

**PACIFIC MUTUAL HOLDING COMPANY
AND SUBSIDIARIES**

Consolidated Financial Statements
as of December 31, 2010 and 2009 and
for the years ended December 31, 2010, 2009 and 2008
and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

Pacific Mutual Holding Company and Subsidiaries:

We have audited the accompanying consolidated statements of financial condition of Pacific Mutual Holding Company and Subsidiaries (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of operations, equity and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Pacific Mutual Holding Company and Subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting and reporting for variable interest entities as required by accounting guidance adopted in 2010, as well as for other than temporary impairments and noncontrolling interest as required by accounting guidance adopted in 2009.

Deloitte & Touche LLP

March 7, 2011

Pacific Mutual Holding Company and Subsidiaries

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

<i>(In Millions)</i>	December 31,	
	2010	2009
ASSETS		
Investments:		
Fixed maturity securities available for sale, at estimated fair value	\$28,911	\$26,682
Equity securities available for sale, at estimated fair value	355	375
Mortgage loans	6,693	6,577
Policy loans	6,690	6,509
Other investments (includes VIE assets of \$263 and \$232, respectively)	2,284	2,057
TOTAL INVESTMENTS	44,933	42,200
Cash and cash equivalents (includes VIE assets of \$4 and \$7, respectively)	2,433	2,060
Restricted cash (includes VIE assets of \$170 and \$190, respectively)	226	249
Deferred policy acquisition costs	4,560	4,857
Aircraft leasing portfolio, net (includes VIE assets of \$2,154 and \$2,384, respectively)	5,259	5,304
Other assets (includes VIE assets of \$40 and \$48, respectively)	2,898	2,720
Separate account assets	55,683	52,564
TOTAL ASSETS	\$115,992	\$109,954
LIABILITIES AND EQUITY		
Liabilities:		
Policyholder account balances	\$35,076	\$33,984
Future policy benefits	7,441	7,738
Short-term debt	135	539
Long-term debt (includes VIE debt of \$1,592 and \$1,977, respectively)	7,383	6,509
Other liabilities (includes VIE liabilities of \$385 and \$408, respectively)	2,730	2,241
Separate account liabilities	55,683	52,564
TOTAL LIABILITIES	108,448	103,575
Commitments and contingencies (Note 21)		
Members' Equity:		
Members' capital	7,017	6,537
Accumulated other comprehensive income (loss)	276	(389)
Total Members' Equity	7,293	6,148
Noncontrolling interest	251	231
TOTAL EQUITY	7,544	6,379
TOTAL LIABILITIES AND EQUITY	\$115,992	\$109,954

The abbreviation VIE above means variable interest entity.

See Notes to Consolidated Financial Statements

Pacific Mutual Holding Company and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

(In Millions)	Years Ended December 31,		
	2010	2009	2008
REVENUES			
Policy fees and insurance premiums	\$2,550	\$2,446	\$2,103
Net investment income	2,156	1,897	2,029
Net realized investment gain (loss)	(84)	164	(767)
OTTIs, consisting of \$328 and \$642 in total, net of \$215 and \$330 recognized in OCI for 2010 and 2009, respectively	(113)	(312)	(584)
Realized investment gain on interest in PIMCO			109
Investment advisory fees	245	208	255
Aircraft leasing revenue	591	578	571
Other income	258	230	294
TOTAL REVENUES	5,603	5,211	4,010
BENEFITS AND EXPENSES			
Policy benefits paid or provided	1,468	1,352	1,302
Interest credited to policyholder account balances	1,317	1,253	1,234
Commission expenses	859	705	723
Operating and other expenses	1,379	1,437	1,376
TOTAL BENEFITS AND EXPENSES	5,023	4,747	4,635
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE			
PROVISION (BENEFIT) FOR INCOME TAXES	580	464	(625)
Provision (benefit) for income taxes	50	24	(339)
INCOME (LOSS) FROM CONTINUING OPERATIONS			
Discontinued operations, net of taxes	530	440	(286)
		(20)	(6)
Net income (loss)			
	530	420	(292)
Less: net (income) loss attributable to the noncontrolling interest from continuing operations	(50)	14	3
NET INCOME (LOSS) ATTRIBUTABLE TO THE COMPANY	\$480	\$434	(\$289)

The abbreviation OTTIs above means other than temporary impairment losses.

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

See Notes to Consolidated Financial Statements

Pacific Mutual Holding Company and Subsidiaries

CONSOLIDATED STATEMENTS OF EQUITY

(In Millions)	Members' Capital	Accumulated Other Comprehensive Income (Loss)		Total Members' Equity	Noncontrolling Interest	Total Equity
		Unrealized Gain (Loss) On Derivatives and Securities Available for Sale, Net	Other, Net			
BALANCES, JANUARY 1, 2008	\$6,217	\$141	\$46	\$6,404	\$214	\$6,618
Comprehensive loss:						
Net loss	(289)			(289)	(3)	(292)
Other comprehensive loss, net		(1,889)	(138)	<u>(2,027)</u>		<u>(2,027)</u>
Total comprehensive loss				(2,316)		(2,319)
Change in equity of noncontrolling interest					33	33
BALANCES, DECEMBER 31, 2008	5,928	(1,748)	(92)	4,088	244	4,332
Cumulative effect of adoption of new accounting principle, net of tax	175	(170)		5		5
REVISED BALANCES, DECEMBER 31, 2008	6,103	(1,918)	(92)	4,093	244	4,337
Comprehensive income (loss):						
Net income (loss)	434			434	(14)	420
Other comprehensive income (loss)		1,565	56	<u>1,621</u>	(7)	<u>1,614</u>
Total comprehensive income				2,055		2,034
Change in equity of noncontrolling interest					8	8
BALANCES, DECEMBER 31, 2009	6,537	(353)	(36)	6,148	231	6,379
Comprehensive income (loss):						
Net income	480			480	50	530
Other comprehensive income (loss)		666	(1)	<u>665</u>		<u>665</u>
Total comprehensive income				1,145		1,195
Change in equity of noncontrolling interest					(30)	(30)
BALANCES, DECEMBER 31, 2010	\$7,017	\$313	(\$37)	\$7,293	\$251	\$7,544

See Notes to Consolidated Financial Statements

Pacific Mutual Holding Company and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(In Millions)</i>	Years Ended December 31,		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss) from continuing operations	\$530	\$440	(\$286)
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by operating activities:			
Net accretion on fixed maturity securities	(136)	(144)	(144)
Depreciation and amortization	300	281	259
Deferred income taxes	44	441	(535)
Net realized investment (gain) loss	84	(164)	767
Other than temporary impairments	113	312	584
Realized investment gain on interest in PIMCO			(109)
Net change in deferred policy acquisition costs	42	(235)	(192)
Interest credited to policyholder account balances	1,317	1,253	1,234
Net change in future policy benefits and other insurance liabilities	730	180	1,187
Other operating activities, net	34	154	(307)
NET CASH PROVIDED BY OPERATING ACTIVITIES BEFORE DISCONTINUED OPERATIONS	3,058	2,518	2,458
Net cash used in operating activities of discontinued operations		(27)	(18)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,058	2,491	2,440
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed maturity and equity securities available for sale:			
Purchases	(7,185)	(6,092)	(3,128)
Sales	4,126	1,916	2,167
Maturities and repayments	2,280	2,648	2,298
Repayments of mortgage loans	746	406	470
Fundings of mortgage loans and real estate	(870)	(1,434)	(1,665)
Net change in policy loans	(181)	411	(510)
Sale of interest in PIMCO			288
Purchases of derivative instruments	(116)	(20)	(12)
Terminations of derivative instruments	(51)	7	301
Proceeds from nonhedging derivative settlements	39	168	781
Payments for nonhedging derivative settlements	(608)	(1,653)	(142)
Net change in collateral received or pledged	7	(1,243)	1,029
Issuance of notes receivable	(263)	(603)	(1,214)
Repayments of notes receivable	386	673	1,382
Purchases of and advance payments on aircraft leasing portfolio	(754)	(561)	(694)
Acquisition of reinsurance business			(70)
Other investing activities, net	283	27	(270)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES BEFORE DISCONTINUED OPERATIONS	(2,161)	(5,350)	1,011
Net cash provided by investing activities of discontinued operations			7
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(2,161)	(5,350)	1,018

(Continued)

See Notes to Consolidated Financial Statements

Pacific Mutual Holding Company and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions)	Years Ended December 31,		
	2010	2009	2008
<i>(Continued)</i>			
CASH FLOWS FROM FINANCING ACTIVITIES			
Policyholder account balances:			
Deposits	\$4,272	\$8,003	\$7,320
Withdrawals	(5,162)	(7,972)	(7,602)
Net change in short-term debt	(404)	(260)	(52)
Issuance of long-term debt	1,812	1,642	335
Payments of long-term debt	(1,012)	(383)	(381)
Other financing activities, net	(30)	1	33
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(524)	1,031	(347)
Net change in cash and cash equivalents	373	(1,828)	3,111
Cash and cash equivalents, beginning of year	2,060	3,888	777
CASH AND CASH EQUIVALENTS, END OF YEAR	\$2,433	\$2,060	\$3,888
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Income taxes paid (received), net	\$94	(\$140)	(\$32)
Interest paid	\$238	\$201	\$271

See Notes to Consolidated Financial Statements

Pacific Mutual Holding Company and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND DESCRIPTION OF BUSINESS

Pacific Mutual Holding Company (PMHC) is a Nebraska mutual holding company organized pursuant to consent received from the California Department of Insurance and the implementation of a plan of conversion to form a mutual holding company structure in 1997 (the Conversion). The Conversion created PMHC and Pacific LifeCorp, an intermediate Delaware stock holding company. Pacific LifeCorp owns 100% of Pacific Life Insurance Company (Pacific Life), a Nebraska domiciled stock life insurance company.

PMHC and its subsidiaries and affiliates have primary business operations consisting of life insurance, annuities, mutual funds, and aircraft leasing. Effective December 31, 2009, Pacific LifeCorp 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.

BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

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

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

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

- The fair value of investments in the absence of quoted market values
- Investment impairments
- Application of the consolidation rules to certain investments
- The fair value of and accounting for derivatives
- Aircraft valuation and impairment
- The capitalization and amortization of deferred policy acquisition costs (DAC)
- The liability for future policyholder benefits
- Accounting for income taxes and the valuation of deferred income tax assets and liabilities and unrecognized tax benefits
- Accounting for reinsurance transactions
- Litigation and other contingencies

Certain reclassifications have been made to the 2009 and 2008 consolidated financial statements to conform to the 2010 financial statement presentation.

The Company has evaluated events subsequent to December 31, 2010 through March 7, 2011, the date the consolidated financial statements were available to be issued.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

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

Effective January 1, 2010, the Company adopted additional guidance to the Codification's Consolidation Topic whereby the Company changed the methodology it employs to evaluate if an entity is a VIE and, once identified, if a VIE should be included in the consolidated financial statements. The new methodology places emphasis on the Company's ability to direct the activities that most significantly impact the VIE's financial performance. This guidance provides for enhanced disclosure requirements. The adoption of this guidance did not impact the Company's consolidated financial statements, however, adoption did result in additional disclosure on the consolidated statements of financial condition.

In April 2009, the FASB issued additional guidance under the Codification's Fair Value Measurements and Disclosures Topic. This update relates to determining fair values when there is no active market or where the price inputs being used represent distressed sales. The Company early adopted this guidance on March 31, 2009. This update provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. Also included is guidance on identifying circumstances that indicate a transaction is not orderly. See Note 14 for information on the Company's fair value measurements and expanded disclosures.

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

Effective January 1, 2009, the FASB issued additional guidance to the Codification's Consolidation Topic. This guidance improves the relevance, comparability and transparency of the financial information that a company provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. As a result of the adoption of this guidance, which required retrospective application of presentation requirements, total equity as of December 31, 2008 increased by \$244 million representing the noncontrolling interest, and other liabilities and total liabilities as of December 31, 2008 decreased by \$244 million as a result of reclassifying noncontrolling interest (previously known as minority interest) to equity.

FUTURE ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

In October 2010, the FASB issued Accounting Standards Update (ASU) 2010-26 to the Codification's Financial Services – Insurance Topic. ASU 2010-26 significantly amends the guidance applicable to accounting for costs associated with acquiring or renewing insurance contracts. 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 revised guidance on its consolidated financial statements.

INVESTMENTS

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

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

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

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

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

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

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

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

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

Mortgage loans on real estate are carried at their unpaid principal balance, net of deferred origination fees and write-downs. Mortgage loans are considered to be impaired when management estimates that based upon current information and events, it is probable that the Company will not be able to collect amounts due according to the contractual terms of the mortgage loan agreement. For mortgage loans deemed to be impaired, an impairment loss is recorded when the carrying amount is greater than the Company's estimated fair value of the underlying collateral of the loan. When the underlying collateral of the loan is greater

than the carrying amount, the loan is not considered to have an impaired loss and no write-down is recorded. 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 December 31, 2009, two loans totaling \$8 million were considered impaired, however no impairment loss was necessary as the estimated fair value of the collateral was greater than the carrying amount of the related loans.

Policy loans are stated at unpaid principal balances.

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

Real estate investments are evaluated for impairment based on the undiscounted cash flows expected to be received during the estimated holding period. When the undiscounted cash flows are less than the current carrying value of the property (gross cost less accumulated depreciation) the property is considered impaired and will be written-down to its estimated fair value. During the year ended December 31, 2010, three real estate investments were written-down for a total of \$27 million (Note 14). The Company had no real estate write-downs during the years ended December 31, 2009 and 2008.

