2009 Report to Members

PACIFIC MUTUAL

Focus on Strength

Pacific Mutual Holding Company

Pacific Mutual Holding Company (Pacific Mutual) is the parent company of Pacific LifeCorp, which is the parent company of Pacific Life Insurance Company. Policyholders and contract holders of Pacific Life Insurance Company are members of Pacific Mutual and, as such, are able to attend an annual meeting of Pacific Mutual and to elect its board of directors. Through its direct and indirect subsidiaries, Pacific Mutual is engaged in a wide variety of insurance, financial services, and other investment-related businesses.

Pacific Life Insurance Company

Offering insurance since 1868, Pacific Life provides a wide range of life insurance products, annuities, and mutual funds, and offers a variety of investment products and services to individuals, businesses, and pension plans. Pacific Life also counts more than half of the 100 largest U.S. companies as its clients.[1]

Pacific Life & Annuity Company

Pacific Life & Annuity Company offers a wide range of products, including life insurance, annuities, structured settlement annuities, and other investment products and services for individuals and businesses.

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For current ratings, visit us online at www.PacificLife.com/ratings and www.PacificLifeandAnnuity.com/ratings.

The unabridged audited consolidated financial statements are available at www.PacificLife.com/financials. If a paper version is desired, please send a request via e-mail to PublicAffairs@PacificLife.com or call (800) 800-7646, ext. 5002.

Pacific Life Insurance Company, a subsidiary of Pacific Mutual Holding Company, is licensed in all states except New York. In New York, individual life insurance and annuity products are available through Pacific Life & Annuity Company, a subsidiary of Pacific Life Insurance Company.

Product availability and features vary by state. Insurance product and rider guarantees are backed by the financial strength and claims-paying ability of the issuing company and do not protect the value of the variable investment options. Each company is solely responsible for the financial obligations accruing under the policies it issues.

Variable products are issued by Pacific Life Insurance Company and Pacific Life & Annuity Company. These products and mutual funds are distributed by **Pacific Select Distributors, Inc.** (member FINRA & SIPC), a subsidiary of Pacific Life Insurance Company and an affiliate of Pacific Life & Annuity Company, and are available through licensed third-party broker-dealers.

1 Client count as of April 2009 is compiled by Pacific Life using the 2009 FORTUNE 500® list.

Pacific Mutual Holding Company and Subsidiaries

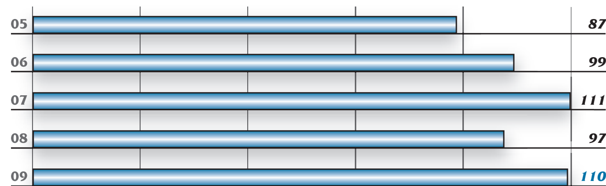
2009 Financial Summary

In Millions

December 31,	2009	2008
Company Assets	**$ 109,954**	$ 96,983
Policyholder & Other Liabilities	**$ 103,575**	$ 92,651
Equity[1]	**$ 6,537**	$ 5,928
Operating Revenues[2]	**$ 5,359**	$ 5,252
Operating Income[3]	**$ 520**	$ 534
Deposits[4]	**$ 10,687**	$ 12,889

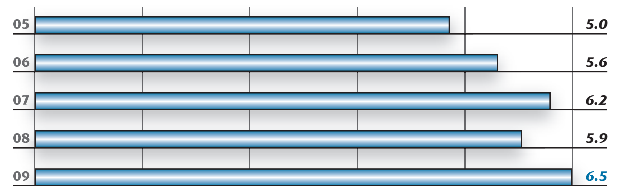
Company Assets

In Billions of Dollars



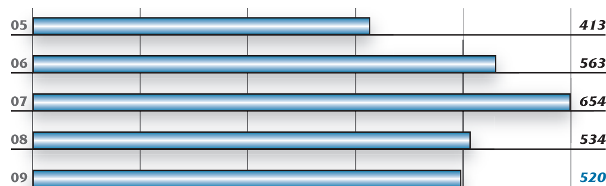
Equity

In Billions of Dollars



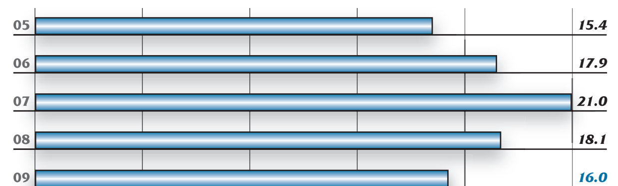
Operating Income

In Millions of Dollars



Deposits & Operating Revenues

In Billions of Dollars



1 Excludes accumulated other comprehensive income/loss and noncontrolling interest.

2 Excludes net realized investment gains/losses and other than temporary impairments.

3 Excludes net realized investment gains/losses, other than temporary impairments and discontinued operations, net of taxes.

4 Includes receipts from the following liabilities: universal life contracts, fixed and variable annuities, funding agreements, guaranteed interest contracts, and other deposits.

To Our Members

Focus on Strength Strength is an asset in any environment, but especially in challenging times. In 2009, we took significant steps to ensure that the company's financial strength would endure such times. We significantly increased our capital strength and our reserves. Importantly, we conducted a review of all our businesses, from top to bottom, evaluating our products, services, and operations with the goal of focusing our resources in the businesses and product lines where we have the greatest competitive strengths.

One of our core strengths is our focus. We do not try to sell all products in all markets. We continue to build on our strong position in life insurance, annuities, and mutual funds. Pacific Life has a wide array of life insurance strategies and retirement solutions that provide flexibility and choice to consumers. We continually measure our performance and services and strive to achieve levels that lead the industry. Within our focused approach, we have chosen to de-emphasize certain institutional product lines. We will continue our focus on investment excellence through our Investment Management Division and our Real Estate Division. We are also investing additional resources in two subsidiaries: Aviation Capital Group, our aircraft leasing subsidiary, and Pacific Life Re, our international reinsurance subsidiary.

Our unique corporate structure is a strength that serves us well in all economic environments, but especially in financially volatile periods. As a mutual holding company with no publicly traded stock, Pacific Life operates for the benefit of its policyholders and clients. This allows us to focus on the long-term view in our business and investment strategies, a perspective that keeps our company strong and stable.

2009 Financial Review Financially, the markets experienced unprecedented swings in 2009. The first quarter saw the stock market fall to a 12-year low, while the subsequent market recovery over the balance of the year was one of the swiftest in some time. In the bond market, yields from very high-quality issuers were at unusually high levels early in the year. By year-end, yields on quality bond issuances had returned to lower levels, which is one sign of a stabilizing economy.

Our 2009 results for Pacific Mutual Holding Company were very favorable. Net income improved to $434 million, our sixth most profitable year ever. Company assets grew from $97 billion to $110 billion, aided by the successful introduction of new product lines and by the recovery of the financial markets. Company equity increased from $5.9 billion to $6.5 billion. We are proud of these results in these times.

Our Life Insurance Division had another solid year with favorable profitability and sales results. One of the highlights was its achievement of the industry's top sales ranking in indexed universal life insurance, a product line we entered just a few years ago that provides consumers with upside market potential along with downside protection.

Our Retirement Solutions Division achieved record profitability and had success with new product offerings. We recorded $3.4 billion in fixed annuity sales in our first full year of focus on that product line. We rose to fifth in the industry in the sale of fixed annuities. Within our variable life and variable annuity products, we introduced a set of three asset allocation portfolios offering diversification and lower-cost investment choices.

Our Investment Management Division (IMD) helps maintain the quality of Pacific Life's underlying assets by making high-quality investments. While not immune to the losses that affected all investors in 2009, our portfolio of assets managed by IMD experienced good results and remains sound and diversified. Our Real Estate Division, whose primary responsibility is the management of our investments in commercial mortgages, achieved excellent performance with no delinquencies, no defaults, and no losses in our mortgage portfolio.

