiary *(In Millions)*:

	Primary Beneficiary			Not Primary Beneficiary	
	Consolidated Assets	Consolidated Liabilities	Maximum Exposure to Loss	Total Assets	Maximum Exposure to Loss
June 30, 2011:					
Aircraft securitizations	$2,273	$1,657	$616	$310	
Private equity funds	345	15	43		
Asset-backed securities				1,910	$108
Total	$2,618	$1,672	$659	$2,220	$108
December 31, 2010:					
Aircraft securitizations	$2,364	$1,975	$389	$320	
Private equity funds	267	5	34		
Asset-backed securities				1,910	$108
Total	$2,631	$1,980	$423	$2,230	$108

AIRCRAFT SECURITIZATIONS

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 $870 million and $1,103 million as of June 30, 2011 and December 31, 2010, respectively. As of June 30, 2011 and December 31, 2010, the maximum exposure to loss, based on the Company's interest in ACG Trust III, was $380 million and $201 million, respectively.

In 2003, ACG sponsored a securitization transaction whereby Aviation Capital Group Trust II (ACG Trust II) acquired 37 of ACG's aircraft through a private placement note offering in the amount of $1,027 million. ACG owns 100% of the equity and has a controlling financial interest in this VIE. Therefore, ACG was determined to be the primary beneficiary of this VIE and ACG Trust II is consolidated into the 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 $399 million and $484 million as of June 30, 2011 and December 31, 2010, respectively. As of June 30, 2011 and December 31, 2010, the maximum exposure to loss was $236 million and $188 million, respectively.

In 2000, ACG sponsored a financial asset securitization of aircraft to Aviation Capital Group Trust (Aviation Trust). ACG and Pacific Life are beneficial interest holders in Aviation Trust. Aviation Trust is not consolidated as the Company is not the primary beneficiary as ACG does not have the obligation to absorb losses of Aviation Trust that could potentially be significant to Aviation Trust or the right to receive benefits from Aviation Trust that could potentially be significant to it. The carrying value is comprised of beneficial interests issued by Aviation Trust. As of June 30, 2011 and December 31, 2010, the maximum exposure to loss, based on carrying value, was zero.

PRIVATE EQUITY FUNDS

Private equity funds (the Funds) are limited partnerships that invest in private equity investments for outside investors, where the Company is the general partner. The Company provides investment management services to the Funds for a fee and receives carried interest based upon the performance of the Funds. The Funds are a VIE due to the purpose and design of the Funds and the lack of control by the other equity investors. The Company has determined itself to be the primary beneficiary since it has a controlling financial interest in the Funds and the Funds are consolidated into the condensed consolidated financial statements of the Company. The Company has not guaranteed the performance, liquidity or obligations of the Funds, and the Company's maximum exposure to loss is equal to the carrying amounts of its retained interests. VIE non-recourse debt consolidated from the Funds was $6 million and $5 million as of June 30, 2011 and December 31, 2010, respectively (Note 10).

ASSET-BACKED SECURITIES

As part of the Company's investment strategy, the Company purchases primarily investment grade beneficial interests issued from bankruptcy-remote special purpose entities (SPEs), which are collateralized by financial assets including corporate debt. The Company has not guaranteed the performance, liquidity or obligations of the SPEs, and the Company's maximum exposure to loss is limited to its carrying value of the beneficial interests in the SPEs. The Company has no liabilities related to these VIEs. The Company has determined that it is not the primary beneficiary of these entities since it does not have the power to direct their financial activities. Therefore, the Company does not consolidate these entities. The investments are reported as fixed maturity securities available for sale and had a net carrying amount of $108 million as of June 30, 2011 and December 31, 2010.

6. DEFERRED POLICY ACQUISITION COSTS

Components of the DAC asset are as follows:

	Six Months Ended June 30,	
	2011	2010
	(In Millions)	
Balance, January 1	$4,435	$4,806
Additions:		
Capitalized during the period	292	267
Amortization:		
Allocated to commission expenses	(175)	(246)
Allocated to operating expenses	(60)	(79)
Total amortization	(235)	(325)
Allocated to OCI	(9)	(280)
Balance, June 30	$4,483	$4,468

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

A change in the assumptions utilized to develop EGPs results in a change to amounts expensed in the reporting period in which the change was made by adjusting the DAC balance to the level DAC would have been had the EGPs been calculated using the new assumptions over the entire amortization period. In general, favorable experience variances result in increased expected future profitability and may lower the rate of DAC amortization, whereas unfavorable experience variances result in decreased expected future profitability and may increase the rate of DAC amortization. All critical assumptions utilized to develop EGPs are evaluated at least annually and necessary revisions are made to certain assumptions to the extent that actual or anticipated experience necessitates such a prospective change. During the six months ended June 30, 2011 and 2010, the Company revised certain assumptions to develop EGPs for its products subject to DAC amortization. This resulted in a decrease of $132 million and an increase of $10 million in DAC amortization expense for the six months ended June 30, 2011 and 2010, 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 were $538 million and $578 million as of June 30, 2011 and 2010, 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 OTTIs recognized in earnings and changes in estimated fair value attributable to the hedged risk in a fair value hedge. The net carrying amount of equity securities represents cost adjusted for OTTIs. See Note 11 for information on the Company's estimated fair value measurements and disclosure.

	Net Carrying Amount	Gross Unrealized		Estimated Fair Value
		Gains	Losses	
		(In Millions)		
June 30, 2011:				
U.S. Treasury securities	$620	$30	$2	$648
Obligations of states and political subdivisions	1,032	49	9	1,072
Foreign governments	441	50		491
Corporate securities	18,392	1,547	174	19,765
Residential mortgage-backed securities	4,674	145	469	4,350
Commercial mortgage-backed securities	866	40	3	903
Collateralized debt obligations	121	24	24	121
Other asset-backed securities	466	53	2	517
Total fixed maturity securities	$26,612	$1,938	$683	$27,867
Perpetual preferred securities	$294	$7	$30	$271
Other equity securities	75	2		77
Total equity securities	$369	$9	$30	$348

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

The Company has investments in perpetual preferred securities that are primarily issued by European banks. The net carrying amount and estimated fair value of the available for sale perpetual preferred securities was $386 million and $346 million, respectively, as of June 30, 2011. Included in these amounts are perpetual preferred securities carried in trusts with a net carrying amount and estimated fair value of $92 million and $75 million, respectively, that are held in fixed maturities and included in the tables above in corporate securities. Perpetual preferred securities reported as equity securities available for sale are presented in the tables above as perpetual preferred securities.