Investments in LIHTC are recorded under either the effective interest method, if they meet certain requirements, including a projected positive yield based solely on guaranteed credits, or are recorded under the equity method if these certain requirements are not met. For investments in LIHTC recorded under the effective interest method, the amortization of the original investment and the tax credits are recorded in the provision (benefit) for income taxes. For investments in LIHTC recorded under the equity method, the amortization of the initial investment is included in net investment income, and the related tax credits are recorded in the provision (benefit) for income taxes (Note 18). The amortization recorded in net investment income was \$1 million, \$3 million and \$5 million for the years ended December 31, 2010, 2009 and 2008, respectively.

All derivatives, whether designated in hedging relationships or not, are required to be recorded at estimated fair value. If the derivative is designated as a cash flow hedge, the effective portion of changes in the estimated fair value of the derivative is recorded in OCI and recognized in earnings when the hedged item affects earnings. If the derivative is designated as a fair value hedge, changes in the estimated fair value of the hedging derivative, including amounts measured as ineffectiveness, and changes in the estimated fair value of the hedged item related to the designated risk being hedged, are reported in net realized investment gain (loss). The change in estimated value of the hedged item associated with the risk being hedged is reflected as an adjustment to the carrying amount of the hedged item. For derivative instruments not designated as hedges, the change in estimated fair value of the derivative is recorded in net realized investment gain (loss). Estimated fair value exposure is calculated based on the aggregate estimated fair value of all derivative instruments with each counterparty, net of collateral received or pledged, in accordance with legally enforceable counterparty master netting agreements (Note 10).

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all investments with a maturity of three months or less from purchase date.

RESTRICTED CASH

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

DEFERRED POLICY ACQUISITION COSTS

The costs of acquiring new insurance business, principally commissions, medical examinations, underwriting, policy issue and other expenses, all of which vary with and are primarily associated with the production of new business, are deferred and recorded as an asset commonly referred to as DAC. DAC related to internally replaced contracts (as defined in the Codification's Financial Services – Insurance Topic), is immediately written off to expense and any new deferrable expenses associated with the replacement are deferred if the contract modification substantially changes the contract. However, if the contract modification does not substantially change the contract, the existing DAC asset remains in place and any acquisition costs associated with the modification are immediately expensed. As of December 31, 2010 and 2009, the carrying value of DAC was \$4.6 billion and \$4.9 billion, respectively (Note 7).

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

Significant assumptions in the development of EGPs include investment returns, surrender and lapse rates, rider utilization, interest spreads, and mortality margins. The Company's long-term assumption for the underlying separate account investment return ranges up to 8.0%.

A change in the assumptions utilized to develop EGPs results in a change to amounts expensed in the reporting period in which the change was made by adjusting the DAC balance to the level DAC would have been had the EGPs been calculated using the new assumptions over the entire amortization period. In general, favorable experience variances result in increased expected future profitability and may lower the rate of DAC amortization, whereas unfavorable experience variances result in decreased expected future profitability and may increase the rate of DAC amortization. All critical assumptions utilized to develop EGPs are evaluated at least annually and necessary revisions are made to certain assumptions to the extent that actual or anticipated experience necessitates such a prospective change (Note 7).

The Company defers sales inducements and amortizes them over the life of the policy using the same methodology and assumptions used to amortize DAC. The capitalized sales inducement balance included in the DAC asset were \$549 million and \$583 million as of December 31, 2010 and 2009, respectively.

AIRCRAFT LEASING PORTFOLIO

Aircraft are recorded at cost, which includes certain acquisition costs, less accumulated depreciation. Major improvements to aircraft are capitalized when incurred. The Company evaluates carrying values of aircraft based upon changes in market and other physical and economic conditions and records impairment losses to recognize a loss in the value of the aircraft when management believes that, based on estimated future cash flows, the recoverability of the Company's investment in an aircraft is unlikely (Note 9). The Company had five and four non-earning aircraft in the portfolio as of December 31, 2010 and 2009, respectively.

GOODWILL FROM ACQUISITIONS

Goodwill represents the excess of costs over the fair value of net assets acquired. Goodwill is not amortized but is reviewed for impairment at least annually or more frequently if events occur or circumstances indicate that the goodwill might be impaired. Goodwill from acquisitions, included in other assets, totaled \$43 million as of December 31, 2010 and 2009. There were no goodwill impairment write-downs from continuing operations during the years ended December 31, 2010, 2009 and 2008.

NOTES RECEIVABLE

Notes receivable, included in other assets, totaled zero and \$137 million as of December 31, 2010 and 2009, respectively.

POLICYHOLDER ACCOUNT BALANCES

Policyholder account balances on UL and investment-type contracts, such as funding agreements, annuities without life contingencies, deposit liabilities and guaranteed interest contracts (GICs), are valued using the retrospective deposit method and are equal to accumulated account values, which consist of deposits received, plus interest credited, less withdrawals and assessments (Note 11). Interest credited to these contracts primarily ranged from 0.2% to 9.0%.

FUTURE POLICY BENEFITS

Annuity reserves, which primarily consist of group retirement and structured settlement annuities with life contingencies, are equal to the present value of estimated future payments using pricing assumptions, as applicable, for interest rates, mortality, morbidity, retirement age and expenses (Note 11). Interest rates used in establishing such liabilities ranged from 0.8% to 11.0%.

The Company offers a rider on certain variable annuity contracts that guarantees net principal over a ten-year holding period, as well as riders on certain variable annuity contracts that guarantee a minimum withdrawal benefit over specified periods, subject to certain restrictions. These variable annuity guaranteed living benefits (GLBs) are considered embedded derivatives and are recorded in future policy benefits (Note 11).

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

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

As of December 31, 2010 and 2009, participating experience rated policies paying dividends represent less than 1% of direct life insurance in force.

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

REINSURANCE

The Company has ceded reinsurance agreements with other insurance companies to limit potential losses, reduce exposure arising from larger risks, provide additional capacity for future growth and assumed reinsurance agreements intended to offset reinsurance costs. As part of a strategic alliance, the Company also reinsures risks associated with policies written by an independent producer group through modified coinsurance and yearly renewable term arrangements with this producer group's reinsurance company.

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

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

Reinsurance premiums ceded and reinsurance recoveries on benefits and claims incurred are deducted from their respective revenue and benefit and expense accounts. Prepaid reinsurance premiums, included in other assets, are premiums that are paid in advance for future coverage. Reinsurance recoverables, included in other assets, include balances due from reinsurance companies for paid and unpaid losses. Amounts receivable and payable are offset for account settlement purposes for contracts where the right of offset exists. See Note 16.

REVENUES, BENEFITS AND EXPENSES

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

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

Investment advisory fees are primarily fees earned by Pacific Life Fund Advisors LLC (PLFA), a wholly owned subsidiary of Pacific Life formed in 2007, which serves as the investment advisor for the Pacific Select Fund, an investment vehicle provided to the Company's variable universal life (VUL) and variable annuity contract holders, and the Pacific Life Funds, the investment vehicle for the Company's mutual fund products. These fees are based upon the net asset value of the underlying portfolios and are recorded as earned. Related subadvisory expense is included in operating and other expenses and recorded when incurred.

Aircraft leases, which are structured as triple net leases, are accounted for as operating leases. Aircraft leasing revenue is recognized ratably over the terms of the lease agreements. ACG has four capital leases, which are accounted for under the provisions in the Codification's Leases Topic. As of December 31, 2010 and 2009, capital leases in the amount of \$5 million and \$8 million, respectively, are classified in other assets.

DEPRECIATION AND AMORTIZATION

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

INCOME TAXES

PMHC files a consolidated Federal income tax return and a combined California franchise tax return with its includable subsidiaries. Certain of the Company's non-insurance subsidiaries also file separate state tax returns, if necessary. Pacific Alliance Reinsurance Ltd. (PAR Bermuda), a Bermuda-based life reinsurance company wholly owned by Pacific LifeCorp, files a separate Federal tax return. Pacific Life and its wholly owned, Arizona domiciled life insurance subsidiary, Pacific Life & Annuity Company (PL&A), Pacific Alliance Reinsurance Company of Vermont (PAR Vermont), a Vermont-based life reinsurance company wholly owned by Pacific Life, and PAR Bermuda are taxed as life insurance companies for Federal income tax purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years the differences are expected to be recovered or settled.

CONTINGENCIES

Each reporting cycle, the Company evaluates all identified contingent matters on an individual basis. A loss is recorded if probable and reasonably estimable. The Company establishes reserves for these contingencies at the best estimate, or, if no one number within the range of possible losses is more probable than any other, the Company records an estimated reserve at the low end of the range of losses. See Note 21.

SEPARATE ACCOUNTS

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

and realized and unrealized gains and losses on the separate account assets accrue directly to contract holders and, accordingly, are not reflected in the consolidated statements of operations or cash flows. Amounts charged to the separate account for mortality, surrender and expense charges are included in revenues as policy fees.

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of financial instruments, disclosed in Notes 8, 10 and 14, has been determined using available market information and appropriate valuation methodologies. However, considerable judgment is often required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented may not be indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies could have a significant effect on the estimated fair value amounts.

2. STATUTORY FINANCIAL INFORMATION AND DIVIDEND RESTRICTIONS

STATUTORY ACCOUNTING PRACTICES

The Company's principal life insurance subsidiary, 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 December 31, 2010 and 2009 did not reflect unrealized losses of \$24 million and \$29 million, respectively, with regard to this permitted practice.

In addition, Pacific Life uses an NE DOI prescribed accounting practice for certain synthetic GIC reserves that differs from statutory accounting practices adopted by the NAIC. As of December 31, 2010 and 2009, this NE DOI prescribed accounting practice resulted in statutory reserves of \$27 million and \$20 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 \$741 million, \$652 million and (\$1,529) million for the years ended December 31, 2010, 2009 and 2008, respectively. Statutory capital and surplus of Pacific Life was \$5,867 million and \$5,006 million as of December 31, 2010 and 2009, respectively.

RISK-BASED CAPITAL

Risk-based capital is a method developed by the NAIC to measure the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The formulas for determining the amount of risk-based capital specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Additionally, certain risks are required to be measured using actuarial cash flow modeling techniques, subject to formulaic minimums. The adequacy of a company's actual capital is measured by a comparison to the risk-based capital results. Companies below minimum risk-based capital requirements are classified within certain levels, each of which requires specified corrective action. As of December 31, 2010 and 2009, Pacific Life, PL&A and PAR Vermont exceeded the minimum risk-based capital requirements.

DIVIDEND RESTRICTIONS

The payment of dividends by Pacific Life to Pacific LifeCorp is subject to restrictions set forth in the State of Nebraska insurance laws. These laws require (i) notification to the NE DOI for the declaration and payment of any dividend and (ii) approval by the NE DOI for accumulated dividends within the preceding twelve months that exceed the greater of 10% of statutory policyholder surplus as of the preceding December 31 or statutory net gain from operations for the preceding twelve months ended December 31. Generally, these restrictions pose no short-term liquidity concerns for Pacific LifeCorp. Based on these restrictions and 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.

During the year ended December 31, 2010, Pacific Life paid a cash dividend to Pacific LifeCorp of \$150 million. No dividends were paid during 2009. During the year ended December 31, 2008, Pacific Life paid a cash dividend to Pacific LifeCorp of \$345 million.

The maximum amount of ordinary dividends that can be paid by PL&A to Pacific Life without restriction cannot exceed the lesser of 10% of statutory surplus as regards to policyholders, or the statutory net gain from operations. Based on this limitation and 2010 statutory results, PL&A could pay \$28 million in dividends to Pacific Life in 2011 without prior regulatory approval. No dividends were paid during 2010, 2009 and 2008.

OTHER

The Company has ceded reinsurance contracts in place with a reinsurer whose financial stability has deteriorated. In January 2009, the reinsurer's domiciliary state regulator issued an order of supervision, which requires the regulator's consent to any transaction outside the normal course of business. The Company will continue to monitor the situation and evaluate its options to deal with any further deterioration in the reinsurer's financial condition. As of December 31, 2010, statutory reserves ceded to this reinsurer amounted to approximately \$177 million.

3. CLOSED BLOCK

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

Assets that support the Closed Block, which are primarily included in fixed maturity securities and policy loans, amounted to \$284 million and \$285 million as of December 31, 2010 and 2009, respectively. Liabilities allocated to the Closed Block, which are primarily included in future policy benefits, amounted to \$304 million and \$307 million as of December 31, 2010 and 2009, respectively. The net contribution to income from the Closed Block was zero, \$4 million and \$1 million for the years ended December 31, 2010, 2009 and 2008, respectively.

4. VARIABLE INTEREST ENTITIES

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

The following table presents, as of December 31, 2010 and 2009, 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
<u>December 31, 2010:</u>					
Aircraft securitizations	\$2,364	\$1,972	\$397	\$320	
Private equity funds	267	5	34		
Asset-backed securities				1,910	\$108
Total	\$2,631	\$1,977	\$431	\$2,230	\$108
<u>December 31, 2009:</u>					
Aircraft securitizations	\$2,622	\$2,380	\$364	\$371	
Private equity funds	239	5	30		
Asset-backed securities				1,910	\$103
Total	\$2,861	\$2,385	\$394	\$2,281	\$103

AIRCRAFT SECURITIZATIONS

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

In 2005, ACG sponsored a securitization transaction whereby Aviation Capital Group Trust III (ACG Trust III) acquired 74 of ACG's aircraft through a private placement note offering in the amount of \$1,860 million. ACG owns 100% of the equity and has a controlling financial interest in this VIE. Therefore, ACG was determined to be the primary beneficiary of this VIE and ACG Trust III is consolidated into the consolidated financial statements of the Company. These private placement notes are the obligation of ACG Trust III and represent debt that is non-recourse to the Company (Note 13). VIE non-recourse debt consolidated from ACG Trust III was \$1,103 million and \$1,309 million as of December 31, 2010 and 2009, respectively. As of December 31, 2010 and 2009, the maximum exposure to loss, based on the Company's interest in ACG Trust III, was \$201 million and \$148 million, respectively.