2009 Financial Highlights

- Total consolidated assets of Pacific Mutual Holding Company reached $110 billion, up 13 percent from 2008.
- Equity of Pacific Mutual Holding Company reached $6.5 billion, compared with $5.9 billion from the previous year.
- Life Insurance Division sales were $282 million, compared with $349 million in 2008.
- Retirement Solutions Division sales were $7.4 billion, compared with $8.6 billion in 2008.
- Revenues in Aviation Capital Group were $592 million, compared with $609 million in 2008.
- Generated earned premium income of $154 million in our Pacific Life Re subsidiary.

Aviation Capital Group (ACG) has been a source of stability within the aviation sector. In 2009, ACG became the first aircraft leasing company to issue a global corporate note backed by the Export-Import Bank of the United States.

In its first full year as part of the Pacific Mutual Holding Company family, Pacific Life Re, our newest business, developed a new product that allowed pension funds in the United Kingdom to insure certain longevity risks very efficiently. This new subsidiary had an excellent first full year, exceeding both revenue and profitability goals—evidence of a principle that we aim for: "performing beyond expectations."

Transactions In June, Pacific Life Insurance Company issued $1 billion of 30-year surplus notes. These funds went directly into our regulatory surplus and increased the substantial funds that we hold to support the long-term guarantees and promises that we make to our policyholders. Investors in our surplus notes are sophisticated institutions that performed due diligence on Pacific Life before making their investment.

Acknowledgments At the end of 2009, Anthony J. Bonno, senior vice president, Human Resources, retired after 31 years with the company. Tony served a key role in the acquisition and development of our current workforce

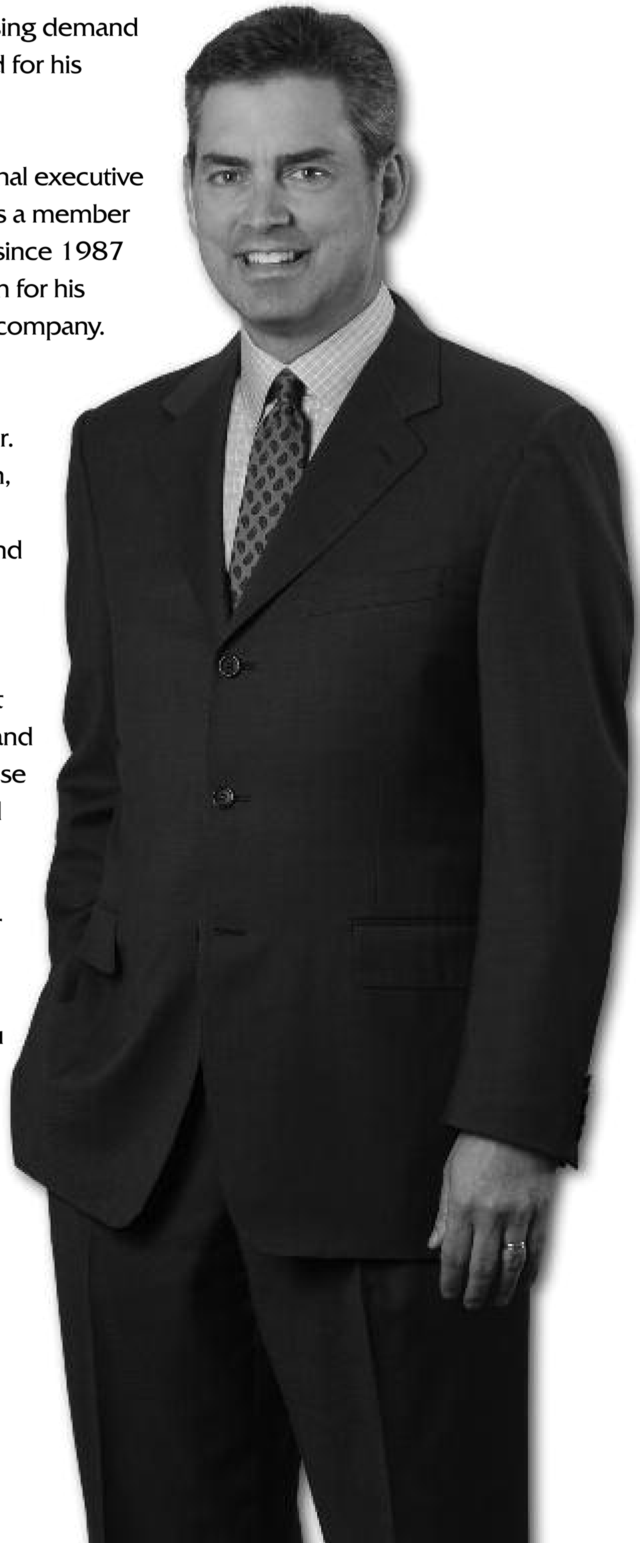
and in our success during a period of rapid growth and increasing demand for talent. We thank him for his dedication to the company and for his contributions, which will be felt for years to come.

Richard M. Ferry, founder and chairman of Korn/Ferry International executive search firm, retired from the board of directors in 2009. He was a member of the Pacific Mutual Holding Company and Pacific Life boards since 1987 and provided the company with valuable insights. We thank him for his considerable contributions over two decades of service to the company.

Douglas D. Abbey was elected to the boards of Pacific Mutual Holding Company and Pacific LifeCorp in November 2009. Mr. Abbey founded the real estate firm, AMB Property Corporation, and currently teaches real estate investment at the Stanford Graduate School of Business. He brings valuable knowledge and experience to our boards.

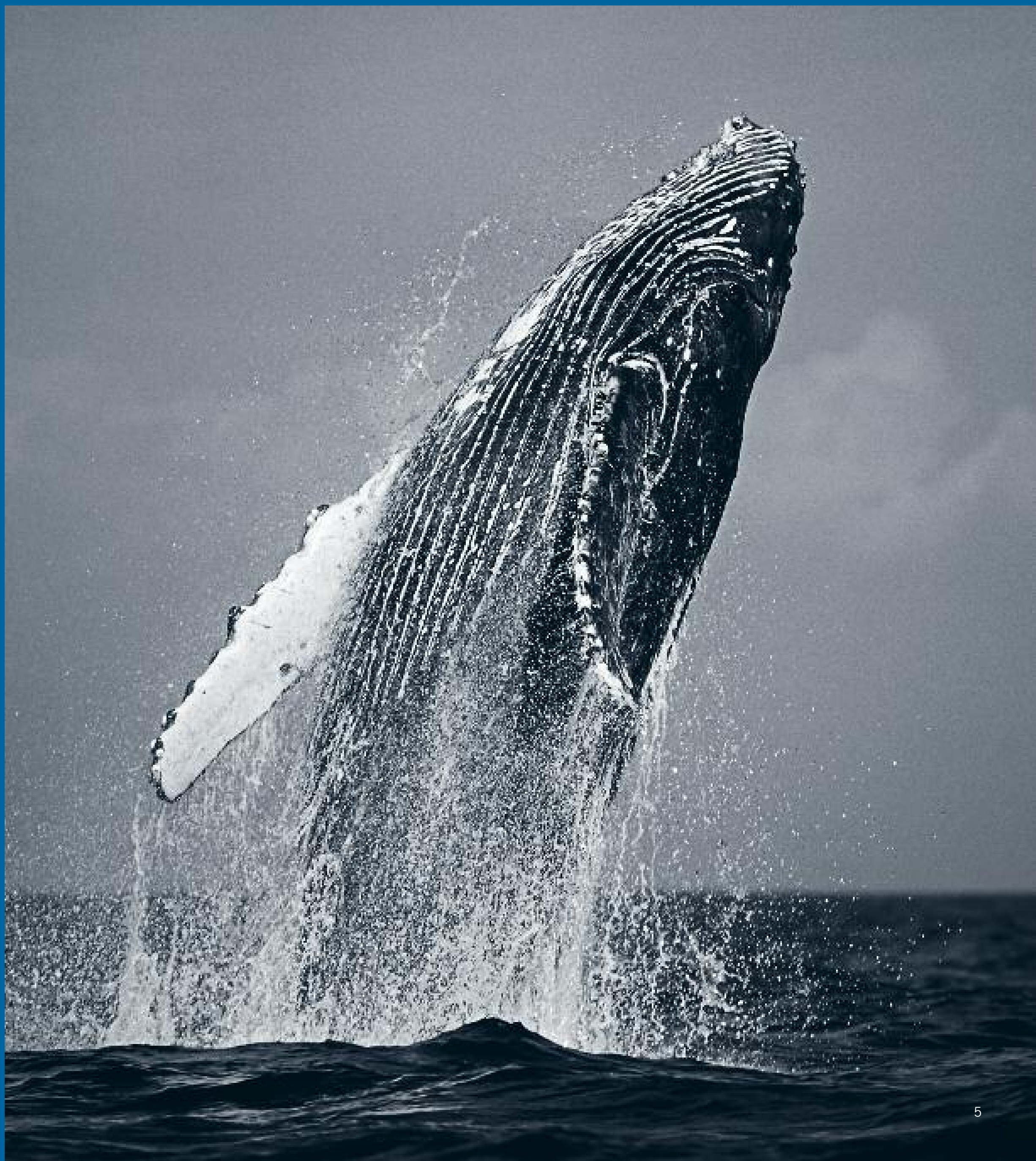
Looking Forward The protection, savings, and retirement needs of individuals have certainly been affected by the recent financial volatility. Individuals are seeking stability, guarantees, and demonstrated strength for their long-term financial needs. These long-term needs for financial security demand the stability and strength of a company like ours.

