

Best's Rating Report



PACIFIC LIFE

PACIFIC LIFE INSURANCE COMPANY

Omaha, Nebraska



A+

EFFECTIVE: JUNE 28, 2011

Ultimate Parent: Pacific Mutual Holding Company

PACIFIC LIFE INSURANCE COMPANY

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BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the consolidated Financial Strength of the company and its major affiliated life/health companies, the company is assigned a Best's Financial Strength Rating of A+ (Superior). The company's Financial Size Category is Class XV.

RATING RATIONALE

The following text is derived from the report of Pacific Life Group.

Rating Rationale: The rating of Pacific Life Insurance Company and its subsidiary, Pacific Life & Annuity Company (together known as Pacific Life), reflects the group's strong risk-adjusted capitalization, extensive distribution relationships, strong competitive positions and extensive liquidity sources. These factors are tempered by the ongoing potential for earnings and surplus volatility due to the group's large book of variable annuities with living benefit guarantees, its above average exposure to the real estate market and its increased level of financial leverage.

Pacific Life continues to maintain its prominent position as a provider of choice in the most affluent market segments for individual life insurance. Despite potential volatility driven primarily by its exposure to variable annuity living benefits, Pacific Life again reported a strong level of risk-adjusted capital at year-end 2010. Over the last two years, Pacific Life has generated

almost \$1.6 billion in statutory net income and its total adjusted capital (TAC) has increased by over \$2.5 billion from year-end 2008. Also, Pacific Life's regulatory capital ratio has increased by 50 percentage points since 2008, and it continues to maintain one of the strongest ratios within its peer group. In addition, recent investment-related losses have been manageable, and A.M. Best believes that statutory earnings are likely to exceed any near-term impairments. Pacific Life also has extensive sources of liquidity, which include sizable positions in cash and highly liquid assets, a \$700 million commercial paper program, a \$400 million back-up facility and a \$750 million revolving credit facility at its parent holding company, Pacific LifeCorp. Furthermore, Pacific Life is approved to receive collateralized advances as a member of the Federal Home Loan Bank of Topeka and has capacity to draw corporate borrowings based on available collateral. A.M. Best notes that neither Pacific Life nor Pacific LifeCorp has any long-term debt maturing until 2020, and that the organization maintains ample earnings and cash flow capacity to service its debt over the near to medium term.

Given its competitive position among the market leaders in variable life and variable annuity assets under management, Pacific Life maintains a disproportionate exposure to the equity markets relative to the industry at large. The earnings volatility associated with this exposure was demonstrated in 2008 and early 2009 as Pacific Life's statutory and GAAP earnings were negatively impacted by higher required reserves and a negative mark-to-market loss (FASB Topic 815) on variable annuity guarantees along with lower asset-based fee income. While Pacific Life's broad product portfolio and its diversified and highly productive distribution relationships offer some insulation from unfavorable market conditions, the potential for earnings volatility remains a risk to its long-term financial strength. As a result of the \$1 billion surplus note issuance in 2009 and the \$450 million senior note issuance in early 2010, Pacific Life's financial leverage has increased to 24% as of year-end 2010. This ratio is substantially higher than historical levels but remains within A.M. Best's guidelines for the company's current rating. Concurrently, both statutory and GAAP pro forma interest coverage ratios have declined to the low end of the range for its current rating. Additionally, while A.M. Best notes Pacific Life's prudent commercial

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mortgage loan underwriting practices and excellent historical performance, its real estate market exposure is over two times TAC when residential and commercial mortgage-backed securities (excluding agency-issued securities), whole commercial mortgage loans, real estate company debt and equity real estate holdings are combined.

Best's Financial Strength Rating: A+

Outlook: Stable

FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
06/28/11	A+	06/16/08	A++g
03/05/10	A+g	06/14/07	A++g
03/06/09	A+g		

KEY FINANCIAL INDICATORS (\$000)

Year	Assets	Total Capital				
		Capital Surplus Funds	Condit'l Reserve Funds	Net Premiums Written	Net Invest Income	Net Income
2006	86,141,889	3,217,930	350,009	10,304,214	2,144,053	362,100
2007	96,551,166	3,707,975	397,029	9,354,056	2,250,412	362,190
2008	83,652,571	3,135,787	395,571	7,858,630	3,115,813	-1,528,807
2009	94,738,487	5,005,942	107,094	8,579,269	674,413	651,829
2010	98,780,898	5,866,689	243,276	5,238,665	1,681,210	741,369

BUSINESS REVIEW

The following text is derived from the report of Pacific Life Group.