The net carrying amount and estimated fair value of fixed maturity securities available for sale as of June 30, 2011, by contractual repayment date of principal, are shown below. Expected maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Net Carrying Amount	Gross Unrealized		Estimated Fair Value
		Gains	Losses	
		(In Millions)		
Due in one year or less	$850	$32	$2	$880
Due after one year through five years	5,255	412	38	5,629
Due after five years through ten years	9,053	769	75	9,747
Due after ten years	5,327	463	70	5,720
	20,485	1,676	185	21,976
Mortgage-backed and asset-backed securities	6,127	262	498	5,891
Total fixed maturity securities	$26,612	$1,938	$683	$27,867

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

	Total		
	Number	Estimated Fair Value	Gross Unrealized Losses
		(In Millions)	
June 30, 2011:			
U.S. Treasury securities	2	$146	$2
Obligations of states and political subdivisions	19	247	9
Corporate securities	295	2,477	174
Residential mortgage-backed securities	231	2,743	469
Commercial mortgage-backed securities	3	37	3
Collateralized debt obligations	5	70	24
Other asset-backed securities	6	16	2
Total fixed maturity securities	561	5,736	683
Perpetual preferred securities	13	161	30
Other securities	16	60	9
Total other securities	29	221	39
Total	590	$5,957	$722

	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, 2011:						
U.S. Treasury securities	2	$146	$2			
Obligations of states and political subdivisions	12	139	5	7	$108	$4
Corporate securities	207	1,450	64	88	1,027	110
Residential mortgage-backed securities	73	280	4	158	2,463	465
Commercial mortgage-backed securities				3	37	3
Collateralized debt obligations				5	70	24
Other asset-backed securities				6	16	2
Total fixed maturity securities	294	2,015	75	267	3,721	608
Perpetual preferred securities				13	161	30
Other securities				16	60	9
Total other securities	-	-	-	29	221	39
Total	294	$2,015	$75	296	$3,942	$647

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

	Less than 12 Months			12 Months or Greater		
	Number	Estimated Fair Value	Gross Unrealized Losses	Number	Estimated Fair Value	Gross Unrealized Losses
		(In Millions)			*(In Millions)*	
December 31, 2010:						
U.S. Treasury securities	3	$429	$15			
Obligations of states and political subdivisions	32	374	16	12	$238	$28
Foreign governments	7	56	1			
Corporate securities	241	1,926	66	109	1,235	141
Residential mortgage-backed securities	94	156	4	193	2,820	593
Commercial mortgage-backed securities	15	52	2	6	89	9
Collateralized debt obligations				5	67	26
Other asset-backed securities	7	30	1	12	92	7
Total fixed maturity securities	399	3,023	105	337	4,541	804
Perpetual preferred securities				17	195	35
Other securities	3	17	1	26	95	15
Total other securities	3	17	1	43	290	50
Total	402	$3,040	$106	380	$4,831	$854

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

The table below presents non-agency residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS) by investment rating from independent rating agencies and vintage year of the underlying collateral as of June 30, 2011.

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	$342	$348	13%	9%	3%			1%
AA	162	167	6%	5%		1%		
A	142	140	5%	3%	2%			
BAA	29	29	1%		1%			
BA and below	2,005	1,784	75%	5%	23%	33%	14%	
Total	$2,680	$2,468	100%	22%	29%	34%	14%	1%
Alt-A RMBS:								
AAA	$42	$39	5%	5%				
AA	21	20	3%	1%	1%	1%		
BAA	12	10	2%	1%	1%			
BA and below	708	539	90%		10%	28%	52%	
Total	$783	$608	100%	7%	12%	29%	52%	0%
Sub-prime RMBS:								
AAA	$18	$17	5%	5%				
A	31	30	8%	8%				
BAA	76	72	20%	20%				
BA and below	259	213	67%	49%	17%		1%	
Total	$384	$332	100%	82%	17%	0%	1%	0%
CMBS:								
AAA	$769	$806	89%	59%	2%	1%	16%	11%
AA	50	51	5%	2%				3%
A	15	14	2%	2%				
BAA	4	4	1%					1%
BA	28	28	3%				3%	
Total	$866	$903	100%	63%	2%	1%	19%	15%

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 slow U.S. housing market, greater use of affordability mortgage products and relaxed underwriting standards by some originators for these loans has led to higher delinquency and loss rates, especially within the 2007 and 2006 vintage years.

Pacific Life is a member of the Federal Home Loan Bank (FHLB) of Topeka. As of June 30, 2011, the Company has received advances of $1.5 billion from the FHLB of Topeka and has issued funding agreements to the FHLB of Topeka. The funding agreement liabilities are included in policyholder account balances. As of June 30, 2011, fixed maturity securities with an estimated fair value of $968 million and cash of $663 million are in a custodial account pledged as collateral for the funding agreements. As of June 30, 2011, the cash is classified as restricted cash and is not available for general use. The Company is required to purchase stock in the FHLB of Topeka each time it receives an advance. As of June 30, 2011, the Company holds $79 million of FHLB of Topeka stock, which is recorded in other investments.

PL&A is a member of the FHLB of San Francisco. As of June 30, 2011, no assets are pledged as collateral. As of June 30, 2011, the Company holds FHLB of San Francisco stock with an estimated fair value of $28 million, which has been restricted for sale and is recorded in other investments.