We are a 142-year-old company that has achieved much in our rich history. We have remained strong and stable through the recent challenging times by focusing on serving the needs of you, our customers, in our chosen markets and by offering you products and services that adapt to your changing needs. We appreciate the confidence that you have placed in us, and we look forward to serving your needs now and into the future.



James T. Morris
Chairman, President and Chief Executive Officer

Financial Statements



Pacific Mutual Holding Company and Subsidiaries

Condensed Consolidated Statements of Financial Condition

(In Millions) DECEMBER 31,	2009	2008
ASSETS		
Investments:		
Fixed maturity securities available for sale, at estimated fair value	**$ 26,682**	$ 22,604
Equity securities available for sale, at estimated fair value	**375**	219
Mortgage loans	**6,577**	5,622
Policy loans	**6,509**	6,920
Other investments	**2,057**	2,111
TOTAL INVESTMENTS	**42,200**	37,476
Cash and cash equivalents	**2,060**	3,888
Restricted cash	**249**	235
Deferred policy acquisition costs	**4,857**	5,028
Aircraft leasing portfolio, net	**5,304**	4,999
Other assets	**2,720**	3,852
Separate account assets	**52,564**	41,505
TOTAL ASSETS	**$ 109,954**	$ 96,983
LIABILITIES AND EQUITY		
Liabilities:		
Policyholder account balances	**$ 33,984**	$ 32,670
Future policy benefits	**7,738**	10,107
Short-term debt	**539**	799
Long-term debt	**6,509**	5,343
Other liabilities	**2,241**	2,227
Separate account liabilities	**52,564**	41,505
TOTAL LIABILITIES	**103,575**	92,651
Commitments and contingencies (Note 11)		
Members' Equity:		
Members' capital	**6,537**	5,928
Accumulated other comprehensive loss	**(389)**	(1,840)
Total Members' Equity	**6,148**	4,088
Noncontrolling interest	**231**	244
TOTAL EQUITY	**6,379**	4,332
TOTAL LIABILITIES AND EQUITY	**$ 109,954**	$ 96,983

See Notes to Condensed Consolidated Financial Statements

Pacific Mutual Holding Company and Subsidiaries

Condensed Consolidated Statements of Operations

(In Millions) YEARS ENDED DECEMBER 31,	2009	2008	2007
REVENUES			
Policy fees and insurance premiums	**$ 2,446**	$ 2,103	$ 1,792
Net investment income	**1,897**	2,029	2,157
Net realized investment gain (loss)	**164**	(767)	70
Other than temporary impairments consisting of $642 in total, net of $330 recognized in other comprehensive income (loss) for the year ended December 31, 2009	**(312)**	(584)	(98)
Realized investment gain on interest in PIMCO		109	
Investment advisory fees	**208**	255	327
Aircraft leasing revenue	**578**	571	535
Other income	**230**	294	266
TOTAL REVENUES	**5,211**	4,010	5,049
BENEFITS AND EXPENSES			
Interest credited to policyholder account balances	**1,253**	1,234	1,266
Policy benefits paid or provided	**1,352**	1,302	862
Commission expenses	**705**	723	690
Operating and other expenses	**1,437**	1,376	1,445
TOTAL BENEFITS AND EXPENSES	**4,747**	4,635	4,263
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE PROVISION (BENEFIT) FOR INCOME TAXES	**464**	(625)	786
Provision (benefit) for income taxes	**24**	(339)	112
INCOME (LOSS) FROM CONTINUING OPERATIONS	**440**	(286)	674
Discontinued operations, net of taxes	**(20)**	(6)	11
Net income (loss)	**420**	(292)	685
Less: net (income) loss attributable to the noncontrolling interest from continuing operations	**14**	3	(38)
NET INCOME (LOSS) ATTRIBUTABLE TO THE COMPANY	**$ 434**	($ 289)	$ 647

See Notes to Condensed Consolidated Financial Statements

Pacific Mutual Holding Company and Subsidiaries

Condensed Consolidated Statements of Equity

(In Millions)	Members' Capital	Accumulated Other Comprehensive Income (Loss): Unrealized Gain (Loss) on Derivatives and Securities Available for Sale, Net	Accumulated Other Comprehensive Income (Loss): Other, Net	Total Members' Equity	Non-Controlling Interest	Total Equity
BALANCES, JANUARY 1, 2007	**$ 5,599**	**$ 436**	**$ 62**	**$ 6,097**	**$ 107**	**$ 6,204**
Comprehensive income:						
Net income	647			647	38	685
Other comprehensive loss, net		(295)	(16)	(311)		(311)
Total comprehensive income				336		374
Cumulative effect of adoption of new accounting principle, net of tax	(29)			(29)		(29)
Contributions, net, received by noncontrolling interest					69	69
BALANCES, DECEMBER 31, 2007	**6,217**	**141**	**46**	**6,404**	**214**	**6,618**
Comprehensive loss:						
Net loss	(289)			(289)	(3)	(292)
Other comprehensive loss, net		(1,889)	(138)	(2,027)		(2,027)
Total comprehensive loss				(2,316)		(2,319)
Contributions, net, received by 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:						
Net income (loss)	434			434	(14)	420
Other comprehensive income (loss)		1,565	56	1,621	(7)	1,614
Total comprehensive income				2,055		2,034
Contributions, net, received by noncontrolling interest					8	8
BALANCES, DECEMBER 31, 2009	**$ 6,537**	**($ 353)**	**($ 36)**	**$ 6,148**	**$ 231**	**$ 6,379**