Pacific Life Insurance Company operates in conjunction with its subsidiary, Pacific Life & Annuity Company and is collectively referred to as Pacific Life. Pacific Life has primary business operations consisting of life insurance, individual annuities, mutual funds, investment related products, and aircraft leasing.

The Life Insurance Division's principal products include universal life, indexed universal life, variable universal life, interest-sensitive whole life, survivor life, term life and corporate-owned life insurance (COLI). Pacific Life's early entry into the indexed universal life insurance market (2005) has enabled the company to capture significant market share in a growing product line and broaden its market segments beyond the upper-income to include the upper middle-income market. The company's continuing success in the individual life insurance market stems from diversified product offerings, a focus on key market segments, diversified, highly professional distribution sources, and an excellent producer and policy owner service platform. This combination has allowed the company to build a stable and profitable book of business over the years. Its multi-channel life distribution system includes regional life offices, the M Financial producer group, independent marketing organizations, and institutional accounts. The institutional accounts distribution focuses on national and regional wirehouses, as well as banks and other joint marketing organizations. It includes distribution relationships with Edward Jones, Raymond James, UBS, Morgan Stanley Smith Barney, Wells Fargo Advisors, and Merrill Lynch. Pacific Life's strategy has been to focus on expanding its present distribution systems, continue to address the changing needs of the high net worth and corporate markets, and broadening market share in the upper middle-income market. Pacific Life's life insurance sales represent a mix weighted largely between indexed universal life insurance and universal life insurance followed by variable universal life insurance.

Effective January 1, 2010, the Investment Management Division's (IMD) products were moved into other segments of the company. Structured settlement and group retirement annuities were moved to the Retirement Solutions Division and the other institutional investment products (IIP) and synthetic GICs became part of the Corporate and Other segment.

The Retirement Solutions Division develops and markets competitive fixed annuities, variable annuities and mutual fund products to individuals, businesses, qualified plans and structured settlements through a diverse wholesaler network consisting of regional and national warehouses, financial institutions, independent planners, settlement firms and benefit consultants. A broad range of both name-brand funds and proprietary fund selections are offered through their variable annuity and fund-of-funds mutual fund products. Strong relationships between a nationwide network of over 950 securities broker-dealer firms and 170 wholesalers, along with enhanced products and superior service have all contributed to continued strong distribution capacity. The company's national distribution system includes

UBS, Morgan Stanley Smith Barney, Wells Fargo Advisors, Merrill Lynch, Chase, US Bank and LPL. The variable annuity products include institutional money management, asset allocation strategies and asset-based compensation, with an emphasis on service. The company's long-term success will be determined by its ability to continue providing value-added products and services, characterized by a strong customer and producer service orientation. Pacific Life continues to diversify its individual annuity product offerings through the continued development and enhancement of the company's suite of fixed products, resulting in strong fixed annuity sales over the past two years.

Management has elected to de-emphasize and suspend issuance of IIP spread lending products, such as traditional guaranteed investment contracts, funding agreements and medium-term notes, to reduce its exposure to credit market risk. IMD formerly maintained a large block of investment and annuity products sold to group pensions and the non-pension institutional markets. Pension market products included GICs, synthetic GICs, and single premium non-participating group annuities. The company's activities in the non-pension institutional market included medium-term notes backed by the company's funding agreements, structured settlement annuities, funding agreements issued to the FHLB of Topeka and separate account funding agreements. This division had historically contributed approximately one-third of total company GAAP operating income, although this share has declined to less than 10% in recent years due to earnings growth in the Retirement Solutions Division.