In 2003, ACG sponsored a securitization transaction whereby Aviation Capital Group Trust II (ACG Trust II) acquired 37 of ACG's aircraft through a private placement note offering in the amount of \$1,027 million. ACG owns 100% of the equity and has a controlling financial interest in this VIE. Therefore, ACG was determined to be the primary beneficiary of this VIE and ACG Trust II is consolidated into the consolidated financial statements of the Company. These private placement notes are the obligation of ACG Trust II and represent debt that is non-recourse to the Company (Note 13). VIE non-recourse debt consolidated from ACG Trust II was \$484 million and \$666 million as of December 31, 2010 and 2009, respectively. As of December 31, 2010 and 2009, the maximum exposure to loss was \$196 million and \$216 million, respectively, based on the Company's interest in ACG Trust II. As of December 31, 2009, the maximum exposure to loss included a contingent purchase obligation of \$100 million. The Company was contingently obligated to purchase certain notes from ACG Trust II to cover shortfalls in amounts due to the holders of the notes. This contingent purchase obligation expired in August 2010.

In 2000, ACG sponsored a financial asset securitization of aircraft to Aviation Capital Group Trust (Aviation Trust). ACG and Pacific Life are beneficial interest holders in Aviation Trust. Aviation Trust is not consolidated as the Company is not the primary beneficiary as ACG does not have the obligation to absorb losses of Aviation Trust that could potentially be significant to Aviation Trust or the right to receive benefits from Aviation Trust that could potentially be significant to it. The carrying value is comprised of beneficial interests issued by Aviation Trust. As of December 31, 2010 and 2009, the maximum exposure to loss, based on carrying value, was zero.

PRIVATE EQUITY FUNDS

Private equity funds (the Funds) are three limited partnerships that invest in private equity investments for outside investors, where the Company is the general partner. The Company provides investment management services to the Funds for a fee and receives carried interest based upon the performance of the Funds. The Funds are a VIE due to the purpose and design of the Funds and the lack of control by the other equity investors. The Company has determined itself to be the primary beneficiary since it has a controlling financial interest in the Funds and the Funds are consolidated into the consolidated financial statements of the Company. The Company has not guaranteed the performance, liquidity or obligations of the Funds, and the Company's maximum exposure to loss is equal to the carrying amounts of its retained interest. VIE non-recourse debt consolidated from the Funds was \$5 million and \$2 million as of December 31, 2010 and 2009, respectively (Note 13).

ASSET-BACKED SECURITIES

As part of the Company's investment strategy, the Company purchases primarily investment grade beneficial interests issued from bankruptcy-remote special purpose entities (SPEs), which are collateralized by financial assets including corporate debt. The Company has not guaranteed the performance, liquidity or obligations of the SPEs, and the Company's maximum exposure to loss is limited to its carrying value of the beneficial interests in the SPEs. The Company has no liabilities related to these VIEs. The Company has determined that it is not the primary beneficiary of these entities since it does not have the power to direct their financial activities. Therefore, the Company does not consolidate these entities. The investments are reported as fixed maturity securities available for sale and had a net carrying amount of \$108 million and \$103 million at December 31, 2010 and 2009, respectively. During the years ended December 31, 2010, 2009 and 2008, the Company recorded OTTI of zero, \$60 million and \$117 million, respectively, related to these securities.

5. INTEREST IN PIMCO

As of December 31, 2007, the Company owned a beneficial economic interest in Pacific Investment Management Company LLC (PIMCO) through Allianz Global Investors of America LLC (interest in PIMCO). PIMCO offers investment products through managed accounts and institutional, retail and offshore mutual funds. The interest in PIMCO was reported at estimated fair value, as determined by a contractual put and call option price, with changes in estimated fair value reported as a component of OCI, net of taxes.

During the year ended December 31, 2008, the Company exercised a put option and sold all of its remaining interest in PIMCO to Allianz of America, Inc., a subsidiary of Allianz SE, for \$288 million. The Company recognized a pre-tax gain of \$109 million for the year ended December 31, 2008.

6. DISCONTINUED OPERATIONS

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

Operating results from discontinued operations were as follows:

	Years Ended December 31,		
	2010	2009	2008
	<i>(In Millions)</i>		
Revenues			\$13
Benefits and expenses		\$31	22
Loss from discontinued operations	-	(31)	(9)
Benefit from income taxes		(11)	(3)
Discontinued operations, net of taxes	-	(\$20)	(\$6)

7. DEFERRED POLICY ACQUISITION COSTS

Components of DAC are as follows:

	Years Ended December 31,		
	2010	2009	2008
	<i>(In Millions)</i>		
Balance, January 1	\$4,857	\$5,028	\$4,481
Cumulative pre-tax effect of adoption of new accounting principle (Note 1)		7	
Additions:			
Capitalized during the year	662	822	774
Amortization:			
Allocated to commission expenses	(558)	(457)	(449)
Allocated to operating expenses	(146)	(130)	(133)
Total amortization	(704)	(587)	(582)
Allocated to OCI	(255)	(413)	355
Balance, December 31	\$4,560	\$4,857	\$5,028

During the years ended December 31, 2010, 2009 and 2008, the Company revised certain assumptions to develop EGPs for its products subject to DAC amortization (Note 1). This resulted in increases in DAC amortization expense of \$34 million, \$23 million and \$20 million for the years ended December 31, 2010, 2009 and 2008, respectively. The revised EGPs also resulted in increased URR amortization of \$20 million for the year ended December 31, 2010, an immaterial decrease in URR amortization for the year ended December 31, 2009 and increased URR amortization of \$2 million for the year ended December 31, 2008.

8. INVESTMENTS

The net carrying amount, gross unrealized gains and losses, and estimated fair value of fixed maturity and equity securities available for sale are shown below. The net carrying amount of fixed maturity securities represents amortized cost adjusted for OTTI recognized in earnings and changes in the estimated fair value attributable to the hedged risk in a fair value hedge. The net carrying amount of equity securities represents cost adjusted for OTTI. See Note 14 for information on the Company's fair value measurements and disclosure.

	Net			Estimated Fair Value
	Carrying Amount	Gross Unrealized		
		Gains	Losses	
<i>(In Millions)</i>				
<u>December 31, 2010:</u>				
U.S. Treasury securities and obligations of				
U.S. government authorities and agencies	\$938	\$21	\$16	\$943
Obligations of states and political subdivisions	955	15	44	926
Foreign governments	447	50	2	495
Corporate securities	18,734	1,424	211	19,947
Residential mortgage-backed securities	5,371	144	598	4,917
Commercial mortgage-backed securities	977	50	11	1,016
Collateralized debt obligations	118	28	26	120
Other asset-backed securities	501	54	8	547
Total fixed maturity securities	<u>\$28,041</u>	<u>\$1,786</u>	<u>\$916</u>	<u>\$28,911</u>
Perpetual preferred securities	\$323	\$11	\$36	\$298
Other equity securities	58		1	57
Total equity securities	<u>\$381</u>	<u>\$11</u>	<u>\$37</u>	<u>\$355</u>
	Net			Estimated Fair Value
	Carrying Amount	Gross Unrealized		
		Gains	Losses	
<i>(In Millions)</i>				
<u>December 31, 2009:</u>				
U.S. Treasury securities and obligations of				
U.S. government authorities and agencies	\$119	\$10	\$1	\$128
Obligations of states and political subdivisions	636	13	46	603
Foreign governments	390	42		432
Corporate securities	17,529	908	310	18,127
Residential mortgage-backed securities	6,479	109	1,083	5,505
Commercial mortgage-backed securities	1,161	43	24	1,180
Collateralized debt obligations	118	27	33	112
Other asset-backed securities	566	46	17	595
Total fixed maturity securities	<u>\$26,998</u>	<u>\$1,198</u>	<u>\$1,514</u>	<u>\$26,682</u>
Perpetual preferred securities	\$356	\$6	\$55	\$307
Other equity securities	65	3		68
Total equity securities	<u>\$421</u>	<u>\$9</u>	<u>\$55</u>	<u>\$375</u>

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 \$411 million and \$369 million, respectively, as of December 31, 2010. Included in these amounts are perpetual preferred securities carried in trusts with a net carrying amount and estimated fair value of \$88 million and \$71 million, respectively, that are held in fixed maturities and included in the tables above in corporate securities. Perpetual preferred securities reported as equity securities available for sale are presented in the tables above as perpetual preferred securities.

The net carrying amount and estimated fair value of fixed maturity securities available for sale as of December 31, 2010, 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	
		<i>(In Millions)</i>		
Due in one year or less	\$892	\$50	\$1	\$941
Due after one year through five years	5,379	356	33	5,702
Due after five years through ten years	9,408	697	115	9,990
Due after ten years	5,395	407	124	5,678
	21,074	1,510	273	22,311
Mortgage-backed and asset-backed securities	6,967	276	643	6,600
Total fixed maturity securities	\$28,041	\$1,786	\$916	\$28,911

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	Gross	
		Estimated Fair Value	Unrealized Losses
<i>(In Millions)</i>			
<u>December 31, 2010:</u>			
U.S. Treasury securities and obligations of			
U.S. government authorities and agencies	5	\$442	\$16
Obligations of states and political subdivisions	44	612	44
Foreign governments	9	62	2
Corporate securities	415	3,306	211
Residential mortgage-backed securities	311	2,990	598
Commercial mortgage-backed securities	21	141	11
Collateralized debt obligations	5	67	26
Other asset-backed securities	19	122	8
Total fixed maturity securities	<u>829</u>	<u>7,742</u>	<u>916</u>
Perpetual preferred securities	23	207	36
Other securities	31	165	17
Total other securities	<u>54</u>	<u>372</u>	<u>53</u>
Total	<u>883</u>	<u>\$8,114</u>	<u>\$969</u>

	Less than 12 Months			12 Months or Greater		
	Number	Gross		Number	Gross	
		Estimated Fair Value	Unrealized Losses		Estimated Fair Value	Unrealized Losses
<i>(In Millions)</i>			<i>(In Millions)</i>			
<u>December 31, 2010:</u>						
U.S. Treasury securities and obligations of						
U.S. government authorities and agencies	5	\$442	\$16			
Obligations of states and political subdivisions	32	374	16	12	\$238	\$28
Foreign governments	9	62	2			
Corporate securities	306	2,071	70	109	1,235	141
Residential mortgage-backed securities	105	167	4	206	2,823	594
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	<u>479</u>	<u>3,198</u>	<u>111</u>	<u>350</u>	<u>4,544</u>	<u>805</u>
Perpetual preferred securities	6	12	1	17	195	35
Other securities	5	70	2	26	95	15
Total other securities	<u>11</u>	<u>82</u>	<u>3</u>	<u>43</u>	<u>290</u>	<u>50</u>
Total	<u>490</u>	<u>\$3,280</u>	<u>\$114</u>	<u>393</u>	<u>\$4,834</u>	<u>\$855</u>

	Total		
	Number	Gross	
		Estimated Fair Value	Unrealized Losses
<i>(In Millions)</i>			
<u>December 31, 2009:</u>			
U.S. Treasury securities and obligations of			
U.S. government authorities and agencies	7	\$13	\$1
Obligations of states and political subdivisions	27	383	46
Corporate securities	559	4,673	310
Residential mortgage-backed securities	385	3,998	1,083
Commercial mortgage-backed securities	20	340	24
Collateralized debt obligations	6	61	33
Other asset-backed securities	24	205	17
Total fixed maturity securities	<u>1,028</u>	<u>9,673</u>	<u>1,514</u>
Perpetual preferred securities	18	195	55
Other securities	31	97	26
Total other securities	<u>49</u>	<u>292</u>	<u>81</u>
Total	<u>1,077</u>	<u>\$9,965</u>	<u>\$1,595</u>

	Less than 12 Months			12 Months or Greater		
	Number	Gross		Number	Gross	
		Estimated Fair Value	Unrealized Losses		Estimated Fair Value	Unrealized Losses
<i>(In Millions)</i>						
<u>December 31, 2009:</u>						
U.S. Treasury securities and obligations of						
U.S. government authorities and agencies	7	\$13	\$1			
Obligations of states and political subdivisions	11	116	6	16	\$267	\$40
Corporate securities	299	1,900	52	260	2,773	258
Residential mortgage-backed securities	77	599	96	308	3,399	987
Commercial mortgage-backed securities	6	100	5	14	240	19
Collateralized debt obligations	5	59	32	1	2	1
Other asset-backed securities				24	205	17
Total fixed maturity securities	<u>405</u>	<u>2,787</u>	<u>192</u>	<u>623</u>	<u>6,886</u>	<u>1,322</u>
Perpetual preferred securities				18	195	55
Other securities	16	54	9	15	43	17
Total other securities	<u>16</u>	<u>54</u>	<u>9</u>	<u>33</u>	<u>238</u>	<u>72</u>
Total	<u>421</u>	<u>\$2,841</u>	<u>\$201</u>	<u>656</u>	<u>\$7,124</u>	<u>\$1,394</u>

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

Prime mortgages are loans made to borrowers with strong credit histories, whereas sub-prime mortgage lending is the origination of residential mortgage loans to customers with weak credit profiles. Alt-A mortgage lending is the origination of residential mortgage loans to customers who have good credit ratings, but have limited documentation for their source of income or some other standard input used to underwrite the mortgage loan. The slowing U.S. housing market, greater use of affordability mortgage

products and relaxed underwriting standards by some originators for these loans has led to higher delinquency and loss rates, especially within the 2007 and 2006 vintage years.