See Notes to Condensed Consolidated Financial Statements

Pacific Mutual Holding Company and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(In Millions) YEARS ENDED DECEMBER 31,	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss) excluding discontinued operations	**$ 440**	($ 286)	$ 674
Adjustments to reconcile net income (loss) excluding discontinued operations to net cash provided by operating activities:			
Net accretion on fixed maturity securities	**(144)**	(144)	(147)
Depreciation and amortization	**281**	259	256
Deferred income taxes	**441**	(535)	88
Net realized investment (gain) loss	**(164)**	767	(70)
Other than temporary impairments	**312**	584	98
Realized investment gain on interest in PIMCO		(109)	
Net change in deferred policy acquisition costs	**(235)**	(192)	(302)
Interest credited to policyholder account balances	**1,253**	1,234	1,266
Change in future policy benefits and other insurance liabilities	**180**	1,187	673
Other operating activities, net	**154**	(307)	(235)
NET CASH PROVIDED BY OPERATING ACTIVITIES BEFORE DISCONTINUED OPERATIONS	**2,518**	2,458	2,301
Net cash used in operating activities of discontinued operations	**(27)**	(18)	(71)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**2,491**	2,440	2,230
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed maturity and equity securities available for sale:			
Purchases	**(6,092)**	(3,128)	(5,889)
Sales	**1,916**	2,167	2,142
Maturities and repayments	**2,648**	2,298	2,911
Repayments of mortgage loans	**406**	470	439
Fundings of mortgage loans and real estate	**(1,434)**	(1,665)	(1,660)
Change in policy loans	**411**	(510)	(342)
Sale of interest in PIMCO		288	
Change in restricted cash	**(14)**	(1)	60
Purchases of derivative instruments	**(20)**	(12)	(15)
Terminations of derivative instruments	**7**	301	(40)
Proceeds from nonhedging derivative settlements	**168**	781	19
Payments for nonhedging derivative settlements	**(1,653)**	(142)	(60)
Change in collateral received or pledged	**(1,243)**	1,029	17
Issuance of notes receivable on inventory financing	**(603)**	(1,214)	(1,153)
Repayments of notes receivable on inventory financing	**673**	1,382	988
Purchases of and advance payments on aircraft leasing portfolio	**(561)**	(694)	(646)

See Notes to Condensed Consolidated Financial Statements

(continued)

Pacific Mutual Holding Company and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(In Millions) YEARS ENDED DECEMBER 31,	2009	2008	2007
CASH FLOWS FROM INVESTING ACTIVITIES *(CONTINUED)*			
Acquisition of reinsurance business		($ 70)	
Other investing activities, net	**$ 41**	(269)	$ 66
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES BEFORE DISCONTINUED OPERATIONS	**(5,350)**	1,011	(3,163)
Net cash provided by investing activities of discontinued operations		7	76
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**(5,350)**	1,018	(3,087)
CASH FLOWS FROM FINANCING ACTIVITIES			
Policyholder account balances:			
Deposits	**8,003**	7,320	6,876
Withdrawals	**(7,972)**	(7,602)	(7,131)
Net change in short-term debt	**(260)**	(52)	223
Issuance of long-term debt	**1,642**	335	1,013
Payments of long-term debt	**(383)**	(381)	(913)
Other financing activities, net	**1**	33	70
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**1,031**	(347)	138
Net change in cash and cash equivalents	**(1,828)**	3,111	(719)
Cash and cash equivalents, beginning of year	**3,888**	777	1,496
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 2,060**	$ 3,888	$ 777
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Income taxes paid (received), net	**($ 140)**	($ 32)	$ 48
Interest paid	**$ 201**	$ 271	$ 349

See Notes to Condensed Consolidated Financial Statements

Notes to Condensed Consolidated Financial Statements

Note 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.

Pacific Life transferred its legal domicile from the State of California to the State of Nebraska effective September 1, 2005. PMHC transferred its state of legal domicile from the State of California to the State of Nebraska, effective June 29, 2007, to reunite PMHC and Pacific Life under one regulatory authority.

PMHC and its subsidiaries and affiliates have primary business operations consisting of life insurance, individual annuities, mutual funds, pension and institutional products, 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 condensed 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 was determined to be the primary beneficiary. Noncontrolling interest is primarily comprised of private equity funds. All significant intercompany transactions and balances have been eliminated in consolidation.

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

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 significant, 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 2008 and 2007 condensed consolidated financial statements to conform to the 2009 financial statement presentation.

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 does 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 condensed consolidated financial statements.

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. The adoption of this guidance resulted in an increase of $436 million to the estimated fair value and a resulting decrease of $436 million to gross unrealized investment loss of residential mortgage-backed securities (RMBS) as of March 31, 2009. As of December 31, 2009, the year to date effect of this adoption was an increase of $214 million to the estimated fair value and a decrease of $214 million to the gross unrealized investment loss of RMBS. See Note 8 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 (OCI). Additionally, this update provides for enhanced presentation and disclosure of OTTIs of debt and equity securities in the condensed 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 and 2007, increased by $244 million and $214 million, respectively, representing the noncontrolling interest, and other liabilities and total liabilities as of December 31, 2008 and 2007 decreased by $244 million and $214 million, respectively, as a result of reclassifying noncontrolling interest (previously known as minority interest) to equity.

Effective January 1, 2007, the FASB issued additional guidance to the Codification's Financial Services – Insurance Topic. This guidance governs the accounting for DAC on internal replacements on insurance and investment contracts. This guidance defines an internal replacement as a modification in product benefits, features, rights, or coverages that occur by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. The adoption of this guidance resulted in a reduction to DAC and the Company recorded a cumulative effect adjustment of $29 million, after tax, which was recorded as a reduction to retained earnings during the year ended December 31, 2007.

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, recorded 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 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 recorded equal to the difference between the estimated fair value and net carrying amount of the security. If the OTTI for a debt

security is attributable to both credit and other factors, then the OTTI is bifurcated and the non credit related portion is recorded to OCI while the credit portion is recorded as a net realized investment loss. If the OTTI is related to credit factors only, it is recorded as a net realized investment loss.

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 were 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. The *SEC Issues Letter Clarifying Other-Than-Temporary Impairment Guidance for Perpetual Preferred Securities* issued on October 15, 2008 states that if an investor holds a perpetual preferred security with an estimated fair value below cost that is not attributable to the credit deterioration of the issuer, then the investor would not be required to recognize an OTTI by asserting that it has the intent and ability to continue holding the security for a sufficient period to allow for an anticipated recovery in market value.

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, a write-down is taken for the difference between the carrying amount and the Company's estimate of the present value of the expected future cash flows discounted at the current market rate and recorded in net realized investment gain (loss). As of December 31, 2009, two loans totaling $8 million were considered impaired, however no valuation allowance was necessary as the fair value of the collateral was greater than the carrying amount of the related

loans. The Company had no write-downs during the years ended December 31, 2009, 2008 and 2007. 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). 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.

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 9). The amortization recorded in net investment income was $3 million, $5 million and $20 million for the years ended December 31, 2009, 2008 and 2007, 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, the changes in the estimated fair value of the derivative and the hedged item are recognized in net realized investment gain (loss). The change in 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, in accordance with legally enforceable counterparty master netting agreements (Note 5).

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. 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 or interest credited to policyholder account balances over its remaining life.

CASH AND CASH EQUIVALENTS Cash and cash equivalents include all investments with an original maturity of three months or less. The Company entered into a series of Federal National Mortgage Association (FNMA) pass-through dollar roll transactions during the fourth quarter of 2008. The Company purchased FNMA pass through securities and was contractually obligated to resell the same or substantially the same securities within 30 days of purchase. The Company classified these dollar roll transactions as short-term secured loans and reported them as cash and cash equivalents. As of December 31, 2009 and 2008, the loans amounted to zero and $403 million, respectively. The fair values of the securities held in connection with the secured lending were zero and $410 million as of December 31, 2009 and 2008, respectively.

RESTRICTED CASH Restricted cash primarily consists of security deposits, commitment fees, maintenance reserve payments, supplemental rental 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, 2009 and 2008, the carrying value of DAC was $4.9 billion and $5.0 billion, respectively (Note 3).

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 3).

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 Company offers a sales inducement to the policyholder where the policyholder receives a bonus credit, typically ranging from 0.5% to 8.0% of each deposit. The capitalized sales inducement balance included in the DAC asset was $583 million and $552 million as of December 31, 2009 and 2008, 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 will record 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. The Company had four and two non-earning aircraft in the portfolio as of December 31, 2009 and 2008, respectively.

POLICYHOLDER ACCOUNT BALANCES Policyholder account balances on UL and investment-type contracts, such as funding agreements, annuity and 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 6). 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, 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 6). Interest rates used in establishing such liabilities ranged from 1.6% to 11.3%.