Aviation Capital Group Corp. (ACG) engages in the acquisition, leasing and asset management of commercial jet aircraft. ACG is among the largest operating lessors in the industry. ACG owns and leases more than 200 commercial jets and has about 70 employees. Despite significant operating leverage associated with its large fleet of aircraft, ACG debt is nonrecourse to Pacific Life and is recourse only to either ACG or certain aircraft. Also, less than 5% of its portfolio is on lease to U.S. airlines. This has been Pacific Life's alternative to the industry's traditional investment in airline issued debt, and has proven to be a superior strategy.

PREMIUM AND RESERVE ANALYSIS

Direct Premiums (000)	2010	2009	2008	2007	2006
Ordinary life	2,248,181	2,279,242	2,417,024	2,356,313	2,201,068
Individual annuities	3,564,235	6,470,461	7,829,508	10,348,629	9,311,283
Group annuities	181,522	1,150,312	1,125,292	460,140	157,996
Group A&H	...	...	...	-2	11,425
Total	5,993,939	9,900,016	11,371,823	13,165,081	11,681,771
Reins Assumed Prens (000)	2010	2009	2008	2007	2006
Ordinary life	46,720	49,941	46,776	49,464	44,127
Group life	...	...	50	22	21
Individual annuities	1,644	310	...	...	...
Group annuities	8,489	3,054	...	...	...
Total	56,853	53,306	46,826	49,486	44,148
Reins Ceded Prens (000)	2010	2009	2008	2007	2006
Ordinary life	713,783	1,076,236	529,749	501,769	442,655
Group life	39	37	35	32	29
Individual annuities	98,305	297,779	3,030,236	3,358,711	967,596
Group A&H	...	...	...	-2	11,424
Total	812,128	1,374,053	3,560,019	3,860,510	1,421,705
Net Premiums & Deposits (000)	2010	2009	2008	2007	2006
Ordinary life	1,582,063	1,253,943	1,935,091	1,905,112	1,803,671
Group life	-39	-37	15	-10	-8
Individual annuities	3,515,709	6,187,319	4,801,964	6,990,462	8,344,688
Group annuities	248,958	1,230,630	2,131,571	2,643,116	1,188,657
Group A&H	...	...	...	...	0
Total	5,346,691	8,671,854	8,868,641	11,538,680	11,337,007
Deposits (incl. above)	108,026	92,585	1,010,011	2,184,624	1,032,793

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General Account Reserve Distribution (000)	2010	2009	2008	2007	2006
Ordinary life	20,013,857	19,150,534	19,083,659	18,034,819	17,293,752
Group life	13,138	12,704	12,483	12,019	12,437
Supplementary contracts	3,138	2,749	2,770	3,055	3,563
Individual annuities	9,575,649	9,920,224	9,579,939	6,403,504	6,463,246
Group annuities	4,056,402	4,302,306	3,376,167	2,714,929	3,074,950
Deposit type contracts	4,772,082	5,365,628	8,124,982	9,455,752	8,318,310
Total	38,434,267	38,754,144	40,179,999	36,624,079	35,166,257

Geographical breakdown of direct premium writings (\$000): California, \$959,010 (16.0%); Florida, \$417,378 (7.0%); Texas, \$410,015 (6.8%); Illinois, \$371,641 (6.2%); New Jersey, \$260,796 (4.3%); other jurisdictions, \$3,581,957 (59.7%).

EARNINGS

The following text is derived from the report of Pacific Life Group.

The company's strategic thrust is to continue to grow its individual life and annuity businesses via its focus on the most affluent retail market segments, as well as on medium and large-sized corporations. Earnings have been supplemented by a disciplined and opportunistic participation in the institutional investment product market. However, management has elected to de-emphasize and suspend issuance of institutional spread lending products, such as traditional guaranteed investment contracts, funding agreements and medium-term notes, to reduce its exposure to credit market risk. Also, Pacific Life has increased the size of its hedge program and shifted its individual annuity product sales mix from primarily variable to an equal amount of variable and fixed. A.M. Best favorably views these changes as they serve to reduce the group's earnings sensitivity to equity market fluctuations. However, A.M. Best notes that the additional hedging costs will have a dampening effect on earnings going forward.