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

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(In Millions)	
Fixed maturity securities	$752	$764
Equity securities	7	8
Mortgage loans	181	166
Real estate	57	48
Policy loans	101	108
Partnerships and joint ventures	120	77
Other	3	(2)
Gross investment income	1,221	1,169
Investment expense	82	79
Net investment income	$1,139	$1,090

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

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(In Millions)	
Fixed maturity securities:		
Gross gains on sales	$48	$128
Gross losses on sales	(10)	(3)
Total fixed maturity securities	38	125
Equity securities:		
Gross gains on sales	9	5
Gross losses on sales		(1)
Total equity securities	9	4
Non-marketable securities	31	
Variable annuity guaranteed living benefit embedded derivatives	28	(696)
Variable annuity guaranteed living benefit policy fees	100	94
Variable annuity derivatives - total return swaps	(200)	206
Equity put options	(99)	358
Synthetic GIC policy fees	20	15
Other derivatives	24	(23)
Other	15	(15)
Total	($34)	$68

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

The table below summarizes the OTTIs by investment type:

	Recognized in Earnings	Included in OCI	Total
		(In Millions)	
Six months ended June 30, 2011:			
Corporate securities	$2		$2
RMBS	34	$141	175
OTTIs - fixed maturity securities	36	141	177
Mortgage loans	3		3
Other investments	3		3
Total OTTIs	$42	$141	$183
Six months ended June 30, 2010:			
Corporate securities	$4		$4
RMBS	28	$153	181
Collateralized debt obligations	1		1
OTTIs - fixed maturity securities	33	153	186
Other investments	1		1
Total OTTIs	$34	$153	$187

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

	Six Months Ended June, 30	
	2011	2010
	(In Millions)	
Cumulative credit loss, January 1	$245	$200
Additions for credit impairments recognized on:		
Securities not previously other than temporarily impaired	7	7
Securities previously other than temporarily impaired	27	16
Total additions	34	23
Reductions for credit impairments previously recognized on:		
Securities expected to be disposed before cost recovery		(5)
Securities due to an increase in expected cash flows and time value of cash flows	(5)	(6)
Securities sold	(58)	
Total subtractions	(63)	(11)
Cumulative credit loss, June 30	$216	$212

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, 2011:			
U.S. Treasury securities		$2	$2
Obligations of states and political subdivisions		9	9
Corporate securities		174	174
RMBS	$298	171	469
CMBS		3	3
Collateralized debt obligations	24		24
Other asset-backed securities		2	2
Total fixed maturity securities	$322	$361	$683
Perpetual preferred securities		$30	$30
Total equity securities	-	$30	$30
December 31, 2010:			
U.S. Treasury securities		$15	$15
Obligations of states and political subdivisions		44	44
Foreign governments		1	1
Corporate securities		207	207
RMBS	$308	289	597
CMBS		11	11
Collateralized debt obligations	26		26
Other asset-backed securities		8	8
Total fixed maturity securities	$334	$575	$909
Perpetual preferred securities		$35	$35
Total equity securities	-	$35	$35

Trading securities, included in other investments, totaled $244 million and $349 million as of June 30, 2011 and December 31, 2010, respectively. The cumulative net unrealized gains on trading securities held as of June 30, 2011 and December 31, 2010 were $20 million and $21 million, respectively.

Mortgage loans totaled $7,135 million and $6,693 million as of June 30, 2011 and December 31, 2010, respectively. Mortgage loans are collateralized by commercial properties primarily located throughout the U.S. As of June 30, 2011, $1,067 million, $937 million, $893 million, $723 million and $622 million were located in Washington, California, District of Columbia, Florida and Texas, respectively. As of June 30, 2011, $408 million was located in Canada.

There were no loan defaults during the six months ended June 30, 2011 and 2010. The Company did not have mortgage loans with accrued interest more than 180 days past due as of June 30, 2011 or December 31, 2010. As of June 30, 2011, there were two loans totaling $4 million that are in the process of foreclosure and were considered impaired. An impairment loss of $3 million was recorded as the underlying collateral of these two loans was lower than the carrying amount. As of December 31, 2010, one loan totaling $6 million was foreclosed upon. Since the estimated fair value of the collateral was greater than the carrying amount of the loan, no impairment loss was recorded. This loan was the only default realized during the year ended December 31, 2010. As of June 30, 2011, there was no single mortgage loan investment that exceeded 10% of stockholder's equity.

Investments in real estate totaled $501 million and $547 million as of June 30, 2011 and December 31, 2010, respectively, and are included in other investments. There were no real estate write-downs during the six months ended June 30, 2011 and 2010.

8. AIRCRAFT LEASING PORTFOLIO, NET

Aircraft leasing portfolio, net, consists of the following:

	June 30, 2011	December 31, 2010
	(In Millions)	
Aircraft	$4,074	$3,502
Aircraft consolidated from VIEs	2,824	2,938
	6,898	6,440
Accumulated depreciation	1,257	1,181
Aircraft leasing portfolio, net	$5,641	$5,259

As of June 30, 2011 and December 31, 2010, aircraft with a carrying amount of $4,581 million and $4,802 million, respectively, were assigned as collateral to secure debt (Notes 5 and 10).

Aircraft held for sale totaled zero and $4 million as of June 30, 2011 and December 31, 2010, respectively, and are included in aircraft leasing portfolio, net.

There were no impairments recognized during the six months ended June 30, 2011 and 2010.

During the six months ended June 30, 2011 and 2010, ACG recognized gains on the sale of aircraft of $15 million and zero, respectively, which are included in other income.

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

DERIVATIVES DESIGNATED AS CASH FLOW HEDGES

The Company primarily uses foreign currency interest rate swaps, forward starting interest rate swaps and interest rate swaps to manage its exposure to variability in cash flows due to changes in foreign currencies and the benchmark interest rate. These cash flows include those associated with existing assets and liabilities, as well as the forecasted interest cash flows related to anticipated investment purchases and liability issuances. Such anticipated investment purchases and liability issuances are considered probable to occur and are generally completed within 22 years of the inception of the hedge.

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

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

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

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 recognized in earnings when the hedged item affects earnings, and the ineffective portion of changes in the estimated fair value of the derivative is recognized in net realized investment gain (loss). For the six months ended June 30, 2011 and 2010, hedge ineffectiveness related to designated cash flow hedges reflected in net realized investment gain (loss) was ($9) million and $3 million, respectively. For the six months ended June 30, 2011 and 2010, the Company did not have any net losses reclassified from accumulated other comprehensive income (loss) (AOCI) to earnings resulting from the discontinuance of cash flow hedges due to forecasted transactions that were no longer probable of occurring. Over the next twelve months, the Company anticipates that $18 million of deferred losses on derivative instruments in AOCI will be reclassified to earnings. For the six months ended June 30, 2011 and 2010, all of the Company's hedged forecasted transactions were determined to be probable of occurring.

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

	Notional Amount	
	June 30, 2011	December 31, 2010
	(In Millions)	
Foreign currency interest rate swaps	$3,863	$4,917
Interest rate swaps	2,249	2,727
Forward starting interest rate swaps	1,140	1,140

Notional amount represents a standard of measurement of the volume of derivatives. Notional amount is not a quantification of market risk or credit risk and is not recorded on the 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.