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 6).

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, 2009 and 2008, 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.

REVENUES, BENEFITS AND EXPENSES Insurance premiums, 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 from 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, 2009 and 2008, capital leases in the amount of $8 million and $11 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 11.

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 condensed 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 condensed consolidated statements of financial condition. Revenue and expenses are recognized within the respective revenue, and benefit and expense lines in the condensed consolidated statements of operations.

FAIR VALUE OF FINANCIAL INSTRUMENTS The estimated fair value of financial instruments, disclosed in Notes 4, 5 and 8, 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.

DISCONTINUED OPERATIONS The Company’s broker-dealer operations are reflected as discontinued operations in the Company’s condensed consolidated financial statements. Discontinued operations do not include the operations of Pacific Select Distributors, Inc. (PSD), a wholly owned broker-dealer subsidiary of Pacific Life, which primarily serves as the underwriter/distributor of registered investment-related products and services, principally variable life and variable annuity contracts issued by the Company, and mutual funds.

Note 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 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 valuing investments and certain assets and accounting for deferred income taxes on a different basis.

As of December 31, 2009, Pacific Life had one permitted practice approved by the NE DOI that differed 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, 2009 and 2008 did not reflect unrealized losses of $29 million and $88 million, respectively, with regards to this permitted practice. Pacific Life had a second permitted practice with a financial statement filing date of December 31, 2008 that expired on December 30, 2009. This permitted practice allowed Pacific Life to apply the revised version of Actuarial Guideline 39 (AG 39) for variable annuity reserves that is contained in the final recommendations submitted by the Capital & Surplus Relief Working Group to the Executive Committee of the NAIC. This permitted practice resulted in lowering statutory reserves by $442 million as of December 31, 2008.

In addition, Pacific Life uses a NE DOI prescribed accounting practice for certain synthetic GIC reserves that differs from statutory accounting practices adopted by the NAIC. As of December 31, 2009 and 2008, this NE DOI prescribed accounting practice resulted in statutory reserves of $20 million and $12 million, respectively, as opposed to statutory reserves of zero and $640 million, respectively, using statutory accounting practices adopted by the NAIC.

STATUTORY NET INCOME (LOSS) AND SURPLUS Statutory net income (loss) of Pacific Life was $652 million, ($1,529) million and $362 million for the years ended December 31, 2009, 2008 and 2007, respectively. Statutory capital and surplus of Pacific Life was $5,006 million and $3,136 million as of December 31, 2009 and 2008, 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, 2009 and 2008, 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 2009 statutory results, Pacific Life could pay $629 million in dividends in 2010 to Pacific LifeCorp without prior approval from the NE DOI, subject to the notification requirement.

No dividends were paid during 2009 and 2007. 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 2009 statutory results, PL&A could pay $23 million in dividends to Pacific Life in 2010 without prior regulatory approval. No dividends were paid during 2009, 2008 and 2007.

OTHER The Company has reinsurance contracts in place with a reinsurer whose financial stability has been deteriorating. 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 events surrounding this reinsurer and evaluate its options to deal with any further deterioration of this reinsurer's financial condition. As of December 31, 2009, statutory reserves ceded to this reinsurer amounted to approximately $162 million.

Note 3. DEFERRED POLICY ACQUISITION COSTS

Components of DAC are as follows:

(In Millions) YEARS ENDED DECEMBER 31,	2009	2008	2007
Balance, January 1	**$ 5,028**	$ 4,481	$ 4,248
Cumulative pre-tax effect of adoption of new accounting principle (Note 1)	**7**		(45)
Additions:			
Capitalized during the year	**822**	774	852
Amortization:			
Allocated to commission expenses	**(457)**	(449)	(432)
Allocated to operating expenses	**(130)**	(133)	(118)
Total amortization	**(587)**	(582)	(550)
Allocated to OCI	**(413)**	355	(24)
Balance, December 31	**$ 4,857**	$ 5,028	$ 4,481

During the years ended December 31, 2009, 2008 and 2007, 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 $23 million and $20 million for the years ended December 31, 2009 and 2008, respectively, and a decrease in DAC amortization expense of $12 million for the year ended December 31, 2007. The revised EGPs also resulted in an immaterial decrease in URR amortization for the year ended December 31, 2009, increased URR amortization of $2 million for the year ended December 31, 2008, and decreased URR amortization of $15 million for the year ended December 31, 2007.

Note 4. **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 represents amortized cost adjusted for credit related OTTIs and changes in the estimated fair value of fixed maturity securities attributable to the hedged risk in a fair value hedge. See Note 8 for information on the Company's fair value measurement and disclosure.

(In Millions)	Net Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
DECEMBER 31, 2009:				
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
RMBS	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	$ 26,998	$ 1,198	$ 1,514	$ 26,682
Perpetual preferred securities	$ 356	$ 6	$ 55	$ 307
Other equity securities	65	3		68
Total equity securities	$ 421	$ 9	$ 55	$ 375

The Company has investments in perpetual preferred securities that are issued primarily by European and U.S. banks. The net carrying amount and estimated fair value of the available for sale perpetual preferred securities was $483 million and $423 million, respectively, as of December 31, 2009. Included in these amounts are perpetual preferred securities carried in trusts with a net carrying amount and estimated fair value of $127 million and $116 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, 2009, 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.

(In Millions)	Net Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Due in one year or less	$ 1,846	$ 68	$ 25	$ 1,889
Due after one year through five years	5,262	289	55	5,496
Due after five years through ten years	7,309	367	135	7,541
Due after ten years	4,257	249	142	4,364
	18,674	973	357	19,290
Mortgage-backed and asset-backed securities	8,324	225	1,157	7,392
Total	$ 26,998	$ 1,198	$ 1,514	$ 26,682

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 securities.

	Total		
(Dollars in Millions)	Number	Estimated Fair Value	Gross Unrealized Losses
DECEMBER 31, 2009:			
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
RMBS	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	1,028	9,673	1,514
Perpetual preferred securities	18	195	55
Other securities	31	97	26
Total other securities	49	292	81
Total	1,077	$ 9,965	$ 1,595

(Dollars in Millions)	Less than 12 Months Number	Estimated Fair Value	Gross Unrealized Losses	12 Months or Greater Number	Estimated Fair Value	Gross Unrealized Losses
DECEMBER 31, 2009:						
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
RMBS	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	405	2,787	192	623	6,886	1,322
Perpetual preferred securities				18	195	55
Other securities	16	54	9	15	43	17
Total other securities	16	54	9	33	238	72
Total	421	$ 2,841	$ 201	656	$ 7,124	$ 1,394

The Company has evaluated fixed maturity and other securities with gross unrealized losses and determined that the unrealized losses are temporary and that 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 illustrates the breakdown of non-agency 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, 2009.

(Dollars in Millions) Rating	Net Carrying Amount	Estimated Fair Value	Rating as % of Net Carrying Amount	Vintage Breakdown 2004 and Prior	2005	2006	2007	2008	2009
Prime RMBS:									
AAA	$ 1,049	$ 966	31%	23%	7%	1%			
AA	323	281	9%	4%	2%	3%			
A	259	214	8%	1%	2%	3%	2%		
BAA	527	405	15%	2%	7%	6%			
BA and below	1,264	893	37%		8%	17%	12%		
Total	$ 3,422	$ 2,759	100%	30%	26%	30%	14%	0%	0%
Alt-A RMBS:									
AAA	$ 64	$ 57	6%	6%					
AA	17	21	2%	2%					
A	13	10	1%	1%					
BAA	25	23	3%		1%	2%			
BA and below	844	556	88%		10%	27%	51%		
Total	$ 963	$ 667	100%	9%	11%	29%	51%	0%	0%
Sub-prime RMBS:									
AAA	$ 231	$ 180	52%	52%					
AA	98	73	22%	22%					
A	21	13	5%	5%					
BAA	42	33	9%		9%				
BA and below	53	37	12%	1%	9%	1%	1%		
Total	$ 445	$ 336	100%	80%	18%	1%	1%	0%	0%
CMBS:									
AAA	$ 1,017	$ 1,054	88%	65%	3%		15%	1%	4%
AA	67	62	6%	4%					2%
A	37	32	3%	3%					
BAA	28	22	2%				2%		
BA	12	10	1%	1%					
Total	$ 1,161	$ 1,180	100%	73%	3%	0%	17%	1%	6%

As of December 31, 2009, the Company has received advances of $1.5 billion from the Federal Home Loan Bank (FHLB) of Topeka and has issued funding agreements to the FHLB of Topeka. Funding agreements are used as an alternative source of funds for the Company's spread lending business and the funding agreement liabilities are included in general account policyholder account balances. Assets with an estimated fair value of $1.8 billion as of December 31, 2009 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, 2009, the Company holds $76 million of FHLB of Topeka stock.