The table below 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 December 31, 2010.

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	\$635	\$634	21%	18%	3%			
AA	113	107	4%	3%		1%		
A	121	119	4%	1%	2%	1%		
BAA	31	28	1%		1%			
BA and below	2,073	1,762	70%	3%	22%	31%	14%	
Total	\$2,973	\$2,650	100%	25%	28%	33%	14%	0%
Alt-A RMBS:								
AAA	\$54	\$50	6%	6%				
AA	27	27	3%	1%	1%	1%		
BAA	26	24	3%	1%		2%		
BA and below	747	560	88%		10%	26%	52%	
Total	\$854	\$661	100%	8%	11%	29%	52%	0%
Sub-prime RMBS:								
AAA	\$212	\$199	52%	52%				
AA	92	80	23%	23%				
A	21	14	5%	5%				
BA and below	83	67	20%	1%	17%	1%	1%	
Total	\$408	\$360	100%	81%	17%	1%	1%	0%
CMBS:								
AAA	\$842	\$888	86%	59%	3%		14%	10%
AA	65	66	7%	4%				3%
A	42	38	4%	4%				
BA	28	24	3%				3%	
Total	\$977	\$1,016	100%	67%	3%	0%	17%	13%

Pacific Life is a member of the Federal Home Loan Bank (FHLB) of Topeka. As of December 31, 2010, the Company has received advances of \$1.5 billion from the FHLB of Topeka and has issued funding agreements to the FHLB of Topeka in connection with its institutional investment products (Note 20). The funding agreement liabilities are included in policyholder account balances. Fixed maturity securities and cash equivalents with an estimated fair value of \$1.7 billion as of December 31, 2010 are in a custodial account pledged as collateral for the funding agreements. The Company is required to purchase stock in FHLB of Topeka each time it receives an advance. As of December 31, 2010, the Company holds \$78 million of FHLB of Topeka stock, which is recorded in other investments.

PL&A is a member of FHLB of San Francisco. As of December 31, 2010, no assets are pledged as collateral. As of December 31, 2010, the Company holds FHLB of San Francisco stock with an estimated fair value of \$28 million, which is recorded in other investments.

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

	Years Ended December 31,		
	2010	2009	2008
	<i>(In Millions)</i>		
Fixed maturity securities	\$1,538	\$1,477	\$1,489
Equity securities	19	20	23
Mortgage loans	337	297	289
Real estate	95	94	87
Policy loans	214	229	223
Partnerships and joint ventures	119	(77)	21
Other	1	16	34
Gross investment income	2,323	2,056	2,166
Investment expense	167	159	137
Net investment income	<u>\$2,156</u>	<u>\$1,897</u>	<u>\$2,029</u>

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

	Years Ended December 31,		
	2010	2009	2008
	<i>(In Millions)</i>		
Fixed maturity securities:			
Gross gains on sales	\$181	\$61	\$107
Gross losses on sales	(36)	(19)	(44)
Total fixed maturity securities	<u>145</u>	<u>42</u>	<u>63</u>
Equity securities:			
Gross gains on sales	4		1
Gross losses on sales		(11)	
Total equity securities	<u>4</u>	<u>(11)</u>	<u>1</u>
Trading securities	12	20	(22)
Real estate	21		
Variable annuity GLB embedded derivatives (including reinsurance contracts)	185	2,211	(2,775)
Variable annuity GLB policy fees	208	147	108
Variable annuity derivatives - interest rate swaps		(104)	402
Variable annuity derivatives - total return swaps	(534)	(1,542)	646
Equity put options	(159)	(672)	853
Synthetic GIC policy fees	30	25	15
Other derivatives	8	38	(78)
Other	(4)	10	20
Total	<u>(\$84)</u>	<u>\$164</u>	<u>(\$767)</u>

The table below summarizes the OTTI by investment type:

	Recorded in Earnings	Included in OCI	Total
<i>(In Millions)</i>			
<u>Year ended December 31, 2010:</u>			
Corporate securities	\$10		\$10
RMBS	64	\$215	279
Collateralized debt obligations	1		1
OTTI - fixed maturity and equity securities	75	215	290
Real estate	27		27
Other investments	11		11
Total OTTI	\$113	\$215	\$328
<u>Year ended December 31, 2009:</u>			
Corporate securities ⁽¹⁾	\$63	\$2	\$65
RMBS	117	315	432
Collateralized debt obligations	66	13	79
Perpetual preferred securities	26		26
OTTI - fixed maturity and equity securities	272	330	602
Other investments	40		40
Total OTTI	\$312	\$330	\$642

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

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

	Years Ended December 31,	
	2010	2009
	<i>(In Millions)</i>	
Cumulative credit loss, January 1	\$200	\$88
Additions for credit impairments recognized on:		
Securities not previously other than temporarily impaired	14	48
Securities previously other than temporarily impaired	46	106
Total additions	60	154
Reductions for credit impairments previously recognized on:		
Securities that matured or were sold	(5)	(40)
Securities due to an increase in expected cash flows and time value of cash flows	(10)	(2)
Total subtractions	(15)	(42)
Cumulative credit loss, December 31	\$245	\$200

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
	<i>(In Millions)</i>		
<u>December 31, 2010:</u>			
U.S. Treasury securities and obligations of			
U.S. government authorities and agencies		\$16	\$16
Obligations of states and political subdivisions		44	44
Foreign governments		2	2
Corporate securities		211	211
RMBS	\$308	290	598
CMBS		11	11
Collateralized debt obligations	26		26
Other asset-backed securities		8	8
Total fixed maturity securities	<u>\$334</u>	<u>\$582</u>	<u>\$916</u>
Perpetual preferred securities		\$36	\$36
Other equity securities		1	1
Total equity securities	<u>-</u>	<u>\$37</u>	<u>\$37</u>
<u>December 31, 2009:</u>			
U.S. Treasury securities and obligations of			
U.S. government authorities and agencies		\$1	\$1
Obligations of states and political subdivisions		46	46
Corporate securities	\$2	308	310
RMBS	328	755	1,083
CMBS		24	24
Collateralized debt obligations	32	1	33
Other asset-backed securities		17	17
Total fixed maturity securities	<u>\$362</u>	<u>\$1,152</u>	<u>\$1,514</u>
Perpetual preferred securities		\$55	\$55
Total equity securities	<u>-</u>	<u>\$55</u>	<u>\$55</u>

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

	Years Ended December 31,		
	2010	2009	2008
	<i>(In Millions)</i>		
Available for sale securities:			
Fixed maturity	\$1,186	\$2,463	(\$3,273)
Equity	20	126	(144)
Total available for sale securities	<u>\$1,206</u>	<u>\$2,589</u>	<u>(\$3,417)</u>
Trading securities	<u>\$14</u>	<u>\$26</u>	<u>(\$19)</u>

Trading securities totaled \$349 million and \$206 million as of December 31, 2010 and 2009, respectively. The cumulative net unrealized gains on trading securities held as of December 31, 2010 and 2009 were \$21 million and \$7 million, respectively.

As of December 31, 2010 and 2009, fixed maturity securities of \$12 million were on deposit with state insurance departments to satisfy regulatory requirements.

Mortgage loans totaled \$6,693 million and \$6,577 million as of December 31, 2010 and 2009, respectively. Mortgage loans are collateralized by commercial properties primarily located throughout the U.S. As of December 31, 2010, \$1,047 million, \$1,022 million, \$716 million, \$562 million and \$433 million were located in Washington, California, Florida, Texas and Maryland, respectively. As of December 31, 2010, \$596 million was located in Canada. The Company did not have any mortgage loans with accrued interest more than 180 days past due as of December 31, 2010 or 2009. As of December 31, 2010, there was no single mortgage loan investment that exceeded 10% of stockholder's equity.

Investments in real estate totaled \$555 million and \$583 million as of December 31, 2010 and 2009, respectively.

9. AIRCRAFT LEASING PORTFOLIO, NET

Aircraft leasing portfolio, net, consisted of the following:

	December 31,	
	2010	2009
	<i>(In Millions)</i>	
Aircraft	\$3,502	\$3,217
Aircraft consolidated from VIEs	2,938	3,081
	<u>6,440</u>	<u>6,298</u>
Accumulated depreciation	1,181	994
Aircraft leasing portfolio, net	<u>\$5,259</u>	<u>\$5,304</u>

As of December 31, 2010, domestic and foreign future minimum rentals scheduled to be received under the noncancelable portion of operating leases are as follows *(In Millions)*:

	2011	2012	2013	2014	2015	Thereafter
Domestic	\$32	\$28	\$25	\$25	\$20	\$98
Foreign	517	443	340	272	194	362
Total operating leases	<u>\$549</u>	<u>\$471</u>	<u>\$365</u>	<u>\$297</u>	<u>\$214</u>	<u>\$460</u>

As of December 31, 2010 and 2009, aircraft with a carrying amount of \$4,802 million and \$4,954 million, respectively, were assigned as collateral to secure debt (Notes 4 and 13).

During the year ended December 31, 2010, ACG recognized a \$4 million aircraft impairment, which is included in operating and other expenses (Note 14). There were no impairments recognized during the years ended December 31, 2009 and 2008.

During the years ended December 31, 2010, 2009 and 2008, ACG recognized pre-tax gains on the sale of aircraft of \$18 million, zero and zero, respectively, which are included in other income.

10. DERIVATIVES AND HEDGING ACTIVITIES

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

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

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 years ended December 31, 2010, 2009 and 2008, hedge ineffectiveness related to designated cash flow hedges reflected in net realized investment gain (loss) was \$5 million, \$8 million and (\$4) million, respectively. For the years ended December 31, 2010, 2009 and 2008, 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 \$16 million of deferred losses on derivative instruments in AOCI will be reclassified to earnings. For the years ended December 31, 2010, 2009 and 2008, all of the Company's hedged forecasted transactions were determined to be probable of occurring.

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

	Notional Amount	
	December 31,	
	2010	2009
	<i>(In Millions)</i>	
Foreign currency interest rate swaps	\$4,917	\$5,099
Interest rate swaps	2,727	3,910
Forward starting interest rate swaps	1,140	1,060

Notional amount represents a standard of measurement of the volume of derivatives. Notional amount is not a quantification of market risk or credit risk and is not recorded on the consolidated statements of financial condition. Notional amounts generally represent those amounts used to calculate contractual cash flows to be exchanged and are not paid or received, except for certain contracts such as currency swaps.

DERIVATIVES DESIGNATED AS FAIR VALUE HEDGES

Interest rate swap agreements are used to convert a fixed rate asset or liability to a floating rate to hedge the changes in estimated fair value of the hedged asset or liability due to changes in benchmark interest rates. These derivatives are used primarily to closely match the duration of the assets supporting specific liabilities. Pacific Life uses interest rate swaps to convert fixed rate surplus notes to variable rate notes (Note 13).

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

	Notional Amount	
	December 31,	
	2010	2009
	<i>(In Millions)</i>	
Interest rate swaps	\$1,579	\$1,658
Foreign currency interest rate swaps	13	13

DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS

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

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

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

The Company employs hedging strategies (variable annuity derivatives) to mitigate equity risk associated with the GLBs not covered by reinsurance. The Company utilizes total return swaps based upon the S&P 500 Index (S&P 500) primarily to economically hedge the equity risk of the mortality and expense fees in its variable annuity products. These contracts provide periodic payments to the Company in exchange for the total return 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 has used interest rate swaps to hedge fluctuations in the valuation of GLBs as a result of changes in risk free rates. These agreements involved the exchange, at specified intervals, of interest payments resulting from the difference between fixed rate and floating rate interest amounts calculated by reference to an underlying notional amount. During 2009, all interest rate swaps held at the beginning of the year were terminated and there were no open interest rate swaps as of December 31, 2009. The Company had no interest rate swap trading activity for the year ended December 31, 2010.

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

The Company offers equity indexed universal life (EIUL) insurance products, which credits the price return of the S&P 500 to the policy cash value. A policyholder may allocate the policy's net accumulated value to one or a combination of the following: fixed return account, one-year indexed account capped at 12%, or a five-year indexed account. These equity indexed products contain embedded derivatives and are recorded in policyholder account balances.

The Company utilizes one-year and five-year S&P call options to hedge against adverse changes in the equity index. These options are contracts to buy the equity index at a predetermined time at a contracted price. The contracts will be net settled in cash based on differentials in the index at the time of exercise and the strike price and the settlements will be recognized in net realized investment gain (loss).

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.

Credit default swaps involve the receipt or payment of fixed amounts at specific intervals in exchange for the assumption of or protection from potential credit events associated with the underlying security. The Company wrote one credit default swap for which a payment would be delivered if the underlying security of the derivative defaults. The maximum potential amount of future payment under the credit default swap was \$50 million as of December 31, 2010 and 2009. As of December 31, 2010 and 2009, the fair value of the credit derivative sold by the Company was (\$10) million and (\$17) million, respectively. The term for this instrument is seven years.