DERIVATIVES DESIGNATED AS FAIR VALUE HEDGES

Interest rate swap agreements are used to convert a foreign or U.S. dollar denominated fixed rate asset or liability to a floating U.S. dollar denominated rate to hedge the changes in estimated fair value of the hedged asset or liability due to changes in benchmark interest rates or foreign exchange rates. These derivatives are used primarily to closely match the duration of the assets supporting specific liabilities. Pacific Life also uses interest rate swaps to convert fixed rate surplus notes to variable rate notes (Note 10).

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

	Notional Amount	
	June 30, 2011	December 31, 2010
	(In Millions)	
Interest rate swaps	$1,223	$1,592

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 based upon the S&P 500 Index (S&P 500) primarily to economically hedge the equity risk of the mortality and expense fees in its variable annuity products. These contracts provide periodic payments to the Company in exchange for the total return and changes in fair value of the S&P 500 in the form of a payment or receipt, depending on whether the return relative to the index on trade date is positive or negative, respectively. Payments and receipts are recognized in net realized investment gain (loss).

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

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

guidelines, requiring high quality investments and adjustments to the plan crediting rates to compensate for unrealized losses in the portfolios.

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

	Notional Amount	
	June 30, 2011	December 31, 2010
	(In Millions)	
Variable annuity GLB embedded derivatives	$38,609	$37,147
Variable annuity GLB reinsurance contracts	14,933	15,117
Variable annuity derivatives - total return swaps	2,269	2,891
Equity put options	5,285	5,285
Synthetic GICs	22,185	22,402
Other	3,755	2,006

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, 2011	December 31, 2010		June 30, 2011	December 31, 2010	
	(In Millions)			*(In Millions)*		
Derivatives designated as hedging instruments:						
Interest rate swaps	$66	$377	[1]	$16	$309	[1]
	412	38	[5]	422	326	[5]
Total derivatives designated as hedging instruments	478	415		438	635	
Derivatives not designated as hedging instruments:						
Variable annuity derivatives - total return swaps				17	41	[1]
	4		[5]	60	33	[5]
Equity put options	39	254	[1]	16	15	[1]
	189	33	[5]	13	13	[5]
Other	6	59	[1]		27	[1]
	71	16	[5]	34		[5]
Embedded derivatives:						
Variable annuity GLB embedded derivatives						
(including reinsurance contracts)		25	[2]	7		[2]
				481	542	[3]
Other				79	76	[4]
Total derivatives not designated as hedging instruments	309	387		707	747	
Total derivatives	$787	$802		$1,145	$1,382	

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 $427 million and $251 million as of June 30, 2011 and December 31, 2010, respectively. This unrestricted cash collateral is included in cash and cash equivalents and the obligation to return it is netted against the estimated fair value of derivatives in other investments or other liabilities. Cash collateral pledged to counterparties was $29 million and $145 million as of June 30, 2011 and December 31, 2010, respectively. A receivable representing the right to call this collateral back from the counterparty is netted against the estimated fair value of derivatives in other investments or other liabilities. If the net estimated fair value of the exposure to the counterparty is positive, the amount is reflected in other investments, whereas, if the net estimated fair value of the exposure to the counterparty is negative, the estimated fair value is included in other liabilities.

As of June 30, 2011 and December 31, 2010, the Company had also accepted collateral consisting of various securities with an estimated fair value of $20 million and $36 million, respectively, which are held in separate custodial accounts. The Company is permitted by contract to sell or repledge this collateral and as of June 30, 2011 and December 31, 2010, none of the collateral had been repledged. As of June 30, 2011 and December 31, 2010, the Company provided collateral in the form of various securities

with an estimated fair value of $17 million and $15 million, respectively, which are included in fixed maturity securities. The counterparties are permitted by contract to sell or repledge this collateral.

The following table summarizes amounts recognized in the condensed consolidated financial statements for derivatives designated as cash flow hedges. 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 settlements of the derivatives.

	Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	
	Six Months Ended June 30,	
	2011	2010
	(In Millions)	
Derivatives in cash flow hedges:		
Foreign currency interest rate swaps	$10	$24
Interest rate swaps	15	(30)
Forward starting interest rate swaps	(2)	80
Total	$23	$74

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

	Gain (Loss) Recognized in Income on Derivatives		Gain (Loss) Recognized in Income on Hedged Items	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In Millions)		*(In Millions)*	
Derivatives in fair value hedges:				
Interest rate swaps	$9	($46)	($3)	$29
Total	$9	($46)	($3)	$29

For the six months ended June 30, 2011 and 2010, hedge ineffectiveness related to designated fair value hedges reflected in net realized investment gain (loss) was $6 million and ($13) million, respectively. No component of the hedging instrument's estimated fair value is excluded from the determination of effectiveness.

The following table summarizes amount recognized in the 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 losses from periodic net settlements and other noncash items of $222 million and $66 million for the six months ended June 30, 2011 and 2010, respectively, which are recognized in net realized investment gain (loss).

	Amount of Gain (Loss) Recognized in Income on Derivatives	
	Six Months Ended June 30,	
	2011	2010
	(In Millions)	
Derivatives not designated as hedging instruments:		
Variable annuity derivatives - total return swaps	($54)	$226
Equity put options	(44)	407
Other	48	(6)
Embedded derivatives:		
Variable annuity GLB embedded derivatives (including reinsurance contracts)	28	(696)
Other		12
Total	($22)	($57)

CREDIT EXPOSURE AND CREDIT RISK RELATED CONTINGENT FEATURES

Credit exposure is measured on a counterparty basis as the net positive aggregate estimated fair value, net of collateral received, if any. The credit exposure for over the counter derivatives as of June 30, 2011 was $19 million. The maximum exposure to any single counterparty was $7 million at June 30, 2011.

For all derivative contracts, excluding embedded derivative contracts such as variable annuity GLBs and synthetic GICs, the Company enters into master agreements that may include a termination event clause associated with Pacific Life's insurer financial strength ratings assigned by certain independent rating agencies. If Pacific Life's insurer financial strength rating 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 an insurer 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, 2011, Pacific Life's insurer financial strength ratings were above the specified level.