PL&A is a member of FHLB of San Francisco. As of December 31, 2009, no assets are pledged as collateral. As of December 31, 2009, the Company holds $25 million of FHLB of San Francisco stock.

The Company had a securities lending program administered by one of the largest U.S. financial institutions specializing in securities lending and short-term fixed-income asset management. This securities lending program was terminated in February 2009. Securities loaned were zero as of December 31, 2008.

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

(In Millions) YEARS ENDED DECEMBER 31,	2009	2008	2007
Fixed maturity securities	**$ 1,477**	$ 1,489	$ 1,518
Equity securities	**20**	23	26
Mortgage loans	**297**	289	248
Real estate	**94**	87	69
Policy loans	**229**	223	209
Partnerships and joint ventures	**(77)**	21	179
Other	**16**	34	47
Gross investment income	**2,056**	2,166	2,296
Investment expense	**159**	137	139
Net investment income	**$ 1,897**	$ 2,029	$ 2,157

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

(In Millions) YEARS ENDED DECEMBER 31,	2009	2008	2007
Fixed maturity securities:			
Gross gains on sales	**$ 54**	$ 106	$ 117
Gross losses on sales	**(19)**	(44)	(23)
Other	**12**	4	20
Total fixed maturity securities	**47**	66	114
Equity securities:			
Gross gains on sales			5
Gross losses on sales	**(11)**		
Other	**2**	1	
Total equity securities	**(9)**	1	5
Trading securities	**20**	(22)	(1)
Variable annuity GLB embedded derivatives	**2,211**	(2,775)	(222)
Variable annuity GLB policy fees	**147**	108	78
Variable annuity derivatives – interest rate swaps	**(104)**	402	
Variable annuity derivatives – total return swaps	**(1,542)**	646	13
Equity put options	**(672)**	853	31
Synthetic GIC policy fees	**25**	15	
Other derivatives	**38**	(78)	(11)
Other	**3**	17	63
Total	**$ 164**	($ 767)	$ 70

As a result of the significant disruption in the housing, financial and credit markets, the OTTI charges recorded during the year ended December 31, 2009 were primarily related to the Company's exposure to RMBS, certain structured securities and direct exposure to corporate securities. The table below summarizes the OTTIs by security type:

(In Millions)	Recorded in Earnings	Included in OCI	Total
YEAR ENDED DECEMBER 31, 2009:			
Corporate securities	$ 63[1]	$ 2	$ 65
RMBS	117	315	432
Collateralized debt obligations	66	13	79
Perpetual preferred securities	26		26
Other investments	40		40
Total OTTIs	$ 312	$ 330	$ 642
YEAR ENDED DECEMBER 31, 2008:			
Corporate securities	$ 74		
RMBS	227		
Collateralized debt obligations	156		
Other asset-backed securities	1		
Perpetual preferred securities	68		
Other equity securities	58		
Total OTTIs	$ 584		

[1] Included are $29 million of OTTI recorded in earnings on perpetual preferred securities carried in trusts.

Note 5. 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, caps, floors 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 condensed consolidated statements of financial condition. In accordance with accounting for derivatives and hedging activities, 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

(In Millions) DECEMBER 31,	Notional Amount	
	2009	2008
Foreign currency interest rate swaps	**$ 5,099**	$6,488
Forward starting interest rate swaps	**1,060**	1,535
Interest rate swaps	**3,910**	4,384

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

DERIVATIVES DESIGNATED AS FAIR VALUE HEDGES

(In Millions) DECEMBER 31,	Notional Amount	
	2009	2008
Foreign currency interest rate swaps	**$ 13**	$ 18
Interest rate swaps	**1,658**	1,264

DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS

(In Millions) DECEMBER 31,	Notional Amount	
	2009	2008
Variable annuity GLB embedded derivatives	**$ 36,408**	$ 33,455
Variable annuity derivatives – interest rate swaps		2,150
Variable annuity derivatives – total return swaps	**4,456**	2,437
Variable annuity GLB reinsurance contracts	**14,878**	13,274
Equity put options	**5,267**	5,173
Synthetic GICs	**23,993**	23,856
Interest rate swaps	**2,438**	3,317
Foreign currency interest rate swaps	**398**	460
Other	**1,178**	910

CONDENSED CONSOLIDATED FINANCIAL STATEMENT IMPACT Derivative instruments are recorded in the Company's condensed consolidated statements of financial condition at 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.

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, 2009 was $137 million. The maximum exposure to any single counterparty was $41 million at December 31, 2009.

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 falls below a specified level, as defined within each counterparty master agreement or, in most cases, if one of the rating agencies ceases to provide an insurer financial strength rating, the counterparty can terminate the master agreement with payment due based on the estimated fair value of the

underlying derivatives. As of December 31, 2009, Pacific Life's insurer financial strength ratings were above the specified level.

If Pacific Life's insurer financial strength rating were to fall below the next investment grade from its current standing, the counterparties to the derivative instruments could request immediate and ongoing full overnight 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, 2009, is $338 million for which the Company has posted collateral of $182 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, 2009, the Company would have been required to post an additional $14 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. For the year ended December 31, 2009, the Company has incurred losses of $4 million, included in net realized investment gain (loss), on derivative instruments due to counterparty default related to the bankruptcy of Lehman Brothers Special Finance. These losses were a result of the termination of all remaining open positions with Lehman counterparties.

Note 6. POLICYHOLDER LIABILITIES

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

POLICYHOLDER ACCOUNT BALANCES

(In Millions) DECEMBER 31,	2009	2008
Universal life	**$ 19,298**	$ 18,729
Annuity and deposit liabilities	**7,109**	4,515
Funding agreements	**5,240**	7,890
GICs	**2,337**	1,536
Total	**$ 33,984**	$ 32,670

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

FUTURE POLICY BENEFITS

(In Millions) DECEMBER 31,	2009	2008
Annuity reserves	**$ 4,960**	$ 4,506
Variable annuity GLB embedded derivatives	**754**	3,342
URR	**734**	928
Life insurance	**618**	390
Policy benefits payable	**342**	456
Closed Block liabilities	**306**	311
Other	**24**	174
Total	**$ 7,738**	$ 10,107

Note 7. **DEBT**

Debt consists of the following:

(In Millions) DECEMBER 31,	2009	2008
Short-term debt:		
Revolving credit facilities	**$ 220**	$ 315
Credit facility recourse only to ACG	**105**	150
CSB repurchase agreements	**214**	195
Other		139
Total short-term debt	**$ 539**	$ 799
Long-term debt:		
Surplus notes	**$ 1,150**	$ 150
Senior notes	**600**	600
Fair value adjustment and deferred gains for derivatives and hedging activities	**264**	339
Non-recourse long-term debt:		
Debt recourse only to ACG	**1,636**	1,271
ACG non-recourse debt	**761**	687
Other non-recourse debt	**121**	121
ACG VIE debt	**1,975**	2,173
Other VIE debt	**2**	2
Total long-term debt	**$ 6,509**	$ 5,343

Note 8. **FAIR VALUE OF FINANCIAL INSTRUMENTS**

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 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 on inactive markets; and model-derived valuations for which all significant inputs are observable market data. Level 2 instruments include most corporate debt securities and U.S. government and agency mortgage-backed 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 highly 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 table presents, by fair value hierarchy level, the Company's financial assets and liabilities that are carried at fair value as of December 31, 2009.