With the bond market deterioration and equity market decline that occurred in 2008, Pacific Life experienced a net loss on both a GAAP and statutory basis. The 2008 GAAP net loss of \$257 million was driven by significant investment losses, the net impact from the FASB Topic 815 mark-to-market of variable annuity guarantees (net of hedge gains and DAC) and negative DAC unlocking. In addition to investment losses, statutory net income was negatively impacted by the equity market downturn through higher required reserves on variable annuity guarantees. The statutory net loss was (\$1.5) billion for 2008. Consistent with the improvement in the financial markets, Pacific Life's earnings bounced back in 2009 and 2010 rising to \$436 million and \$472 million on a GAAP basis and \$769 million and \$791 million on a Pacific Life Group statutory basis.

PROFITABILITY TESTS

Year	Ben Paid to NPW & Dep	Comm & Exp to NPW & Dep	NOG to Tot Assets	NOG to Tot Rev	Operating Return on Equity	Net Yield	Total Return
2006	58.7	13.5	0.4	2.2	10.2	5.97	6.00
2007	67.5	11.5	0.4	2.2	10.1	6.05	6.36
2008	80.2	12.6	-1.4	-8.2	-36.2	7.96	9.04
2009	73.4	12.9	0.7	6.1	15.5	1.61	-0.92
2010	126.7	17.7	0.7	9.6	12.7	4.00	4.04

PROFITABILITY ANALYSIS

Net Operating Gain (000)	2010	2009	2008	2007	2006
Ordinary life	80,470	145,072	113,363	128,269	120,514
Group life	184	60	215	1,376	1,650
Supplementary contracts	67	-14	660	61	133
Individual annuities	560,751	743,241	-1,532,616	175,868	116,168
Group annuities	52,393	-21,395	14,511	19,924	60,797
Group A&H	181	176	-69	423	234
Other	-5,675	-238,131	164,387	23,673	17,259
Total	688,371	629,010	-1,239,550	349,593	316,755

CAPITALIZATION

The following text is derived from the report of Pacific Life Group.

A.M. Best considers Pacific Life's capitalization to be strong for its rating level. As of year-end 2010, Pacific Life maintains one of the strongest regulatory capital ratios in the industry and within its peer group. Pacific Life's total adjusted statutory capital (TAC) increased by approximately \$2.5 billion to \$6.1 billion as of year-end 2010. The increase is attributable to \$1 billion of 9.25% surplus notes issued in June 2009, a \$200 million capital contribution from Pacific LifeCorp during the second half of 2009, \$450 million of 6.00% internal surplus notes issued in March 2010 and positive statutory earnings offset by unrealized derivative losses. Additionally, Pacific LifeCorp contributed its 100% stock ownership of ACG to Pacific Life at year end 2009, which served to increase statutory capital by \$589 million.

Although TAC has increased, the quality of capital has declined as a result of the recent surplus notes issuance. Surplus notes represented 26% of TAC as of year-end 2010 compared to 5% as of year-end 2008. A.M. Best recognizes that surplus notes are debt instruments that have the expectation of repayment. Therefore, A.M. Best views surplus notes as a lower quality of capital than retained earnings or paid-in capital. Additionally, when considering Pacific LifeCorp's \$450 million senior debt issuance in February 2010 along with the new surplus notes, the group's GAAP financial leverage has increased to 24% at year-end 2010 compared to 17% at year end 2008 (excluding accumulated other comprehensive losses and debt related to ACG). Although A.M. Best notes that the recent capital raises were necessary to replenish statutory capital lost over the past couple of years from investment losses and variable annuity reserve strengthening, A.M. Best believes the group's financial flexibility is somewhat more limited given the increased financial leverage.

LEVERAGE TESTS

Year	C&S to Liabilities	Surplus Relief	Reins Leverage	NPW & Dep to Capital	Change in NPW & Dep	Change in Capital
2006	10.4	4.0	15.4	3.2	5.3	5.5
2007	11.5	8.0	18.5	2.8	1.8	15.1
2008	9.0	8.4	40.2	2.5	-23.1	-14.0
2009	13.3	2.9	30.6	1.7	-2.2	44.8
2010	15.9	2.6	28.2	0.9	-38.3	19.5

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SOURCES OF CAPITAL GROWTH (\$000)