The Company enters into collateral arrangements with derivative counterparties, which require both the pledging and accepting 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 Pacific Life's insurer financial strength rating 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, 2011, is $130 million for which the Company has posted collateral of $46 million in the normal course of business. If certain of Pacific Life's insurer financial strength ratings were to fall one notch as of June 30, 2011, the Company would have been required to post an additional $21 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, 2011	December 31, 2010
	(In Millions)	
Long-term debt:		
Surplus notes	$1,600	$1,600
Fair value adjustment for derivative hedging activities	88	84
Non-recourse long-term debt:		
Debt recourse only to ACG	3,220	2,499
ACG non-recourse debt	576	621
Other non-recourse debt	80	120
ACG VIE debt (Note 5)	1,269	1,587
Other VIE debt (Note 5)	6	5
Total long-term debt	$6,839	$6,516

SHORT-TERM DEBT

Pacific Life maintains a $700 million commercial paper program. There was no commercial paper debt outstanding as of June 30, 2011 and December 31, 2010. In addition, Pacific Life has a bank revolving credit facility of $400 million maturing in 2012 that serves as a back-up line of credit for the commercial paper program. This facility had no debt outstanding as of June 30, 2011 and December 31, 2010. As of and during the six months ended June 30, 2011, 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, 2011 and December 31, 2010.

Pacific Life has approval from the FHLB of Topeka to receive advances up to 40% of Pacific Life's statutory general account assets provided it has available collateral and is in compliance with debt covenant restrictions and insurance laws and regulations. There was no debt outstanding with the FHLB of Topeka as of June 30, 2011 and December 31, 2010. The Company had no additional funding capacity from eligible collateral as of June 30, 2011 and December 31, 2010.

PL&A is eligible to borrow from the FHLB of San Francisco amounts based on a percentage of statutory capital and surplus and could borrow up to amounts of $122 million. Of this amount, half, or $61 million, can be borrowed for terms other than overnight, out to a maximum term of nine months. These borrowings are at variable rates of interest, collateralized by certain mortgage loan and government securities. As of June 30, 2011 and December 31, 2010, PL&A had no debt outstanding with the FHLB of San Francisco.

ACG has a revolving credit agreement with a bank for a $200 million borrowing facility. Interest is at variable rates and the facility matures in October 2013. There was no debt outstanding in connection with this revolving credit agreement as of June 30, 2011 and December 31, 2010. This credit facility is recourse only to ACG.

LONG-TERM DEBT

In June 2009, Pacific Life issued $1.0 billion of surplus notes at a fixed interest rate of 9.25%, maturing on June 15, 2039. Interest is payable semiannually on June 15 and December 15. Pacific Life may redeem the 9.25% surplus notes at its option, subject to the approval of the Nebraska Director of Insurance for such optional redemption. The 9.25% surplus notes are unsecured and subordinated to all present and future senior indebtedness and policy claims of Pacific Life. All future payments of interest and principal on the 9.25% surplus notes can be made only with the prior approval of the Nebraska Director of Insurance. The

Company entered into interest rate swaps converting the 9.25% surplus notes to variable rate notes based upon the London InterBank Offered Rate (LIBOR). The interest rate swaps were designated as fair value hedges of these surplus notes and the changes in estimated fair value of the hedged surplus notes associated with changes in interest rates are reflected as an adjustment to their carrying amount. This adjustment to the carrying amount of the 9.25% surplus notes, which increased long-term debt by $55 million and $53 million as of June 30, 2011 and December 31, 2010, respectively, is offset by an estimated fair value adjustment which has also been recorded for the interest rate swap derivative instruments.

Pacific Life has $150 million of surplus notes outstanding at a fixed interest rate of 7.9%, maturing on December 30, 2023. Interest is payable semiannually on June 30 and December 30. The 7.9% surplus notes may not be redeemed at the option of Pacific Life or any holder of the surplus notes. The 7.9% surplus notes are unsecured and subordinated to all present and future senior indebtedness and policy claims of Pacific Life. All future payments of interest and principal on the 7.9% surplus notes can be made only with the prior approval of the Nebraska Director of Insurance. The Company entered into interest rate swaps converting these surplus notes to variable rate notes based upon the LIBOR. The interest rate swaps were designated as fair value hedges of these surplus notes and the changes in estimated fair value of the hedged surplus notes associated with changes in interest rates are reflected as an adjustment to their carrying amount. This adjustment to the carrying amount of the 7.9% surplus notes, which increased long-term debt by $33 million and $31 million as of June 30, 2011 and December 31, 2010, respectively, is offset by an estimated fair value adjustment which has also been recorded for the interest rate swap derivative instruments.

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

ACG enters into various secured loans that are guaranteed by the U.S. Export-Import bank or by the European Export Credit Agencies. Interest on these loans is payable quarterly and ranged from 0.4% to 4.4% as of June 30, 2011 and 0.4% and 4.5% as of December 31, 2010. As of June 30, 2011, $1,433 million was outstanding on these loans with maturities ranging from 2014 to 2022. Principal payments due over the next twelve months are $112 million. As of December 31, 2010, $1,524 million was outstanding on these loans. These loans are recourse only to ACG.

ACG enters into various senior unsecured loans with third-parties. Interest on these loans is payable monthly or semi-annually and ranged from 5.7% to 7.2% as of June 30, 2011 and December 31, 2010. As of June 30, 2011, $1,725 million was outstanding on these loans with maturities ranging from 2012 to 2021. As of December 31, 2010, $975 million was outstanding on these loans. These loans are recourse only to ACG.

ACG enters into various secured bank loans to finance aircraft orders and deposits. Interest on these loans is payable monthly and was 1.9% as of June 30, 2011. As of June 30, 2011, $62 million was outstanding on these loans that mature in 2013. Principal payments due over the next twelve months are $51 million. As of December 31, 2010, there was no amount outstanding on these loans. These loans are recourse only to ACG.

ACG enters into various acquisition facilities and bank loans to acquire aircraft. Interest on these facilities and loans accrues at variable rates, is payable monthly and ranged from 2.7% to 3.2% as of June 30, 2011 and 1.6% and 3.3% as of December 31, 2010. As of June 30, 2011, $576 million was outstanding on these facilities and loans with maturities ranging from 2013 to 2014. As of December 31, 2010, $621 million was outstanding on these facilities and loans. These facilities and loans are non-recourse to the Company.