(In Millions)	Level 1	Level 2	Level 3	Gross Derivatives Fair Value	Netting Adjustments[1]	Total
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**
Cash equivalents	1,725					**1,725**
Other investments			180			**180**
Derivatives		462	468	$ 930	($ 694)	**236**
Separate account assets[3]	52,305	116	101			**52,522**
Total	$ 54,190	$ 20,721	$ 7,709	$ 930	($ 694)	**$ 81,926**
Liabilities:						
Derivatives		$ 769	$ 915	$ 1,684	($ 694)	**$ 990**
Total		$ 769	$ 915	$ 1,684	($ 694)	**$ 990**

[1] Netting adjustments represent the impact of offsetting asset and liability positions 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 condensed 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 table above differ from the amounts presented in the condensed 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.

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

Note 9. **INCOME TAXES**

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

(In Millions) YEARS ENDED DECEMBER 31,	2009	2008	2007
Current	**($ 417)**	$ 196	$ 24
Deferred	**441**	(535)	88
Provision (benefit) for income taxes from continuing operations	**24**	(339)	112
Provision (benefit) for income taxes on discontinued operations	**(11)**	(3)	18
Total	**$ 13**	($ 342)	$ 130

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 condensed consolidated financial statements is as follows:

(In Millions) YEARS ENDED DECEMBER 31,	2009	2008	2007
Provision (benefit) for income taxes at the statutory rate	**$ 163**	($ 219)	$ 275
Separate account dividends received deduction	**(93)**	(107)	(103)
Low income housing and foreign tax credits	**(19)**	(31)	(33)
Other	**(27)**	18	(27)
Provision (benefit) for income taxes from continuing operations	**$ 24**	($ 339)	$ 112

Note 10. **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. Prior to May 1, 2007, Pacific Life served in this capacity. 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 $244 million, $287 million and $337 million for the years ended December 31, 2009, 2008 and 2007, 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, $3 million and $3 million for the years ended December 31, 2009, 2008 and 2007, respectively.

In addition, effective May 1, 2007, a service plan adopted by the Pacific Select Fund went into effect whereby the fund pays PSD, as distributor of the fund, a service fee in connection with services rendered or procured to or for shareholders of the fund or 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, 2009 and 2008, PSD received $86 million and $100 million, respectively, in service fees from the Pacific Select Fund, which are recorded in other income. For the period May 1, 2007 through December 31, 2007, PSD received $74 million in service fees from the Pacific Select Fund, which are also recorded in other income. The service fees were allocated to the operating segments, primarily the Annuities & Mutual Funds segment.

Note 11. COMMITMENTS AND CONTINGENCIES

COMMITMENTS The Company has outstanding commitments to make investments primarily in mortgage loans, limited partnerships and other investments, as follows:

(In Millions) YEARS ENDING DECEMBER 31:	
2010	$ 1,005
2011 through 2014	494
2015 and thereafter	91
Total	$ 1,590

The Company leases office facilities under various operating leases, which in most, but not all cases, are noncancelable. Rent expense, which is included in operating and other expenses, in connection with these leases was $10 million, $12 million and $13 million for the years ended December 31, 2009, 2008 and 2007, 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 $15 million, related to an office lease that has been assigned to the buyer. Aggregate minimum future commitments are as follows:

(In Millions) YEARS ENDING DECEMBER 31:	
2010	$ 11
2011 through 2014	30
2015 and thereafter	4
Total	$ 45

As of December 31, 2009, ACG has commitments with major aircraft manufacturers to purchase aircraft at an estimated delivery price of $6,370 million with delivery from 2010 through 2017. Such purchase commitments may be funded:

- up to $635 million in less than one year,
- an additional $2,325 million in one to three years,
- an additional $2,116 million in three to five years, and
- an additional $1,021 million thereafter.

As of December 31, 2009, deposits related to these agreements totaled $273 million and are included in other assets.

In connection with an acquisition in 2005, ACG assumed residual value support agreements with expiration dates ranging from 2011 to 2015. The gross remaining residual value exposure under these agreements was $99 million as of December 31, 2009 and 2008. As of December 31, 2009, the Company has estimated that it has no measurable liability under the remaining residual value guarantee agreements.

As of December 31, 2009, Pacific Asset Funding, LLC, a wholly owned subsidiary, had credit limits available to various clients amounting to $417 million. These companies had utilized approximately $173 million of these credit limits as of December 31, 2009, of which $163 million was funded in the form of notes receivable, inventory and trade receivables and $10 million in the form of letters of credit and other commitments.

In connection with the reinsurance of no lapse guarantee rider benefits from Pacific Life to PAR Bermuda and PAR Vermont, 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, 2009, a $340 million letter of credit had been issued from this facility for PAR Bermuda. In addition, a letter of credit issued for PAR Vermont totaled $52 million as of December 31, 2009. Pacific LifeCorp guarantees the obligations of PAR Bermuda and PAR Vermont under the letter of credit agreement.

In connection with the acquisition of Pacific Life Re Limited (Pacific Life Re) in 2008, Pacific LifeCorp provided a guarantee for the performance of certain obligations of Pacific Life Re. In addition, Pacific LifeCorp provided indemnification for certain matters, as set forth in the purchase agreement. As stated in the guarantee agreement, if Pacific Life Re is unable to meet its current obligations under unaffiliated reinsurance agreements, Pacific LifeCorp shall guarantee payment on any past, present and future obligations of Pacific Life Re. Management believes that any additional obligations, if any, related to this guarantee agreement is not likely to have a material adverse effect on the Company's condensed consolidated financial statements.

CONTINGENCIES – LITIGATION During the year ended December 31, 2007, Pacific Life settled a national class action lawsuit, *Cooper v. Pacific Life*, for a combination of cash distributions and contract credits to owners of qualified annuity contracts who purchased their contracts between August 19, 1998, and April 30, 2002, or paid premium payments during that time period. Pacific Life strongly disagreed with the claims in the lawsuit. The settlement is not considered an admission or concession with respect to any claims made in the lawsuit and did not have a material adverse effect on the Company's condensed consolidated financial position. Initial distributions were made to eligible class members in the first quarter of 2008 with subsequent annual distributions for four years thereafter.

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

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

CONTINGENCIES – OTHER In connection with the sale of certain broker-dealer subsidiaries, 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. The Company believes adequate provision has been made in its condensed consolidated financial statements for all probable and estimable losses for litigation claims against the Company.

In the course of its business, the Company provides certain indemnifications related to other dispositions, acquisitions, investments, lease agreements or other transactions that are triggered by, among other things, breaches of representations, warranties or covenants provided by the Company. These obligations are typically subject to time limitations that vary in duration, including contractual limitations and those that arise by operation of law, such as applicable statutes of limitation. Because the amounts of these types of

indemnifications often are not explicitly stated, the overall maximum amount of the obligation under such indemnifications cannot be reasonably estimated. The Company has not historically made material payments for these types of indemnifications. The estimated maximum potential amount of future payments under these obligations is not determinable due to the lack of a stated maximum liability for certain matters, and therefore, no related liability has been recorded. Management believes that judgments, if any, against the Company related to such matters are not likely to have a material adverse effect on the Company's condensed consolidated financial statements.

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

In relation to the Aviation Capital Group Trust II (ACG Trust II) securitization, the Company is contingently obligated to purchase certain notes from ACG Trust II to cover shortfalls in amounts due to the holders of the notes, up to certain levels as specified under the related agreements. As of December 31, 2009, the maximum potential amount of this future investment commitment was $100 million.