Year	Net Gain	Realized Capital Gains	Unrealized Capital Gains	Change AVR	Other Changes	Change in C&S
2006	316,755	45,345	-38,398	23,840	-138,431	209,112
2007	349,593	12,597	104,143	-47,020	70,733	490,045
2008	-1,239,550	-289,257	718,617	1,459	236,544	-572,188
2009	629,010	22,819	-1,111,702	288,477	2,041,551	1,870,155
2010	688,371	52,998	-47,839	-136,182	303,399	860,747

CAPITAL TRENDS (\$000)

Year	Year end C&S	Surplus Notes	Stockholder Divs	Policyholder Divs	Asset Valuation Reserve	Interest Maintenance Reserve
2006	3,217,930	149,767	185,000	19,705	350,009	...
2007	3,707,975	149,781	...	20,041	397,029	16,492
2008	3,135,787	149,795	345,000	21,931	395,571	92,026
2009	5,005,942	1,149,337	...	22,414	107,094	91,212
2010	5,866,689	1,599,366	150,000	18,096	243,276	166,016

INVESTMENTS AND LIQUIDITY

The following text is derived from the report of Pacific Life Group.

Pacific Life's general account invested assets totaled approximately \$46 billion at year-end 2010. Invested assets are primarily comprised of public/private corporate bonds (45% of invested assets), structured securities (15% of invested assets), commercial mortgage loans (15% of invested assets), policy loans (15% of invested assets) and cash and other short-term investments (3% of invested assets). Additionally, Pacific Life has allocated a portion of its surplus (2% of invested assets) to private equity limited partnerships to achieve diversification and long-term returns. As a result of the significant disruption in the housing, financial and credit markets, Pacific

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Life recorded elevated investment losses related to other than temporary impairment (OTTI) writedowns in 2008 and 2009. The charges were primarily related to structured securities, particularly non-agency residential mortgage-backed securities. OTTI writedowns on a GAAP and SAP accounting basis were \$580 million and \$294 million, respectively, in 2008. In 2009, GAAP and SAP OTTI writedowns were \$311 million and \$243 million, respectively. In 2010, impairment losses declined to \$113 million and \$84 million for GAAP and SAP OTTI writedowns. Consistent with the industry, Pacific Life saw the value of its investment portfolio decline significantly in 2008 and then regain most of its value in 2009 as corporate bonds recovered. Pacific Life's net unrealized gain position (pre-tax and pre-DAC) as of year-end 2010 was \$844 million.

Pacific Life's structured security portfolio includes residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS). Agency-backed RMBS represent approximately 19% of the total \$5.1 billion RMBS portfolio as of year-end 2010. The non-agency RMBS include prime, Alt-A and subprime loans and represent almost \$600 million of Pacific Life's \$944 million gross unrealized losses (pre-tax and pre-DAC) as of year-end 2010. Pacific Life also experienced significant negative ratings migration with its non-agency RMBS in 2009 and 2010. Book adjusted carrying values for prime, Alt-A and subprime RMBS were \$2,904 million, \$839 million and \$407 million, respectively, as of December 31, 2010, with 71% of the prime, 89% of the Alt-A and 20% of the subprime securities rated below investment grade. Book adjusted carrying value for commercial mortgage-backed securities total approximately \$972 million with 87% of the portfolio rated 'AAA'.

The company maintains a well-diversified mortgage loan and real estate portfolio diversified among apartment complexes, mobile home parks, resorts, office buildings, golf courses and hotels. Despite having a significant proportion of its Pacific region portfolio concentrated in California, Pacific Life has experienced no credit losses, in spite of generally weak economic and credit conditions over the last two years. However, while A.M. Best notes Pacific Life's prudent commercial mortgage loan underwriting practices and historical performance, the generally negative outlook for commercial real estate suggests the potential for impairments.

Through its active asset management, Pacific Life has historically generated total returns and net yields (excluding real estate holdings) which compare favorably to life industry averages. Consistently high levels of cash distributions from its beneficial interest in PIMCO (through Allianz Global Investors of America LLC) contributed to the company's overall investment yields in past years. However, the balance of the remaining PIMCO interest was sold during the first quarter of 2008 and, therefore, will no longer be a factor in the company's financial performance. The company also maintains a high level of policy loans, which are very low risk and represent approximately 15% of invested assets. Policy loans generate attractive spread-based income primarily from leveraged COLI business written in 1986 and earlier.