Certain subsidiaries of Pacific Asset Holding LLC (PAH), a wholly owned subsidiary of Pacific Life, entered into various real estate property related loans with various third-parties. Interest on these loans accrues at fixed and variable rates and is payable monthly. Fixed rates were 6.2% as of June 30, 2011 and ranged from 5.8% to 6.2% as of December 31, 2010. Variable rates range from 1.3% to 2.0% as of June 30, 2011 and 1.4% to 2.0% as of December 31, 2010. As of June 30, 2011, there was $80 million outstanding on these loans with maturities during 2011 and 2012. Principal payments due over the next twelve months are $67 million. As of December 31, 2010, there was $120 million outstanding on these loans. During the six months ended June 30, 2011, one of these loans totaling $32 million was returned in foreclosure. All of these loans are secured by real estate properties and are non-recourse to the Company.

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 hierarchy consists of the following three levels that are prioritized based on observable and unobservable inputs.

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

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

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

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

The following tables present, by fair value hierarchy level, the Company's financial assets and liabilities that are carried at estimated fair value as of June 30, 2011 and December 31, 2010.

	Level 1	Level 2	Level 3	Gross Derivatives Fair Value	Netting Adjustments (1)	Total
			(In Millions)			
June 30, 2011:						
Assets:						
U.S. Treasury securities		$648				$648
Obligations of states and political subdivisions		1,072				1,072
Foreign governments		396	$95			491
Corporate securities		18,109	1,656			19,765
RMBS		3,332	1,018			4,350
CMBS		638	265			903
Collateralized debt obligations		7	114			121
Other asset-backed securities		253	264			517
Total fixed maturity securities		24,455	3,412			27,867
Perpetual preferred securities		260	11			271
Other equity securities	$77					77
Total equity securities	77	260	11			348
Trading securities	94	107	43			244
Other investments			108			108
Derivatives:						
Interest rate swaps		472	6	$478	($428)	50
Equity derivatives			232	232	(226)	6
Embedded derivatives					(7)	(7)
Other		27	50	77	(71)	6
Total derivatives		499	288	787	(732)	55
Separate account assets (2)	55,914	128	113			56,155
Total	$56,085	$25,449	$3,975	$787	($732)	$84,777
Liabilities:						
Derivatives:						
Interest rate swaps		$438		$438	($428)	$10
Equity derivatives			$106	106	(226)	(120)
Embedded derivatives			567	567	(7)	560
Other		15	19	34	(71)	(37)
Total	-	$453	$692	$1,145	($732)	$413

	Level 1	Level 2	Level 3	Gross Derivatives Fair Value	Netting Adjustments [1]	Total
				(In Millions)		
December 31, 2010:						
Assets:						
U.S. Treasury securities		$920				$920
Obligations of states and political subdivisions		886	$39			925
Foreign governments		412	70			482
Corporate securities		18,040	1,628			19,668
RMBS		3,573	1,068			4,641
CMBS		757	254			1,011
Collateralized debt obligations		5	115			120
Other asset-backed securities		266	280			546
Total fixed maturity securities		24,859	3,454			28,313
Perpetual preferred securities		263	12			275
Other equity securities	$3		1			4
Total equity securities	3	263	13			279
Trading securities	91	192	66			349
Other investments			173			173
Derivatives:						
Interest rate swaps		411	4	$415	($347)	68
Equity derivatives			287	287	(89)	198
Embedded derivatives			25	25		25
Other		35	40	75	(43)	32
Total derivatives		446	356	802	(479)	323
Separate account assets [2]	55,438	123	100			55,661
Total	$55,532	$25,883	$4,162	$802	($479)	$85,098
Liabilities:						
Derivatives:						
Interest rate swaps		$635		$635	($347)	$288
Equity derivatives			$102	102	(89)	13
Embedded derivatives			618	618		618
Other		4	23	27	(43)	(16)
Total	-	$639	$743	$1,382	($479)	$903

[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, 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						
	January 1, 2011	Included in Earnings	Included in OCI	Transfers In and/or Out of Level 3 [1]	Purchases	Sales	Settlements	June 30, 2011
				(In Millions)				
Obligations of states and political subdivisions	$39		$3	($42)				
Foreign governments	70		2	25			($2)	$95
Corporate securities	1,628	$9	7	81	$210	($125)	(154)	1,656
RMBS	1,068	(12)	54		17	(12)	(97)	1,018
CMBS	254		6	42	7		(44)	265
Collateralized debt obligations	115	2	(3)					114
Other asset-backed securities	280	2		(24)	22		(16)	264
Total fixed maturity securities	3,454	1	69	82	256	(137)	(313)	3,412
Perpetual preferred securities	12			(1)				11
Other equity securities	1			(1)				
Total equity securities	13			(2)				11
Trading securities	66				19	(3)	(39)	43
Other investments	173	31	(8)			(88)		108
Derivatives, net:								
Interest rate swaps	4		2					6
Equity derivatives	185	(114)					55	126
Embedded derivatives	(593)	28			(26)		24	(567)
Other	17	38					(24)	31
Total derivatives	(387)	(48)	2		(26)		55	(404)
Separate account assets [2]	100	6			7			113
Total	$3,419	($10)	$63	$80	$256	($228)	($297)	$3,283

	January 1, 2010	Total Gains or Losses Included in Earnings	Included in OCI	Transfers In and/or Out of Level 3 [1]	Purchases Sales, Issuances, and Settlements	June 30, 2010
			(In Millions)			
Obligations of U.S. government authorities and agencies	$6				($1)	$5
Obligations of states and political subdivisions	34	$2	$1	$5	10	52
Foreign governments	108		3	(26)	(1)	84
Corporate securities	2,287	19	20	(274)	(174)	1,878
RMBS	3,650	(14)	232		(374)	3,494
CMBS	327		9	14	9	359
Collateralized debt obligations	104	3	(4)	2		105
Other asset-backed securities	235		12	33	(19)	261
Total fixed maturity securities	6,751	10	273	(246)	(550)	6,238
Perpetual preferred securities	70	(1)	4	(38)	(18)	17
Other equity securities			(1)		1	
Total equity securities	70	(1)	3	(38)	(17)	17
Trading securities	29	(1)		26	1	55
Other investments	163		1		2	166
Derivatives, net:						
Interest rate swaps	3	2	1			6
Equity derivatives	282	625			79	986
Embedded derivatives	(746)	(684)				(1,430)
Other	14	(18)			(3)	(7)
Total derivatives	(447)	(75)	1		76	(445)
Separate account assets [2]	101	1		(4)	(8)	90
Total	$6,667	($66)	$278	($262)	($496)	$6,121

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

During the six months ended June 30, 2011, the Company transferred $663 million of fixed maturity securities out of Level 2 and into Level 3, and transferred $581 million of fixed maturity securities out of Level 3 and into Level 2. The net transfers into Level 3 were primarily attributable to the decreased availability and use of market observable inputs to estimate fair value. During the six months ended June 30, 2011, the Company did not have any significant transfers between Level 1 and 2.