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

	Notional Amount	
	December 31,	
	2010	2009
	<i>(In Millions)</i>	
Variable annuity GLB embedded derivatives	\$37,147	\$36,408
Variable annuity GLB reinsurance contracts	15,117	14,878
Variable annuity derivatives - total return swaps	2,891	4,456
Equity put options	5,285	5,267
EIUL embedded derivatives	538	331
S&P call options	483	306
Synthetic GICs	22,402	23,993
Foreign currency interest rate swaps	424	398
Interest rate swaps	1,609	2,438
Other	455	541

CONSOLIDATED FINANCIAL STATEMENT IMPACT

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

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

	Asset Derivatives		Liability Derivatives	
	Estimated Fair Value		Estimated Fair Value	
	December 31,		December 31,	
	2010	2009	2010	2009
	<i>(In Millions)</i>		<i>(In Millions)</i>	
Derivatives designated as hedging instruments:				
Foreign currency interest rate swaps	\$227	\$177 ⁽¹⁾	\$248	\$230 ⁽¹⁾
	13	69 ⁽⁵⁾	190	153 ⁽⁵⁾
Interest rate swaps	99	34 ⁽¹⁾	72	122 ⁽¹⁾
	5	74 ⁽⁵⁾	123	196 ⁽⁵⁾
Forward starting interest rate swap agreements	51	34 ⁽¹⁾	1	1 ⁽¹⁾
	20	8 ⁽⁵⁾		
Total derivatives designated as hedging instruments	415	396	634	701
Derivatives not designated as hedging instruments:				
Variable annuity derivatives - total return swaps		6 ⁽¹⁾	41	60 ⁽¹⁾
			33	4 ⁽⁵⁾
Equity put options	254	329 ⁽¹⁾	15	16 ⁽¹⁾
	33	41 ⁽⁵⁾	13	14 ⁽⁵⁾
Foreign currency interest rate swaps	15	21 ⁽¹⁾	4	4 ⁽¹⁾
	1	5 ⁽⁵⁾		
Interest rate swaps	37	39 ⁽¹⁾	13	24 ⁽¹⁾
	1	1 ⁽⁵⁾	37	43 ⁽⁵⁾
S&P call options	29	18 ⁽¹⁾		
	6	16 ⁽⁵⁾		
Other	2	1 ⁽¹⁾	23	23 ⁽¹⁾
	9	10 ⁽⁵⁾		
Embedded derivatives:				
Variable annuity GLB embedded derivatives (including reinsurance contracts)	25	52 ⁽²⁾	542	754 ⁽³⁾
EIUL embedded derivatives			68	39 ⁽⁴⁾
Other			10	6 ⁽⁴⁾
Total derivatives not designated as hedging instruments	412	534	799	983
Total derivatives	\$827	\$930	\$1,433	\$1,684

Location on the consolidated statements of financial condition:

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

Cash collateral received from counterparties was \$251 million and \$237 million as of December 31, 2010 and 2009, 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 \$188 million and \$181 million as of December 31, 2010 and 2009, 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 future policy benefits or other liabilities, depending on the nature of the derivative.

As of December 31, 2010 and 2009, the Company had also accepted collateral consisting of various securities with an estimated fair value of \$38 million and \$26 million, respectively, which are held in separate custodial accounts. The Company is permitted by contract to sell or repledge this collateral and as of December 31, 2010 and 2009, zero and \$1 million, respectively, of the collateral had been repledged. As of December 31, 2010 and 2009, the Company provided collateral in the form of various securities with an estimated fair value of \$15 million and zero, 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 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 of the amounts presented for each year 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		
	Years Ended			Years Ended		
	December 31,			December 31,		
	2010	2009	2008	2010	2009	2008
	<i>(In Millions)</i>			<i>(In Millions)</i>		
Derivatives in fair value hedges:						
Interest rate swaps	\$85	\$97	(\$103)	(\$98)	(\$93)	\$102
Total	\$85	\$97	(\$103)	(\$98)	(\$93)	\$102

For the years ended December 31, 2010, 2009 and 2008, hedge ineffectiveness related to designated fair value hedges reflected in net realized investment gain (loss) was (\$13) million, \$4 million and (\$1) million, respectively. No component of the hedging instrument's estimated fair value is excluded from the determination of effectiveness.

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

	Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)		
	Years Ended		
	December 31,		
	2010	2009	2008
	<i>(In Millions)</i>		
Derivatives in cash flow hedges:			
Foreign currency interest rate swaps	(\$8)	\$42	\$67
Interest rate swaps	(7)	71	(145)
Forward starting interest rate swaps	29	(254)	336
Total	\$14	(\$141)	\$258

The following table summarizes amounts recognized in net realized investment gain (loss) for derivatives not designated as hedging instruments. Gains and losses include the changes in estimated fair value of the derivatives and amounts realized on terminations. The amounts presented do not include the periodic net (settlements) proceeds of (\$569) million, (\$1,485) million and \$639 million for the years ended December 31, 2010, 2009 and 2008, respectively, which are recognized in net realized investment gain (loss).

	Amount of Gain (Loss) Recognized in Income on Derivatives		
	Years Ended December 31,		
	2010	2009	2008
	<i>(In Millions)</i>		
Derivatives not designated as hedging instruments:			
Variable annuity derivatives - interest rate swaps		(\$168)	\$386
Variable annuity derivatives - total return swaps	(\$84)	(102)	(55)
Equity put options	(60)	(580)	927
Foreign currency interest rate swaps	(2)	(8)	12
Interest rate swaps	10	4	(18)
S&P call options	35	16	(13)
Other	3	24	(58)
Embedded derivatives:			
Variable annuity GLB embedded derivatives (including reinsurance contracts)	185	2,211	(2,775)
EIUL embedded derivatives	(20)	(16)	9
Other embedded derivatives	(3)	2	4
Total	\$64	\$1,383	(\$1,581)

CREDIT EXPOSURE AND CREDIT RISK RELATED CONTINGENT FEATURES

Credit exposure is measured on a counterparty basis as the net positive aggregate estimated fair value, net of collateral received, if any. The credit exposure for over the counter derivatives as of December 31, 2010 was \$110 million. The maximum exposure to any single counterparty was \$17 million at December 31, 2010.

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 December 31, 2010, 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 fair value of all derivative instruments with credit risk related contingent features that are in a liability position on December 31, 2010, is \$329 million for which the Company has posted collateral of \$203 million in the normal course of business. If certain of Pacific Life's insurer financial strength ratings were to fall one notch as of December 31, 2010, the Company would have been required to post an additional \$29 million of collateral to its counterparties.

The Company attempts to limit its credit exposure by dealing with creditworthy counterparties, establishing risk control limits, executing legally enforceable master netting agreements, and obtaining collateral where appropriate. In addition, each

counterparty is reviewed to evaluate its financial stability before entering into each agreement and throughout the period that the financial instrument is owned. All of the Company's credit exposure from derivative contracts is with investment grade counterparties.

11. POLICYHOLDER LIABILITIES

POLICYHOLDER ACCOUNT BALANCES

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

	December 31,	
	2010	2009
	<i>(In Millions)</i>	
Universal life	\$20,098	\$19,298
Annuity and deposit liabilities	8,335	7,109
Funding agreements	4,618	5,240
GICs	2,025	2,337
Total	<u>\$35,076</u>	<u>\$33,984</u>

FUTURE POLICY BENEFITS

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

	December 31,	
	2010	2009
	<i>(In Millions)</i>	
Annuity reserves	\$4,926	\$4,960
Life insurance	679	618
Variable annuity GLB embedded derivatives	542	754
URR	510	734
Policy benefits payable	456	342
Closed Block liabilities	303	306
Other	25	24
Total	<u>\$7,441</u>	<u>\$7,738</u>

12. SEPARATE ACCOUNTS AND VARIABLE ANNUITY GUARANTEED BENEFIT FEATURES

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

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

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

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

	December 31,	
	2010	2009
	<i>(\$ In Millions)</i>	
Return of net deposits		
Separate account value	\$49,673	\$46,884
Net amount at risk ⁽¹⁾	1,738	4,017
Average attained age of contract holders	61 years	61 years
Anniversary contract value		
Separate account value	\$16,814	\$16,483
Net amount at risk ⁽¹⁾	1,299	2,541
Average attained age of contract holders	62 years	63 years
Minimum return		
Separate account value	\$1,211	\$1,241
Net amount at risk ⁽¹⁾	505	620
Average attained age of contract holders	65 years	65 years

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

Information regarding GMIB features outstanding is as follows:

	December 31,	
	2010	2009
	<i>(\$ In Millions)</i>	
Separate account value	\$2,744	\$2,675
Average attained age of contract holders	57 years	58 years

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

	December 31,		December 31,	
	2010	2009	2010	2009
	GMDB		GMIB	
	<i>(In Millions)</i>		<i>(In Millions)</i>	
Balance, beginning of year		\$119	\$38	\$62
Changes in reserves	\$42	(11)	14	(23)
Benefits paid	(42)	(108)	(9)	(1)
Balance, end of year	\$0	\$0	\$43	\$38

Reinsurance recoverables related to GMDB reserves totaled zero as of December 31, 2010 and 2009. Reinsurance recoverables related to GMIB reserves are not significant.

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

	December 31,	
	2010	2009
	<i>(In Millions)</i>	
Asset type		
Domestic equity	\$26,290	\$25,760
International equity	6,447	6,728
Bonds	16,484	13,775
Money market	452	621
Total separate account value	<u>\$49,673</u>	<u>\$46,884</u>

13. DEBT

Debt consists of the following:

	December 31,	
	2010	2009
	<i>(In Millions)</i>	
Short-term debt:		
Revolving credit facilities		\$220
Credit facility recourse only to ACG		105
College Savings Bank repurchase agreements	\$135	214
Total short-term debt	<u>\$135</u>	<u>\$539</u>
Long-term debt:		
Surplus notes	\$1,150	\$1,150
Senior notes	1,047	600
Fair value adjustment for derivative hedging activities	84	(13)
Deferred gains from derivative hedging activities	270	277
Non-recourse long-term debt:		
Debt recourse only to ACG	2,499	1,636
ACG non-recourse debt	621	761
Other non-recourse debt	120	121
ACG VIE debt (Note 4)	1,587	1,975
Other VIE debt (Note 4)	5	2
Total long-term debt	<u>\$7,383</u>	<u>\$6,509</u>

SHORT-TERM DEBT

In July 2010, Pacific LifeCorp replaced a \$500 million revolving credit facility with a new \$750 million revolving credit facility with various banks. Interest is at variable rates and the facility matures in July 2013. This facility had no debt outstanding as of December 31, 2010. The amount outstanding as of December 31, 2009 was \$220 million bearing an average interest rate of 0.5%. As of and during the year ended December 31, 2010, Pacific LifeCorp was in compliance with the debt covenants related to this facility.

Pacific Life maintains a \$700 million commercial paper program. There was no commercial paper debt outstanding as of December 31, 2010 and 2009. In addition, Pacific Life has a bank revolving credit facility of \$400 million maturing in 2012 that serves as a back-up line of credit for the commercial paper program. This facility had no debt outstanding as of December 31, 2010 and 2009. As of and during the year ended December 31, 2010, 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 December 31, 2010 and 2009.

Pacific Life has approval from the FHLB of Topeka to receive advances up to 40% of Pacific Life's statutory general account assets provided it has available collateral and is in compliance with debt covenant restrictions and insurance laws and regulations. There was no debt outstanding with the FHLB of Topeka as of December 31, 2010 and 2009. The Company had zero and \$127 million of additional funding capacity from eligible collateral as of December 31, 2010 and 2009, respectively.

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 \$120 million. Of this amount, half, or \$60 million, can be borrowed for terms other than overnight, out to a maximum term of nine months. These borrowings are at variable rates of interest, collateralized by certain mortgage loan and government securities. As of December 31, 2010 and 2009, PL&A had no debt outstanding with the FHLB of San Francisco.

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

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

College Savings Bank (CSB), a wholly owned subsidiary, finances a portion of its investment securities by entering into repurchase agreements with financial institutions and U.S. government agencies. As of December 31, 2010 and 2009, the outstanding balance amounted to \$135 million and \$214 million, respectively, with weighted-average interest rates of 0.3% and 0.5%, respectively. The weighted-average remaining maturity of repurchase agreements as of December 31, 2010 was 37 days. CSB manages its daily liquidity by purchasing overnight Federal funds with financial institutions and/or borrowing from the Federal Discount Window. As of December 31, 2010 and 2009, there were no additional borrowings.

LONG-TERM DEBT

In June 2009, Pacific Life issued \$1.0 billion of surplus notes at a fixed interest rate of 9.25%, maturing on June 15, 2039. Interest is payable semiannually on June 15 and December 15. Pacific Life may redeem the 9.25% surplus notes at its option, subject to the approval of the Nebraska Director of Insurance for such optional redemption. The 9.25% surplus notes are unsecured and subordinated to all present and future senior indebtedness and policy claims of Pacific Life. All future payments of interest and principal on the 9.25% surplus notes can be made only with the prior approval of the Nebraska Director of Insurance. The Company entered into interest rate swaps converting \$650 million and \$350 million of the 9.25% surplus notes to variable rate notes based upon the London InterBank Offered Rate (LIBOR) during the years ended December 31, 2009 and 2010, respectively. The interest rate swaps were designated as fair value hedges of these surplus notes and the changes in fair value of the hedged surplus notes associated with changes in interest rates are reflected as an adjustment to their carrying amount. This adjustment to the carrying amount of the 9.25% surplus notes, which increased (decreased) long-term debt by \$53 million and (\$35) million as of December 31, 2010 and 2009, respectively, is offset by a fair value adjustment which has also been recorded for the interest rate swap derivative instruments.