The company proactively manages its investment portfolio so as to maintain a favorable liquidity position. In addition, the company's strong cash flows and stable liability structure have provided significant liquidity benefits on a historical basis. Pacific Life's relatively higher proportion of policy loans results in a lower than average allocation to fixed income investments. However, the company does maintain a portfolio of short-term instruments to meet unexpected cash outflows, such as U.S. Treasuries and marketable long-term fixed maturity securities (including 144A securities). In addition, Pacific Life retains additional backup liquidity in the form of internal funding mechanisms and third party sources. Given its current composition of liabilities, A.M. Best believes the company's existing asset allocation provides solid liquidity protection under various stress scenarios to meet its cash flow needs.

Pacific Life maintains a \$700 million commercial paper program, utilized from time to time for short-term liquidity needs. A \$400 million revolving credit facility serves as a back-up line of credit for the commercial paper program and matures in 2012. Pacific Life Insurance Company is also a member of the Federal Home Loan Bank (FHLB) of Topeka where it has approval to advance amounts up to 40% of its general account assets provided it has available collateral. There was no outstanding debt with the FHLB of Topeka as of December 31, 2010 and Pacific Life had zero funding capacity

from eligible collateral. Pacific Life has received \$1.5 billion in advances from the FHLB of Topeka to back a portion of its institutional spread lending issuance. As of December 31, 2010, assets with an estimated fair value of \$1.7 billion are in a custodial account pledged as collateral to support \$1.5 billion in funding agreements issued to the FHLB of Topeka.

Pacific LifeCorp has a revolving credit agreement with various banks for a \$750 million borrowing facility, which matures in 2013. Additionally, the group also retains the ability to engage in public or private debt capital raising efforts, and could embark on a public sale of up to 49% of common stock in the intermediate stock company as a financing alternative, although there are no plans to do so.

LIQUIDITY TESTS

Year	Operating Cash Flow (\$000)	Quick Liquidity	Current Liquidity	Non-Inv Grade Bonds to Capital	Delnq & Foreclsd Mtg to Capital	Mtg & Cred Ten Lns & RE to Cap	Affil Invest to Capital
2006	421,202	37.3	55.0	30.6	0.0	106.7	22.0
2007	1,671,282	33.1	50.7	24.9	0.1	119.1	23.7
2008	2,705,815	38.8	53.3	44.7	0.1	166.2	24.5
2009	34,827	34.6	49.6	51.9	0.1	134.5	34.2
2010	724,789	34.2	49.1	45.1	0.0	113.6	35.6

INVESTMENT YIELDS

Year	Net Yield	Bonds	Stocks	Mortgages	Cash & Short Term	Real Estate Gross	Real Estate Net	Invest. Exp. Ratio
2006	5.97	6.13	1.95	8.46	3.80	32.37	7.99	4.88
2007	6.05	6.15	3.65	6.54	5.44	21.80	3.46	4.65
2008	7.96	6.04	4.15	6.18	1.95	20.92	3.37	3.32
2009	1.61	6.03	0.97	5.43	0.69	21.29	4.03	20.86
2010	4.00	5.96	0.70	5.70	0.42	20.18	3.17	11.73

INVESTMENT DATA

Current Year Distribution of Bonds by Maturity

	Years					Yrs-Avg Maturity
	0-1	1-5	5-10	10-20	20-	
Government	0.6	0.6	4.0	0.2	0.1	7
Gov't Agencies & Muni	0.3	1.1	1.1	2.9	0.9	12
Industrial & Misc	10.6	25.8	32.6	10.3	7.4	8
Hybrid Securities	...	...	0.1	0.0	1.1	23
Capital Credit Loans	0.0	0.1	0.1	...	...	5
Affiliated	0.0	0.0	0.0	...	...	5
Total	11.6	27.6	37.9	13.4	9.5	8