During the six months ended June 30, 2010, the Company transferred $331 million of fixed maturity securities out of Level 2 and into Level 3, and transferred $577 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, 2010, the Company did not have any significant transfers between Level 1 and 2.

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

	Unrealized Gains (Losses) Still Held	
	June 30, 2011	June 30, 2010
	(In Millions)	
Corporate securities [1]		$1
Trading securities [1]		(2)
Derivatives, net: [1]		
Interest rate swaps		2
Equity derivatives	($79)	580
Embedded derivatives	33	(683)
Other	29	(10)
Total derivatives	(17)	(111)
Separate account assets [2]	6	1
Total	($11)	($111)

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

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

The Company did not have any material nonfinancial assets or liabilities measured at estimated fair value on a nonrecurring basis resulting from impairments as of June 30, 2011. The Company has not made any changes in the valuation methodologies for nonfinancial assets and liabilities.

12. INCOME TAXES

The provision for income taxes is as follows:

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(In Millions)	
Current	($3)	$105
Deferred	84	3
Provision for income taxes from continuing operations	81	108
Benefit from income taxes from discontinued operations	(3)	
Total	$78	$108

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

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(In Millions)	
Provision for income taxes at the statutory rate	$167	$169
Separate account dividends received deduction	(52)	(46)
Low income housing and foreign tax credits	(10)	(7)
Internal Revenue Service settlement	(7)	
Other	(17)	(8)
Provision for income taxes from continuing operations	$81	$108

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

Balance at January 1, 2010	$14
Additions and deletions	
Balance at December 31, 2010	14
Additions and deletions	(14)
Balance at June 30, 2011	-

During the six months ended June 30, 2011, the Company effectively settled $14 million of the gross uncertain tax position related to separate account Dividends Received Deductions (DRD), which resulted in the realization of $7 million of tax benefits. All realized tax benefits and related interest are recognized as a discrete item that will impact the effective tax rate in the accounting period in which the uncertain tax position is ultimately settled.

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

13. SEGMENT INFORMATION

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

The Life Insurance segment provides a broad range of life insurance products through multiple distribution channels operating in the upper income and corporate markets. Principal products include UL, 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 sources. Distribution channels include independent planners, financial institutions and national/regional wirehouses.

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

The 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 other operations that do not qualify as operating segments and the elimination of intersegment transactions. Discontinued operations (Note 14) are also included in the Corporate and Other segment.

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

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

The Company generates substantially all of its revenues and net income from customers located in the U.S. As of June 30, 2011 and December 31, 2010, the Company had foreign investments with an estimated fair value of $7.8 billion and $8.0 billion, respectively. Aircraft leased to foreign customers was $5.0 billion and $5.1 billion as of June 30, 2011 and December 31, 2010, respectively. Revenues derived from any customer did not exceed 10% of consolidated total revenues for the six months ended June 30, 2011 and 2010.

The following is segment information as of and for the six months ended June 30, 2011:

	Life Insurance	Retirement Solutions	Aircraft Leasing	Corporate and Other	Total
			(In Millions)		
REVENUES					
Policy fees and insurance premiums	$550	$939		$5	$1,494
Net investment income	478	401		260	1,139
Net realized investment gain (loss)	26	(60)	($1)	1	(34)
OTTIs	(8)	(9)		(25)	(42)
Investment advisory fees	11	121			132
Aircraft leasing revenue			297		297
Other income	6	84	20	2	112
Total revenues	1,063	1,476	316	243	3,098
BENEFITS AND EXPENSES					
Policy benefits	226	719		(1)	944
Interest credited	364	144		157	665
Commission expenses	179	175		2	356
Operating expenses	161	169	40	33	403
Depreciation of aircraft			124		124
Interest expense			87	43	130
Total benefits and expenses	930	1,207	251	234	2,622
Income from continuing operations before provision (benefit) for income taxes	133	269	65	9	476
Provision (benefit) for income taxes	40	33	21	(13)	81
Income from continuing operations	93	236	44	22	395
Discontinued operations, net of taxes				(6)	(6)
Net income	93	236	44	16	389
Less: net income attributable to the noncontrolling interest from continuing operations			(3)	(42)	(45)
Net income (loss) attributable to the Company	$93	$236	$41	($26)	$344
Total assets	$31,115	$68,446	$7,370	$9,667	$116,598
DAC	1,537	2,946			4,483
Separate account assets	6,201	50,008			56,209
Policyholder and contract liabilities	22,180	14,612		5,537	42,329
Separate account liabilities	6,201	50,008			56,209

The following is segment information for the six months ended June 30, 2010:

	Life Insurance	Retirement Solutions	Aircraft Leasing	Corporate and Other	Total
			(In Millions)		
REVENUES					
Policy fees and insurance premiums	$558	$687		$3	$1,248
Net investment income	457	363		270	1,090
Net realized investment gain (loss)	49	(367)	($1)	387	68
OTTIs	(10)	(2)		(22)	(34)
Investment advisory fees	10	110			120
Aircraft leasing revenue			302		302
Other income	6	69	4	1	80
Total revenues	1,070	860	305	639	2,874
BENEFITS AND EXPENSES					
Policy benefits	206	533		(2)	737
Interest credited	346	125		170	641
Commission expenses	199	190			389
Operating expenses	160	165	25	30	380
Depreciation of aircraft			121		121
Interest expense			86	38	124
Total benefits and expenses	911	1,013	232	236	2,392
Income (loss) from continuing operations before provision (benefit) for income taxes	159	(153)	73	403	482
Provision (benefit) for income taxes	50	(99)	26	131	108
Net income (loss)	109	(54)	47	272	374
Less: net income attributable to the noncontrolling interest from continuing operations			(5)	(28)	(33)
Net income (loss) attributable to the Company	$109	($54)	$42	$244	$341