Pacific Life has \$150 million of surplus notes outstanding at a fixed interest rate of 7.9%, maturing on December 30, 2023. Interest is payable semiannually on June 30 and December 30. The 7.9% surplus notes may not be redeemed at the option of Pacific Life or any holder of the surplus notes. The 7.9% surplus notes are unsecured and subordinated to all present and future senior indebtedness and policy claims of Pacific Life. All future payments of interest and principal on the 7.9% surplus notes can be made only with the prior approval of the Nebraska Director of Insurance. The Company entered into interest rate swaps converting these surplus notes to variable rate notes based upon the LIBOR. The interest rate swaps were designated as fair value hedges of these surplus notes and the changes in fair value of the hedged surplus notes associated with changes in interest rates are reflected as an adjustment to their carrying amount. This adjustment to the carrying amount of the 7.9% surplus notes, which increased long-term debt by \$31 million and \$22 million as of December 31, 2010 and 2009, respectively, is offset by a fair value adjustment which has also been recorded for the interest rate swap derivative instruments.

In February 2010, Pacific LifeCorp issued \$450 million of senior notes with net cash proceeds of \$447 million at a fixed interest rate of 6.0%, maturing on February 10, 2020. The original issue discount of \$3 million will be amortized over the life of the notes.

Interest is payable semiannually on February 10 and August 10. Pacific LifeCorp may redeem all or a portion of the 6.0% senior notes at any time at the redemption price described under the terms of the senior notes.

Pacific LifeCorp has \$600 million of senior notes outstanding at a fixed interest rate of 6.6%, maturing on September 15, 2033. Interest is payable semiannually on March 15 and September 15. Pacific LifeCorp may redeem all or a portion of the senior notes at any time at the redemption price described under the terms of the senior notes. The Company entered into interest rate swaps converting these senior notes to variable rate notes based upon the LIBOR. The interest rate swaps were designated as fair value hedges of these senior notes. In 2008 and 2005, the interest rate swaps were terminated and gains of \$181 million and \$110 million, respectively, were deferred as an adjustment to the carrying amount of these senior notes. Total unamortized deferred gains are \$270 million and \$277 million as of December 31, 2010 and 2009, respectively.

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 4.5% as of December 31, 2010 and from 0.3% to 4.5% as of December 31, 2009. As of December 31, 2010, \$1,524 million was outstanding on these loans with maturities ranging from 2014 to 2022. Principal payments due over the next twelve months are \$113 million. As of December 31, 2009, \$1,253 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 December 31, 2010 and from 1.5% to 6.8% as of December 31, 2009. As of December 31, 2010, \$975 million was outstanding on these loans with maturities ranging from 2012 to 2020. As of December 31, 2009, \$320 million was outstanding on these loans. These loans are recourse only to ACG.

ACG enters into various secured bank loans to finance aircraft and aircraft order deposits. As of December 31, 2010, ACG had an \$88 million facility to finance aircraft order deposits with no amounts outstanding. This facility matures in 2013 and interest accrues at variable rates and is payable monthly. As of December 31, 2009, ACG had a facility to finance aircraft and aircraft order deposits with \$63 million outstanding. Interest on this loan accrued at variable rates, was payable monthly and with an interest rate of 2.0% as of December 31, 2009. These loans are recourse only to ACG.

ACG enters into various acquisition facilities and bank loans to acquire aircraft. Interest on these facilities and loans accrues at variable rates, is payable monthly and ranged from 1.6% to 3.3% as of December 31, 2010 and from 1.6% to 3.2% as of December 31, 2009. As of December 31, 2010, \$621 million was outstanding on these facilities and loans with maturities ranging from 2011 to 2014. Principal payments due over the next twelve months are \$395 million. As of December 31, 2009, \$761 million was outstanding on these facilities and loans. These facilities and loans are non-recourse to the Company.

Certain subsidiaries of Pacific Asset Holding LLC, a wholly owned subsidiary of Pacific Life, entered into various real estate property related loans with various third-parties. Interest on these loans accrues at fixed and variable rates and is payable monthly. Fixed rates range from 5.8% to 6.2% as of December 31, 2010 and 2009. Variable rates range from 1.4% to 2.0% as of December 31, 2010 and 2009. As of December 31, 2010, there was \$120 million outstanding on these loans with maturities ranging from 2011 to 2012. Principal payments due over the next twelve months are \$87 million. As of December 31, 2009, there was \$121 million outstanding on these loans. One of these loans, totaling \$32 million and maturing in 2012, is currently in the process of foreclosure that is expected to be completed in 2011. All of these loans are secured by real estate properties and are non-recourse to the Company.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

The following tables present, by fair value hierarchy level, the Company's financial assets and liabilities that are carried at fair value as of December 31, 2010 and 2009.

	Level 1	Level 2	Level 3	Gross Derivatives Fair Value	Netting Adjustments ⁽¹⁾	Total
	<i>(In Millions)</i>					
<u>December 31, 2010:</u>						
Assets:						
U.S. Treasury securities and obligations of						
U.S. government authorities and agencies		\$943				\$943
Obligations of states and political subdivisions		886	\$40			926
Foreign governments		425	70			495
Corporate securities		18,319	1,628			19,947
RMBS		3,849	1,068			4,917
CMBS		762	254			1,016
Collateralized debt obligations		5	115			120
Other asset-backed securities		267	280			547
Total fixed maturity securities		25,456	3,455			28,911
Perpetual preferred securities		286	12			298
Other equity securities	\$56		1			57
Total equity securities	56	286	13			355
Trading securities ⁽²⁾	91	192	66			349
Other investments			191			191
Derivatives:						
Interest rate swaps		207	6	\$213	(\$112)	101
Foreign currency interest rate swaps		256		256	(266)	(10)
Equity derivatives			322	322	(95)	227
Embedded derivatives			25	25		25
Other		6	5	11	(32)	(21)
Total derivatives		469	358	827	(505)	322
Separate account assets ⁽³⁾	55,438	123	100			55,661
Total	\$55,585	\$26,526	\$4,183	\$827	(\$505)	\$85,789
Liabilities:						
Derivatives:						
Interest rate swaps		\$246		\$246	(\$112)	\$134
Foreign currency interest rate swaps		442		442	(266)	176
Equity derivatives			\$102	102	(95)	7
Embedded derivatives			620	620		620
Other			23	23	(32)	(9)
Total	-	\$688	\$745	\$1,433	(\$505)	\$928

	Level 1	Level 2	Level 3	Gross Derivatives Fair Value	Netting Adjustments ⁽¹⁾	Total
	(In Millions)					
<u>December 31, 2009:</u>						
Assets:						
U.S. Treasury securities and obligations of						
U.S. government authorities and agencies		\$122	\$6			\$128
Obligations of states and political subdivisions		569	34			603
Foreign governments		324	108			432
Corporate securities		15,832	2,295			18,127
RMBS		1,753	3,752			5,505
CMBS		853	327			1,180
Collateralized debt obligations		8	104			112
Other asset-backed securities		360	235			595
Total fixed maturity securities		19,821	6,861			26,682
Perpetual preferred securities		237	70			307
Other equity securities	\$68					68
Total equity securities	68	237	70			375
Trading securities ⁽²⁾	92	85	29			206
Other investments			180			180
Derivatives:						
Interest rate swaps		186	4	\$190	(\$229)	(39)
Foreign currency interest rate swaps		267		267	(299)	(32)
Equity derivatives			410	410	(133)	277
Embedded derivatives			52	52		52
Other		9	2	11	(33)	(22)
Total derivatives		462	468	930	(694)	236
Separate account assets ⁽³⁾	52,305	116	101			52,522
Total	\$52,465	\$20,721	\$7,709	\$930	(\$694)	\$80,201
Liabilities:						
Derivatives:						
Interest rate swaps		\$385		\$385	(\$229)	\$156
Foreign currency interest rate swaps		383		383	(299)	84
Equity derivatives			\$94	94	(133)	(39)
Embedded derivatives			799	799		799
Other		1	22	23	(33)	(10)
Total	-	\$769	\$915	\$1,684	(\$694)	\$990

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

⁽²⁾ Trading securities are presented in other investments in the consolidated statements of financial condition.

⁽³⁾ Separate account assets are measured at fair value. Investment performance related to separate account assets is offset by corresponding amounts credited to contract holders whose liability is reflected in the separate account liabilities. Separate

account liabilities are measured to equal the fair value of separate account assets as prescribed by guidance in the Codification's Financial Services – Insurance Topic for accounting and reporting of certain non traditional long-duration contracts and separate accounts. Separate account assets as presented in the tables above differ from the amounts presented in the consolidated statements of financial condition because cash and receivables for securities are not subject to the guidance under the Codification's Fair Value Measurements and Disclosures Topic.

FAIR VALUE MEASUREMENT

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

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

FIXED MATURITY, EQUITY AND TRADING SECURITIES

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

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

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

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

During the fourth quarter of 2010, the Company determined that there has been an increase in the volume and level of trading activity for these non-agency RMBS, as indicated by a significant decrease in liquidity risk premiums and more consistency in prices quoted in the market. Therefore, the Company believes that the non-agency RMBS market is no longer an inactive market as of December 31, 2010. Beginning December 31, 2010, the Company primarily utilizes prices obtained from third-party pricing services to determine fair value for non-agency RMBS.

Prices obtained from independent third-parties are generally evaluated based on the inputs indicated above. The Company's management analyzes and evaluates these prices and determines whether they are reasonable estimates of fair value.

Management's analysis may include, but is not limited to, review of third-party pricing methodologies and inputs, analysis of recent trades, and development of internal models utilizing observable market data of comparable securities. Based on this analysis, prices received from third-parties may be adjusted if the Company determines that there is a more appropriate fair value based on available market information.

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

OTHER INVESTMENTS

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

DERIVATIVE INSTRUMENTS

Derivative instruments are reported at fair value using pricing valuation models, which utilize market data inputs or independent broker quotations. Excluding embedded derivatives, as of December 31, 2010, 99% of derivatives based upon notional values were priced by valuation models. The remaining derivatives were priced by broker quotations. The derivatives are valued using mid-market inputs that are predominantly observable in the market. Inputs used to value derivatives include, but are not limited to, interest swap rates, foreign currency forward and spot rates, credit spreads and correlations, interest and equity volatility and equity index levels. In accordance with the Codification's Fair Value Measurements and Disclosures Topic, a credit valuation analysis was performed for all derivative positions to measure the risk that one of the counterparties to the transaction will be unable to perform under the contractual terms (nonperformance risk) and was determined to be immaterial as of December 31, 2010.

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

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

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

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

VARIABLE ANNUITY GLB EMBEDDED DERIVATIVES

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

The Company's fair value is calculated as an aggregation of fair value and additional risk margins including Behavior Risk Margin, Mortality Risk Margin and Credit Standing Adjustment. The resulting aggregation is reconciled or calibrated, if necessary, to market information that is, or may be, available to the Company, but may not be observable by other market participants, including

reinsurance discussions and transactions. Each of the components described below are unobservable in the market place and requires subjectivity by the Company in determining their value.

- Behavior Risk Margin: This component adds a margin that market participants would require for the risk that the Company's assumptions about policyholder behavior used in the fair value model could differ from actual experience.
- Mortality Risk Margin: This component adds a margin in mortality assumptions, both for decrements for policyholders with GLBs, and for expected payout lifetimes in guaranteed minimum withdrawal benefits.
- Credit Standing Adjustment: This component makes an adjustment that market participants would make to reflect the chance that GLB obligations or the GLB reinsurance recoverables will not be fulfilled (nonperformance risk).

SEPARATE ACCOUNT ASSETS

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

LEVEL 3 RECONCILIATION

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

	January 1, 2010	Total Gains or Losses		Transfers In and/or Out of Level 3 ⁽¹⁾	Purchases, Sales, Issuances, and Settlements	December 31, 2010	Unrealized Gains (Losses) Still Held ⁽²⁾
		Included in Earnings	Included in OCI				
	<i>(In Millions)</i>						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$6				(\$6)		
Obligations of states and political subdivisions	34	\$4	(\$6)	(\$4)	12	\$40	
Foreign governments	108		7	(43)	(2)	70	
Corporate securities	2,295	38	25	(563)	(167)	1,628	(\$2)
RMBS	3,752	(44)	501	(2,478)	(663)	1,068	
CMBS	327		20	(59)	(34)	254	
Collateralized debt obligations	104	5	7	2	(3)	115	
Other asset-backed securities	235		7	65	(27)	280	
Total fixed maturity securities	6,861	3	561	(3,080)	(890)	3,455	(2)
Perpetual preferred securities	70		3	(42)	(19)	12	
Other equity securities			1			1	
Total equity securities	70		4	(42)	(19)	13	
Trading securities	29	2		27	8	66	
Other investments	180		7		4	191	
Derivatives, net	(447)	11	1		48	(387)	426
Separate account assets ⁽³⁾	101	6			(7)	100	7
Total	\$6,794	\$22	\$573	(\$3,095)	(\$856)	\$3,438	\$431

	January 1, 2009	Total Gains or Losses Included in Earnings	Included in OCI	Transfers In and/or Out of Level 3 ⁽¹⁾	Purchases, Sales, Issuances, and Settlements	December 31, 2009	Unrealized Gains (Losses) Still Held ⁽²⁾
	<i>(In Millions)</i>						
U.S. Treasury securities and obligations of U.S. government authorities and agencies				\$6		\$6	
Obligations of states and political subdivisions			(\$3)	7	\$30	34	
Foreign governments	\$22	\$2	5	71	8	108	
Corporate securities	2,247	(29)	646	(974)	405	2,295	(\$5)
RMBS	3,356	(115)	436	436	(361)	3,752	
CMBS	201	1	26	60	39	327	
Collateralized debt obligations	104	(67)	71	2	(6)	104	
Other asset-backed securities	210	2	10	42	(29)	235	
Total fixed maturity securities	6,140	(206)	1,191	(350)	86	6,861	(5)
Perpetual preferred securities	15	(17)	12	(8)	68	70	
Other equity securities		1	4	(28)	23		
Total equity securities	15	(16)	16	(36)	91	70	
Trading securities	97			(51)	(17)	29	2
Other investments	168		24		(12)	180	
Derivatives, net	(2,042)	1,504	1		90	(447)	1,597
Separate account assets ⁽³⁾	61	6		20	14	101	12
Total	\$4,439	\$1,288	\$1,232	(\$417)	\$252	\$6,794	\$1,606

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

⁽²⁾ Represents the net amount of total gains or losses for the period, recorded in earnings, attributable to the change in unrealized gains (losses) relating to assets and liabilities classified as Level 3 that were still held as of December 31, 2010 and 2009.