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

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

See Note 5 for discussion of contingencies related to derivative instruments.

Note 12. **SUBSEQUENT EVENTS**

The Company has evaluated events subsequent to December 31, 2009 and through March 4, 2010, the date the condensed consolidated financial statements were available to be issued. The Company has not evaluated subsequent events after that date for presentation in these condensed consolidated financial statements.

In February 2010, Pacific LifeCorp issued $450 million of senior notes at a fixed interest rate of 6.0%, maturing on February 10, 2020. Interest is payable semiannually on February 10 and August 10. Pacific LifeCorp may redeem all or a portion of the notes at any time at the redemption price described under the terms of the senior notes.

As of January 1, 2010, the Board of Directors of Pacific LifeCorp and Pacific Life authorized a cash capital contribution to ACG in the amount of $350 million, which could be made up to March 31, 2010.

Effective January 1, 2010, the Investment Management segment's products were moved into other segments of the Company. Structured settlement and group retirement annuities were moved to the Annuities & Mutual Fund segment and the other institutional investment products became part of the Corporate and Other segment.

Independent Auditors' Report

We have audited the consolidated statements of financial condition of Pacific Mutual Holding Company and Subsidiaries (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of operations, equity and cash flows for each of the three years in the period ended December 31, 2009. Such consolidated financial statements and our report thereon dated March 4, 2010, expressing an unqualified opinion (which are not included herein) are included in the Company's annual filings made with the Insurance Department of the State of Nebraska. The accompanying condensed consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on such condensed consolidated financial statements in relation to the complete consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated financial statements of financial condition of Pacific Mutual Holding Company and Subsidiaries as of December 31, 2009 and 2008, the related condensed consolidated statements of operations and cash flows for each of the three years in the period ended December 31, 2009, is stated fairly in all material respects in relation to the consolidated financial statements from which it has been derived.

As discussed in Note 1 to the condensed consolidated financial statements, in 2009, the Company changed its method of accounting and reporting for other than temporary impairments of debt and equity securities.

As discussed in Note 1 to the condensed consolidated financial statements, in 2009, the Company adopted new guidance requiring retrospective application and presentation requirements for noncontrolling interest (previously known as minority interest).

Deloitte & Touche LLP

Costa Mesa, California
March 4, 2010

Corporate Information

Statement of Management's Responsibility

The management of Pacific Mutual Holding Company and Subsidiaries (the Company) assumes responsibility for the preparation of the accompanying condensed consolidated financial statements and for all other information in this 2009 Report to Members. This responsibility includes maintaining the integrity and objectivity of all such information. The financial statements include amounts that are based on management's best estimates and judgments. The accompanying condensed consolidated financial statements are derived from consolidated financial statements that have been audited by Deloitte & Touche LLP, independent auditors. Their audits were conducted in accordance with auditing standards generally accepted in the United States of America and included consideration of internal controls and tests of transactions as part of planning and performing their audits.

The Company is committed to maintaining internal controls that provide reasonable assurance that assets are safeguarded and that transactions are properly executed and recorded in accordance with management's authorization. Internal controls are supported by appropriate divisions of responsibilities and separation of duties, specified delegations of authority, established policies and procedures that are clearly communicated, including a code of business conduct to foster a strong ethical climate, and the careful selection, training, and development of employees. A responsibility telephone line is available to all employees to anonymously report suspected violations of the code of business conduct. An internal audit department independently assesses the adequacy and effectiveness of internal controls and recommends possible improvements thereto. Management considers the recommendations of the internal auditors and Deloitte & Touche LLP concerning internal controls and takes appropriate actions to respond to these recommendations.

The Board of Directors of Pacific Mutual Holding Company has an audit committee composed entirely of external, independent directors who meet regularly with management, the internal auditors, and the independent auditors. Both the internal auditors and the independent auditors have direct access to and meet with the audit committee on a regular basis (or at a minimum at each audit committee meeting), without management representatives present, to discuss the scope and results of their audits, their views on the adequacy of internal controls, and the quality of financial reporting.

Finally, management also maintains policies to encourage a climate in which the Company's affairs are conducted in accordance with the highest standards of personal and professional conduct.

James T. Morris
Chairman, President and
Chief Executive Officer

Khanh T. Tran
Executive Vice President and
Chief Financial Officer

March 4, 2010

DIRECTORS

Douglas D. Abbey[1, 2]
Founder
AMB Property Corporation

Mariann Byerwalter[1, 2]
Chairman
JDN Corporate Advisory, LLC

Sharon A. Cheever[3]
Senior Vice President and
General Counsel
Pacific Life Insurance Company

Dwight W. Decker[1]
Retired Chairman and
Chief Executive Officer
Conexant Systems, Inc.

John Gottschalk[1]
Chairman
Omaha World-Herald Company

Lawrence F. Harr[3]
Partner
Lamson, Dugan and Murray, LLP

Audrey L. Milfs[3]
Vice President and Secretary
Pacific Life Insurance Company

Jacqueline C. Morby[1, 2]
Senior Advisor
TA Associates, Inc.

James T. Morris[1, 2, 3]
Chairman, President and
Chief Executive Officer
Pacific Life Insurance Company

J. Fernando Niebla[2]
President
International Technology
Partners, LLC

Susan Westerberg Prager[1]
Executive Director
Chief Executive Officer
Association of American
Law Schools
Professor of Law and
Dean, Emeritus
UCLA School of Law

J. Michael Shepherd[1, 2]
Chairman and
Chief Executive Officer
BancWest Corporation

Thomas C. Sutton[1, 2]
Retired Chairman and
Chief Executive Officer
Pacific Life Insurance Company

William S. Thompson[2]
Retired Chief Executive Officer
PIMCO

Khanh T. Tran[3]
Executive Vice President and
Chief Financial Officer
Pacific Life Insurance Company

James R. Ukropina[1, 2]
Chief Executive Officer
Directions, LLC

Dean A. Yoost[2]
Managing Partner (Retired)
PricewaterhouseCoopers

1 Director of Pacific Mutual Holding Company
2 Director of Pacific LifeCorp
3 Director of Pacific Life Insurance Company

Corporate Senior Management

James T. Morris, FSA
Chairman, President and Chief Executive Officer

Mary Ann Brown, FSA
Executive Vice President Corporate Development

Khanh T. Tran
Executive Vice President and Chief Financial Officer

Edward R. Byrd
Senior Vice President and Chief Accounting Officer

Sharon A. Cheever
Senior Vice President and General Counsel

Thomas Gibbons
Senior Vice President Corporate Tax

Robert G. Haskell
Senior Vice President Public Affairs

Denis P. Kalscheur
Senior Vice President and Treasurer

Henry M. McMillan, PhD, FSA
Senior Vice President and Chief Risk Officer

Andrew Oleksiw
Senior Vice President Business Development

Carol R. Sudbeck
Senior Vice President Human Resources and Facilities

The Annual Meeting of Members

of Pacific Mutual Holding Company

(ALL LIFE INSURANCE AND ANNUITY POLICYHOLDERS OF PACIFIC LIFE INSURANCE COMPANY)

The Annual Meeting of Members of Pacific Mutual Holding Company will be held at **11:30 a.m.** on **May 19, 2010**, at **700 Newport Center Drive, Newport Beach, California,** for the purpose of the election of directors and for such other business as may properly come before the meeting.

Audrey L. Milfs, Secretary

Contact Information

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Newport Beach, CA 92660-6397
(800) 800-7646, ext. 3011 / (949) 219-3011
www.PacificMutual.com

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Investment Management Division
(800) 800-7646, ext. 3718

Real Estate Division
(800) 800-7646, ext. 4763

Retirement Solutions Division
(800) 722-4448

Life Insurance Division
45 Enterprise
Aliso Viejo, CA 92656-2601
(800) 800-7681, ext. 6000 / (949) 420-6000

PRINCIPAL SUBSIDIARIES

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(949) 219-4600
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Princeton, NJ 08540-6313
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