The following is segment information as of December 31, 2010:

	Life Insurance	Retirement Solutions	Aircraft Leasing	Corporate and Other	Total
Total assets	$30,337	$67,415	$6,893	$10,017	$114,662
DAC	1,598	2,836		1	4,435
Separate account assets	5,982	49,701			55,683
Policyholder and contract liabilities	21,776	13,743		6,637	42,156
Separate account liabilities	5,982	49,701			55,683

14. DISCONTINUED OPERATIONS

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

Operating results from discontinued operations were as follows:

	Six Months Ended June 30,	
	2011	2010
	(In Millions)	
Benefits and expenses	$9	
Loss from discontinued operations	(9)	
Benefit from income taxes	(3)	
Discontinued operations, net of taxes	($6)	-

15. 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 $159 million and $142 million for the six months ended June 30, 2011 and 2010, respectively.

Additionally, the Pacific Select Fund has a service plan whereby the fund pays PSD, as distributor of the fund, a service fee in connection with services rendered or procured to or for shareholders of the fund or their variable contract owners. These services may include, but are not limited to, payment of compensation to broker-dealers, including PSD itself, and other financial institutions and organizations, which assist in providing any of the services. For the six months ended June 30, 2011 and 2010, PSD received $52 million and $49 million, respectively, in service fees from the Pacific Select Fund, which are recorded in other income.

ACG has derivative swap contracts with Pacific LifeCorp as the counterparty. The notional amounts total $1.4 billion and $1.5 billion as of June 30, 2011 and December 31, 2010, respectively. The estimated fair values of the derivatives were net liabilities of $59 million and $62 million as of June 30, 2011 and December 31, 2010, respectively.

16. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

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

Twelve Months Ending June 30:	
2012	$534
2013 through 2016	662
2017 and thereafter	98
Total	$1,294

The Company leases office facilities under various operating leases, which in most, but not all cases, are noncancelable. In connection with the sale of a block of business in 2005, PL&A is contingently liable until March 31, 2013 for certain future rent and expense obligations, not to exceed $9 million, related to an office lease that has been assigned to the buyer.

As of June 30, 2011, ACG has commitments with major aircraft manufacturers and other third-parties to purchase aircraft at an estimated delivery price of $5,557 million with delivery from 2011 through 2017. These purchase commitments may be funded:

- up to $1,303 million in less than one year,
- an additional $2,255 million in one to three years,
- an additional $1,255 million in three to five years, and
- an additional $202 million thereafter.

As of June 30, 2011, deposits related to these agreements totaled $542 million and are included in other assets.

In connection with an acquisition in 2005, ACG assumed residual value support agreements with expiration dates ranging from 2011 to 2015. The gross remaining residual value exposure under these agreements was $99 million as of June 30, 2011 and December 31, 2010. As of June 30, 2011, the Company has estimated that it has no measurable liability under the remaining residual value guarantee agreements.

In connection with the reinsurance of NLGR benefits ceded from Pacific Life to PAR Vermont (Note 4), PAR Bermuda and PAR Vermont entered into a three year letter of credit agreement with a group of banks in April 2009. This agreement allows for the issuance of letters of credit with an expiration date of March 2012 to PAR Bermuda and PAR Vermont for up to a combined total amount of $650 million. As of December 31, 2010, the letter of credit issued from this facility to PAR Bermuda had been cancelled. In addition, as of June 30, 2011, a letter of credit was issued for PAR Vermont totaling $390 million. Pacific LifeCorp guarantees the obligations of PAR Vermont under the letter of credit agreement.

On March 29, 2010, the Company entered into an agreement with Pacific Life Re Limited (PLR), an affiliate of the Company and a wholly owned subsidiary of Pacific LifeCorp, to guarantee the performance of unaffiliated reinsurance obligations of PLR. For the six months ended June 30, 2011, Pacific Life earned an insignificant amount under the agreement for its guarantee. This guarantee is secondary to the 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. PLR is incorporated in the United Kingdom (UK) and provides reinsurance to insurance and annuity providers in the UK, Ireland and to insurers in selected markets in Asia.

CONTINGENCIES - LITIGATION

The Company is a respondent in a number of legal proceedings, some of which involve allegations for extra-contractual damages. Although the Company is confident of its position in these matters, success is not a certainty and it is possible that in any case a judge or jury could rule against the Company. In the opinion of management, the outcome of such proceedings is not likely to have a material adverse effect on the Company's 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 claims against the Company.

CONTINGENCIES - IRS REVENUE RULING

On August 16, 2007, the IRS issued Revenue Ruling 2007-54, which provided the IRS' interpretation of tax law regarding the computation of the DRD. On September 25, 2007, the IRS issued Revenue Ruling 2007-61, which suspended Revenue Ruling 2007-54 and indicated the IRS would address the proper interpretation of tax law in a regulation project that is on the IRS' priority guidance plan. Although no guidance has been issued, if the IRS ultimately adopts the interpretation contained in Revenue Ruling 2007-54, the Company could lose a substantial amount of DRD tax benefits, which could have a material adverse effect on the Company's condensed consolidated financial statements.

CONTINGENCIES - OTHER

In connection with the sale of certain broker-dealer subsidiaries (Note 14), certain indemnifications triggered by breaches of representations, warranties or covenants were provided by the Company. Also, included in the indemnifications is indemnification for certain third-party claims arising from the normal operation of these broker-dealers prior to the closing and within the nine month period following the sale. Management believes that 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.

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

17. SUBSEQUENT EVENTS

The Company has evaluated events subsequent to June 30, 2011 through August 25, 2011, the date the condensed consolidated financial statements were available to be issued.

In July 2011, the Company signed an agreement to purchase the life retrocession business of Manulife Financial Corporation, subject to regulatory approval. The transaction is expected to be completed during the third quarter of 2011.

In July 2011, Pacific Life purchased a pension advisory services business, which will conduct business as Pacific Life Global Advisors, LLC (PGA), a wholly owned subsidiary of Pacific Life. PGA's primary business objective is to provide advisory services to employee benefit plans.

In July 2011, Pacific Life declared a cash dividend to Pacific LifeCorp of $125 million.