⁽³⁾ The realized/unrealized gains (losses) included in net income (loss) for separate account assets are offset by an equal amount for separate account liabilities, which results in a net zero impact on net income (loss) for the Company.

During the year ended December 31, 2010, the Company transferred \$923 million of fixed maturity securities out of Level 2 and into Level 3, and transferred \$4,003 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 year ended December 31, 2010, the Company did not have any significant transfers between Level 1 and 2.

During the year ended December 31, 2009, the Company transferred \$1,523 million of fixed maturity securities out of Level 2 and into Level 3, and transferred \$1,873 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 year ended December 31, 2009, the Company did not have any significant transfers between Level 1 and Level 2.

NONRECURRING FAIR VALUE MEASUREMENTS

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

	Year Ended December 31, 2010		
	Carrying Value Prior to Measurement	Estimated Fair Value After Measurement	Net Investment Loss
	<i>(In Millions)</i>		
Real estate investments	\$69	\$42	(\$27)
Aircraft	24	20	(4)

REAL ESTATE INVESTMENTS

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

AIRCRAFT

During the year ended December 31, 2010, the Company recognized an impairment of \$4 million, which is included in operating and other expenses, as a result of declines in the estimated future cash flows to be received from two aircraft. The Company evaluates carrying values of aircraft based upon changes in market and other physical and economic conditions and records write-offs to recognize losses in the value of aircraft when management believes that, based on future estimated cash flows, the recoverability of the Company's investment in an aircraft has been impaired. The fair value is based on the present value of the future cash flows, which include contractual lease agreements, projected future lease payments as well as a residual value. The cash flows were based on unobservable inputs and have been classified as Level 3.

The Company did not have any other nonfinancial assets or liabilities measured at fair value on a nonrecurring basis resulting from impairments as of December 31, 2010 and 2009. The Company has not made any changes in the valuation methodologies for nonfinancial assets and liabilities.

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

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	<i>(In Millions)</i>			
Assets:				
Mortgage loans	\$6,693	\$6,906	\$6,577	\$6,660
Policy loans	6,690	6,690	6,509	6,509
Other invested assets	183	190	196	185
Cash and cash equivalents	2,433	2,433	2,060	2,060
Restricted cash	226	226	249	249
Other assets	208	208	323	323
Liabilities:				
Funding agreements and GICs ⁽¹⁾	6,635	7,127	7,572	8,093
Annuity and deposit liabilities	8,335	8,335	7,109	7,109
Short-term debt	135	135	539	539
Long-term debt	7,383	7,376	6,509	6,324
Other liabilities	348	348	341	341

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

The following methods and assumptions were used to estimate the fair value of these financial instruments as of December 31, 2010 and 2009:

MORTGAGE LOANS

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

POLICY LOANS

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

OTHER INVESTED ASSETS

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

CASH AND CASH EQUIVALENTS

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

RESTRICTED CASH

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

OTHER ASSETS

Included in other assets are notes receivable and other loans in which the carrying amounts are a reasonable estimate of their fair value because interest rates are variable and based on current market rates.

FUNDING AGREEMENTS AND GICs

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

ANNUITY AND DEPOSIT LIABILITIES

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

DEBT

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

OTHER LIABILITIES

Other liabilities carrying amounts are a reasonable estimate of fair value because interest is variable and based on current market rates.

15. OTHER COMPREHENSIVE INCOME (LOSS)

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

	Years Ended December 31,		
	2010	2009	2008
	<i>(In Millions)</i>		
Unrealized gain (loss) on derivatives and securities available for sale, net:			
Gross holding gain (loss):			
Securities available for sale	\$1,280	\$2,621	(\$3,882)
Derivatives	14	(141)	258
Income tax (expense) benefit	(441)	(879)	1,278
Reclassification adjustment - realized (gain) loss:			
Sale of securities available for sale	(149)	(31)	(64)
OTTI recognized on securities available for sale	75	272	529
Derivatives	25	23	(2)
Income tax expense (benefit)	1	(92)	(160)
Allocation of holding (gain) loss to DAC	(255)	(413)	355
Allocation of holding (gain) loss to future policy benefits	41	85	(118)
Income tax expense (benefit)	75	113	(83)
Cumulative effect of adoption of new accounting principle		(263)	
Income tax expense		93	
Unrealized gain (loss) on derivatives and securities available for sale, net	666	1,388	(1,889)
Other, net:			
Holding gain (loss) on other securities and interest in PIMCO	9	22	(24)
Income tax (expense) benefit	(4)	(8)	9
Reclassification of realized gain on sale of interest in PIMCO			(109)
Income tax on realized gain			42
Net unrealized gain (loss) on other securities and interest in PIMCO	5	14	(82)
Other, net of tax	(6)	42	(56)
Other, net	(1)	56	(138)
Total other comprehensive income (loss), net	\$665	\$1,444	(\$2,027)

16. REINSURANCE

Certain no lapse guarantee rider (NLGR) benefits of Pacific Life's UL insurance products are subject to Actuarial Guideline 38 (AG 38) statutory reserving requirements. AG 38 results in additional statutory reserves on UL products with NLGRs issued after June 30, 2005. U.S. GAAP benefit reserves for such riders are based on guidance in the Codification's Financial Services – Insurance Topic for accounting and reporting of certain non traditional long-duration contracts and separate accounts. Substantially all the U.S. GAAP benefit reserves relating to NLGRs issued from June 30, 2005 through March 31, 2010 were ceded from Pacific Life to PAR Bermuda 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 21 for further discussion of this letter of credit.

Between January 1, 2006 and March 31, 2009, the Company reinsured a portion of variable annuity business under modified coinsurance agreements. Additionally, between January 1, 2007 and March 31, 2009, the Company reinsured a portion of variable

annuity living and death benefit riders under coinsurance agreements. Business ceded during such periods ranged between 12% and 45%. While the Company stopped reinsuring variable annuity business effective April 1, 2009, new business related to the aforementioned periods continues to be reinsured.

Reinsurance receivables and payables generally include amounts related to claims, reserves and reserve related items. Reinsurance receivables, included in other assets, were \$394 million and \$474 million as of December 31, 2010 and 2009, respectively. Reinsurance payables, included in other liabilities, were \$59 million and \$49 million as of December 31, 2010 and 2009, respectively.

The ceding of risk does not discharge the Company from its primary obligations to contract owners. To the extent that the assuming companies become unable to meet their obligations under reinsurance contracts, the Company remains contingently liable. Each reinsurer is reviewed to evaluate its financial stability before entering into each reinsurance contract and throughout the period that the reinsurance contract is in place.

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

	Years Ended December 31,		
	2010	2009	2008
	<i>(In Millions)</i>		
Direct premiums	\$626	\$666	\$410
Reinsurance ceded	(328)	(308)	(280)
Reinsurance assumed	295	217	148
Insurance premiums	<u>\$593</u>	<u>\$575</u>	<u>\$278</u>

17. EMPLOYEE BENEFIT PLANS

PENSION PLANS

Prior to December 31, 2007, Pacific Life provided a defined benefit pension plan (ERP) covering all eligible employees of the Company. Certain subsidiaries did not participate in this plan. The full-benefit vesting period for all participants was five years. Pacific Life's funding policy was to contribute amounts to the plan sufficient to meet the minimum funding requirements set forth in ERISA, plus such additional amounts as was determined appropriate. All such contributions were made to a tax-exempt trust.

The Company amended the ERP to terminate effective December 31, 2007. In anticipation of the final settlement of the defined benefit pension plan, the plan's investment strategy was revised and the mutual fund investments were sold, transferred to a separate account group annuity contract managed by the Company and invested primarily in fixed income investments to better match the expected duration of the liabilities.

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

Pacific Life maintains supplemental employee retirement plans (SERPs) for certain eligible employees. As of December 31, 2010 and 2009, the projected benefit obligation was \$44 million and \$37 million, respectively. The fair value of plan assets as of December 31, 2010 and 2009 was zero. The net periodic benefit expense of the SERPs was \$5 million, \$4 million and \$5 million for the years ended December 31, 2010, 2009 and 2008, respectively.

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

	December 31, 2010		December 31, 2009	
	ERP	SERP	ERP	SERP
	<i>(In Millions)</i>		<i>(In Millions)</i>	
<u>Defined benefit plans:</u>				
Benefit obligation, end of year		\$44		\$37
Fair value of plan assets, end of year			\$26	
Over (under) funded status, end of year	-	(\$44)	\$26	(\$37)

The Company incurred a net pension expense of \$5 million, \$79 million and \$8 million for the years ended December 31, 2010, 2009 and 2008, respectively, as detailed in the following table:

	Year Ended December 31, 2010		Year Ended December 31, 2009		Year Ended December 31, 2008	
	ERP	SERP	ERP	SERP	ERP	SERP
	<i>(In Millions)</i>		<i>(In Millions)</i>		<i>(In Millions)</i>	
<u>Components of the net periodic pension expense:</u>						
Service cost - benefits earned during the year		\$2		\$2		\$2
Interest cost on projected benefit obligation		2	\$12	2	\$12	2
Expected return on plan assets			(12)		(14)	
Settlement costs			72		5	
Amortization of net obligations and prior service cost		1	3			1
Net periodic pension expense	-	\$5	\$75	\$4	\$3	\$5

Significant plan assumptions:

	December 31, 2010		December 31, 2009	
	ERP	SERP	ERP	SERP
<u>Weighted-average assumptions used to determine benefit obligations:</u>				
Discount rate	N/A	4.75%	6.35%	6.30%
Salary rate	N/A	4.50%	N/A	4.50%

	Years Ended December 31,		
	2010	2009	2008
<u>Weighted-average assumptions used to determine the ERP's net periodic benefit expense:</u>			
Discount rate	N/A	6.30%	6.25%
Expected long-term return on plan assets	N/A	N/A	5.25%

The salary rate used to determine the net periodic benefit expense for the SERP was 4.50% for the years ended December 31, 2010, 2009 and 2008.

Pacific Life expects to contribute \$4 million to the SERP in 2011. The expected benefit payments are as follows for the years ending December 31 *(In Millions)*:

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016-2020</u>
\$4	\$4	\$4	\$4	\$3	\$14

RETIREMENT INCENTIVE SAVINGS PLAN

Pacific Life provides a Retirement Incentive Savings Plan (RISP) covering all eligible employees of Pacific LifeCorp and certain of its subsidiaries. The RISP matches 75% of each employee's contributions, up to a maximum of 6% of eligible employee compensation in cash. Contributions made by the Company to the RISP, including the matching contribution, amounted to \$27 million, \$26 million and \$29 million for the years ended December 31, 2010, 2009 and 2008, respectively, and are included in operating expenses.

POSTRETIREMENT BENEFITS

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

The net periodic postretirement benefit cost for each of the years ended December 31, 2010, 2009 and 2008 was \$1 million. As of December 31, 2010 and 2009, the accumulated benefit obligation was \$19 million. The fair value of the plan assets as of December 31, 2010 and 2009 was zero.

The discount rate used in determining the accumulated postretirement benefit obligation was 4.85% and 5.50% for 2010 and 2009, respectively.

Benefit payments for the year ended December 31, 2010 amounted to \$2 million. The expected benefit payments are as follows for the years ending December 31 (*In Millions*):

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016-2020</u>
\$2	\$2	\$2	\$2	\$2	\$8

OTHER PLANS

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

18. INCOME TAXES

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

	Years Ended December 31,		
	2010	2009	2008
	<i>(In Millions)</i>		
Current	\$6	(\$417)	\$196
Deferred	44	441	(535)
Provision (benefit) for income taxes from continuing operations	50	24	(339)
Benefit from income taxes from discontinued operations		(11)	(3)
Total	\$50	\$13	(\$342)

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

	Years Ended December 31,		
	2010	2009	2008
	<i>(In Millions)</i>		
Provision (benefit) for income taxes at the statutory rate	\$203	\$163	(\$219)
Separate account dividends received deduction	(106)	(93)	(107)
LIHTC and foreign tax credits	(18)	(19)	(31)
Singapore transfer	(17)		
Other	(12)	(27)	18
Provision (benefit) for income taxes from continuing operations	<u>\$50</u>	<u>\$24</u>	<u>(\$339)</u>

In December 2010, ACG and an unrelated third-party transferred aircraft to Singapore in connection with a joint venture (Singapore Transfer). The Singapore Transfer reduced the provision for income taxes for the year ended December 31, 2010 by \$17 million, primarily due to the reversal of deferred taxes related to bases differences in the interest transferred. ACG plans to reinvest any income generated by these aircraft indefinitely outside of the U.S.

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

Balance at January 1, 2008	\$32
Additions and deletions	<u>402</u>
Balance at December 31, 2008	434
Additions and deletions	<u>(420)</u>
Balance at December 31, 2009	14
Additions and deletions	<u></u>
Balance at December 31, 2010	<u>\$14</u>

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

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

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

During the years ended December 31, 2010, 2009 and 2008, the Company paid an insignificant amount of interest and penalties to state tax authorities.

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

	December 31,	
	2010	2009
	<i>(In Millions)</i>	
Deferred tax assets:		
Policyholder reserves	\$661	\$597
Tax credit carryforwards	312	214
Tax net operating loss carryforwards	299	426
Investment valuation	261	301
Deferred compensation	55	47
Aircraft maintenance reserves	24	38
Deferred revenue	16	15
Dividends to policyholders	8	8
Pacific Life Re valuation allowance		(14)
Other	9	2
Total deferred tax assets	<u>1,645</u>	<u>1,634</u>
Deferred tax liabilities:		
DAC	(1,291)	(1,319)
Depreciation	(625)	(563)
Hedging	(80)	(42)
Partnership income	(59)	(27)
Reinsurance	(27)	(77)
Other	(50)	(49)
Total deferred tax liabilities	<u>(2,132)</u>	<u>(2,077)</u>
Net deferred tax liability from continuing operations	(487)	(443)
Unrealized (gain) loss on derivatives and securities available for sale	(145)	101
Deferred taxes on cumulative changes in accounting principles		120
Minimum pension liability and other adjustments	(15)	(13)
Net deferred tax liability	<u>(\$647)</u>	<u>(\$235)</u>

The tax net operating loss carryforwards relate to Federal tax losses incurred in 1998 through 2010 with a 20-year carryforward for non-life losses and a 15-year carryforward for life losses, and California tax losses incurred in 2004 through 2010 with a ten-year carryforward.

The tax credit carryforwards relate to LIHTC, foreign tax credits, and alternative minimum tax (AMT) credits generated from 2000 to 2010. The LIHTC begin to expire in 2020. The foreign tax credits begin to expire in 2016. The AMT credits have no expiration date.

The Codification's Income Taxes Topic requires separate footnote disclosure of the impact of foreign taxes. While the Company does have foreign operations, the results of those operations have not been separately disclosed since they are not material.

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

The Company files income tax returns in U.S. Federal and various state jurisdictions. The Company is under continuous audit by the 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.

19. SEGMENT INFORMATION

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

Prior to January 1, 2010, the Company's financial reporting structure included the Investment Management segment. Effective January 1, 2010, structured settlement and group retirement annuities were moved to the Retirement Solutions segment. Other institutional investment products and the Company's securities portfolio management became part of the Corporate and Other segment. The segment information included herein has been retrospectively adjusted to reflect the current operating segments for comparable purposes.

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

The Retirement Solutions segment's principal products include variable and fixed annuity products, mutual funds, and structured settlement and group retirement annuities, which are offered through multiple distribution channels. Distribution channels include independent planners, financial institutions and national/regional wirehouses. This segment's name was changed from Annuities & Mutual Funds effective March 1, 2010.

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.

Effective January 1, 2010, the Company determined that the operations of Pacific Life Re Limited (PLR), a wholly owned subsidiary of Pacific LifeCorp, acquired in July 2008, qualifies as a reporting segment in accordance with the Codification's Segment Reporting Topic. This new segment's name is International Reinsurance. PLR is incorporated in the United Kingdom (UK) and provides reinsurance to insurance and annuity providers in the UK and Ireland and to insurers in selected markets in Asia. Segment information included herein has been retrospectively adjusted to reflect the current operating segments for comparable purposes.

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 the operations of certain subsidiaries that do not qualify as operating segments and the elimination of intersegment transactions. Discontinued operations (Note 6) are also included in the Corporate and Other segment.

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

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

The Company generates substantially all of its revenues and net income from customers located in the U.S. As of December 31, 2010 and 2009, the Company had foreign investments with an estimated fair value of \$8.3 billion and \$7.4 billion, respectively. Aircraft leased to foreign customers were \$5.1 billion and \$5.0 billion as of December 31, 2010 and 2009, respectively. Revenues

derived from any customer did not exceed 10% of consolidated total revenues for the years ended December 31, 2010, 2009 and 2008.

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

	Life Insurance	Retirement Solutions	Aircraft Leasing	International Reinsurance	Corporate and Other	Total
<i>(In Millions)</i>						
REVENUES						
Policy fees and insurance premiums	\$1,053	\$1,265		\$232		\$2,550
Net investment income	926	748		19	\$463	2,156
Net realized investment gain (loss)	55	(73)	(\$2)	9	(73)	(84)
OTTIs	(21)	(10)			(82)	(113)
Investment advisory fees	21	224				245
Aircraft leasing revenue			591			591
Other income	11	141	57	1	48	258
Total revenues	2,045	2,295	646	261	356	5,603
BENEFITS AND EXPENSES						
Policy benefits	387	923		158		1,468
Interest credited	700	282			335	1,317
Commission expenses	355	475		28	1	859
Operating expenses	303	339	60	32	105	839
Depreciation of aircraft			241			241
Interest expense			178		121	299
Total benefits and expenses	1,745	2,019	479	218	562	5,023
Income (loss) from continuing operations before provision (benefit) for income taxes	300	276	167	43	(206)	580
Provision (benefit) for income taxes	94	(9)	41	1	(77)	50
Net income (loss)	206	285	126	42	(129)	530
Less: net income attributable to the noncontrolling interest from continuing operations			(9)		(41)	(50)
Net income (loss) attributable to the Company	\$206	\$285	\$117	\$42	(\$170)	\$480
Total assets	\$30,341	\$67,415	\$6,893	\$668	\$10,675	\$115,992
DAC	1,598	2,836		125	1	4,560
Separate account assets	5,982	49,701				55,683
Policyholder and contract liabilities	21,776	13,743		356	6,642	42,517
Separate account liabilities	5,982	49,701				55,683

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

	Life Insurance	Retirement Solutions	Aircraft Leasing	International Reinsurance	Corporate and Other	Total
<i>(In Millions)</i>						
REVENUES						
Policy fees and insurance premiums	\$1,084	\$1,209		\$153		\$2,446
Net investment income	894	610	\$1	18	\$374	1,897
Net realized investment gain (loss)		311	7	16	(170)	164
OTTIs	(63)	(53)		(1)	(195)	(312)
Investment advisory fees	18	190				208
Aircraft leasing revenue			578			578
Other income	11	112	13		94	230
Total revenues	1,944	2,379	599	186	103	5,211
BENEFITS AND EXPENSES						
Policy benefits	381	863		108		1,352
Interest credited	681	193			379	1,253
Commission expenses	353	337		14	1	705
Operating expenses	293	285	59	27	268	932
Depreciation of aircraft			227			227
Interest expense			182		96	278
Total benefits and expenses	1,708	1,678	468	149	744	4,747
Income (loss) from continuing operations before provision (benefit) for income taxes	236	701	131	37	(641)	464
Provision (benefit) for income taxes	67	147	39	1	(230)	24
Income (loss) from continuing operations	169	554	92	36	(411)	440
Discontinued operations, net of taxes					(20)	(20)
Net income (loss)	169	554	92	36	(431)	420
Less: net (income) loss attributable to the noncontrolling interest from continuing operations			(9)		23	14
Net income (loss) attributable to the Company	\$169	\$554	\$83	\$36	(\$408)	\$434
Total assets	\$28,646	\$63,277	\$6,091	\$570	\$11,370	\$109,954
DAC	1,865	2,939		51	2	4,857
Separate account assets	5,590	46,907			67	52,564
Policyholder and contract liabilities	21,179	12,677		289	7,577	41,722
Separate account liabilities	5,590	46,907			67	52,564

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

	Life Insurance	Retirement Solutions	Aircraft Leasing	International Reinsurance	Corporate and Other	Total
<i>(In Millions)</i>						
REVENUES						
Policy fees and insurance premiums	\$956	\$1,054		\$93		\$2,103
Net investment income	855	482		11	\$681	2,029
Net realized investment gain (loss)	24	(695)		(2)	(94)	(767)
OTTIs	(69)	(83)	(\$3)		(429)	(584)
Realized investment gain on interest in PIMCO					109	109
Investment advisory fees	22	233				255
Aircraft leasing revenue			571			571
Other income	12	117	38	1	126	294
Total revenues	1,800	1,108	606	103	393	4,010
BENEFITS AND EXPENSES						
Policy benefits	387	834		81		1,302
Interest credited	661	133			440	1,234
Commission expenses	268	443		8	4	723
Operating expenses	264	330	40	9	230	873
Depreciation of aircraft			208			208
Interest expense			221		74	295
Total benefits and expenses	1,580	1,740	469	98	748	4,635
Income (loss) from continuing operations before provision (benefit) for income taxes	220	(632)	137	5	(355)	(625)
Provision (benefit) for income taxes	60	(336)	48		(111)	(339)
Income (loss) from continuing operations	160	(296)	89	5	(244)	(286)
Discontinued operations, net of taxes					(6)	(6)
Net income (loss)	160	(296)	89	5	(250)	(292)
Less: net (income) loss attributable to the noncontrolling interest from continuing operations			(8)		11	3
Net income (loss) attributable to the Company	\$160	(\$296)	\$81	\$5	(\$239)	(\$289)

20. TRANSACTIONS WITH AFFILIATES

PLFA serves as the investment adviser for the Pacific Select Fund, an investment vehicle provided to the Company's variable life insurance policyholders and variable annuity contract owners, and the Pacific Life Funds, the investment vehicle for the Company's mutual fund products. Investment advisory and other fees are based primarily upon the net asset value of the underlying portfolios. These fees, included in investment advisory fees and other income, amounted to \$291 million, \$244 million and \$287 million for the years ended December 31, 2010, 2009 and 2008, respectively. In addition, Pacific Life provides certain support services to the Pacific Select Fund and the Pacific Life Funds based on an allocation of actual costs. These fees amounted to \$4 million, \$4 million and \$3 million for the years ended December 31, 2010, 2009 and 2008, 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 years ended December 31, 2010, 2009 and 2008, PSD

received \$100 million, \$86 million and \$100 million, respectively, in service fees from the Pacific Select Fund, which are recorded in other income.

21. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

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

<u>Years Ending December 31:</u>	
2011	\$606
2012 through 2015	647
2016 and thereafter	46
Total	<u>\$1,299</u>

The Company leases office facilities under various operating leases, which in most, but not all cases, are noncancelable. Rent expense, which is included in operating and other expenses, in connection with these leases was \$11 million, \$10 million and \$12 million for the years ended December 31, 2010, 2009 and 2008, respectively. In connection with the sale of a block of business in 2005, PL&A is contingently liable until March 31, 2013 for certain future rent and expense obligations, not to exceed \$11 million, related to an office lease that has been assigned to the buyer. Aggregate minimum future commitments are as follows (*In Millions*):

<u>Years Ending December 31:</u>	
2011	\$12
2012 through 2015	30
2016 and thereafter	2
Total	<u>\$44</u>

ACG entered into a sale leaseback transaction, the subject of which was two commercial aircraft on long-term lease to a U.S. airline. As a result of this transaction, ACG has committed to two operating leases expiring December 2025 and in turn benefits from operating leases on the two sale leaseback aircraft which expire July 2021 and April 2024. Aggregate minimum future lease commitments and minimum rentals to be received in the future are as follows (*In Millions*):

<u>Years Ending December 31:</u>	<u>Minimum Future Commitments</u>	<u>Minimum Rentals to be Received</u>
2011	\$11	\$9
2012 through 2015	23	37
2016 and thereafter	64	63
Total	<u>\$98</u>	<u>\$109</u>

As of December 31, 2010, ACG has commitments with major aircraft manufacturers and other third-parties to purchase aircraft at an estimated delivery price of \$6,125 million with delivery from 2011 through 2017. These purchase commitments may be funded:

- up to \$1,205 million in less than one year,
- an additional \$2,297 million in one to three years,
- an additional \$1,699 million in three to five years, and
- an additional \$417 million thereafter.

As of December 31, 2010, deposits related to these agreements totaled \$507 million and are included in other assets.

In connection with an acquisition in 2005, ACG assumed residual value support agreements with remaining expiration dates ranging from 2011 to 2015. The gross remaining residual value exposure under these agreements was \$99 million as of December 31, 2010 and 2009. As of December 31, 2010, 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 16), PAR Bermuda and PAR Vermont entered into a three year letter of credit agreement with a group of banks in April 2009. This agreement allows for the issuance of letters of credit with an expiration date of March 2012 to PAR Bermuda and PAR Vermont for up to a combined total amount of \$650 million. As of December 31, 2010, the letter of credit issued from this facility for PAR Bermuda was cancelled. In addition, as of December 31, 2010, a letter of credit was issued for PAR Vermont totaling \$355 million. Pacific LifeCorp guarantees the obligations of PAR Vermont under the letter of credit agreement.

In connection with the acquisition of PLR, Pacific LifeCorp provided a guarantee for the performance of certain obligations of PLR. In addition, Pacific LifeCorp provided indemnification for certain matters, as set forth in the purchase agreement. As stated in the guarantee agreement, if PLR is unable to meet its current obligations under unaffiliated reinsurance agreements, Pacific LifeCorp shall guarantee payment on any past, present and future obligations of PLR. On March 29, 2010, Pacific Life entered into an agreement with PLR to guarantee the performance of unaffiliated reinsurance obligations of PLR. PLR will pay Pacific Life a fee for its guarantee. For the year ended December 31, 2010, Pacific Life earned \$2 million under the agreement for its guarantee. This guarantee is secondary to a similar guarantee provided by Pacific LifeCorp and would only be triggered in the event of nonperformance by both PLR and Pacific LifeCorp. Management believes that any additional obligations, if any, related to either of the guarantee agreements are not likely to have a material adverse effect on the Company's consolidated financial statements.

CONTINGENCIES - LITIGATION

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

CONTINGENCIES - IRS REVENUE RULING

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

CONTINGENCIES - OTHER

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

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

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

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

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

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

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