	2010	2009	2008	2007	2006
Bonds (000)	25,312,359	24,752,972	23,580,661	25,051,068	23,686,810
US Government	3.6	0.7	0.8	0.2	0.3
Foreign Government	1.5	1.4	0.8	0.9	1.1
Foreign - All Other	24.0	22.7	20.3	20.4	21.1
State/Special Rev. - US	6.6	7.7	6.1	8.8	11.4
Public Utilities - US	...	...	15.5	13.8	13.5
Industrial & Misc - US	62.6	65.8	56.1	55.4	51.9
Hybrid Securities	1.3	1.2	...	...	...
Credit Tenant Lns - US	0.3	0.3	0.4	0.5	0.5
Affiliated	0.0	0.0	0.0	0.0	0.1
Private Issues	35.0	35.0	33.7	37.4	36.8
Public Issues	65.0	65.0	66.3	62.6	63.2

Bond Quality (%)	2010	2009	2008	2007	2006
Class 1	51.9	51.6	57.7	62.1	60.5
Class 2	37.8	38.4	36.2	33.9	35.2
Class 3	6.5	5.8	4.0	3.3	3.4
Class 4	3.0	3.0	1.1	0.6	0.8
Class 5	0.6	0.9	0.8	0.1	0.1
Class 6	0.1	0.3	0.2	0.1	0.1

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	2010	2009	2008	2007	2006
Mortgages (000)	6,651,774	6,566,712	5,542,356	4,569,749	3,583,877
Commercial	100.0	100.0	100.0	100.0	99.9
Residential	0.0	0.0	0.0	0.0	0.1
	2010	2009	2008	2007	2006
Real Estate (000)	216,081	223,374	225,768	203,841	95,637
Property Occupied by Co	77.3	76.4	75.6	72.1	40.5
Property Held for Inc	22.7	23.6	24.4	27.9	45.6
Property Held for Sale	...	...	...	...	13.9
	2010	2009	2008	2007	2006
Stocks (000)	1,790,637	1,233,252	899,812	1,068,133	1,081,234
Unaffiliated Common	9.7	8.4	12.4	10.3	4.0
Affiliated Common	87.8	86.1	33.5	35.7	38.4
Unaffiliated Preferred	2.5	5.5	54.1	54.1	57.5
	2010	2009	2008	2007	2006
Other Inv Assets (000)	9,075,113	9,292,203	11,510,064	8,124,368	8,496,044
Cash	0.3	-0.7	13.4	2.6	12.5
Short-Term	14.1	17.8	13.2	0.9	1.6
Schedule BA Assets	10.5	10.3	9.9	14.6	11.8
All Other	75.1	72.5	63.5	81.9	74.1

HISTORY

Date Incorporated: 01/02/1868 **Date Commenced:** 05/01/1868

Domicile: NE

Originally incorporated in 1868 as The Pacific Mutual Life Insurance Company of California, the company was reincorporated in 1936 as Pacific Mutual Life Insurance Company (Pacific Mutual Life) and officially became a mutual company in 1959. Following the passage of California's mutual holding company legislation, Pacific Mutual Life converted to a mutual holding company structure in 1997 through the formation of Pacific Mutual Holding Company. Concurrently, Pacific Mutual Life converted to a California domiciled stock life insurance company, issued all of its capital stock to an intermediate stock holding company named Pacific LifeCorp and continued its corporate existence under the name Pacific Life Insurance Company (Pacific Life). Pacific Mutual Holding Company is controlled by members who are policyholders and currently own 100% of the voting stock of Pacific LifeCorp. Pacific Mutual Holding Company is legally required to retain not less than 51% of the voting stock of Pacific LifeCorp, and Pacific LifeCorp must hold all of the voting stock of Pacific Life. The remaining voting stock of Pacific LifeCorp may be sold to the public, although this is not contemplated in the foreseeable future. This structure provides the group with greater financial flexibility in its capital management, including access to additional funding from the public markets. At the time of the company's conversion to a mutual holding company, Pacific Life established a closed block for certain individual life policies, with related assets of \$284 million at year-end 2010.

In 1997, the company assumed a block of corporate-owned life insurance policies from Confederation Life Insurance Company (U.S.) (Confederation Life) as part of the rehabilitation plan for that organization. The block consisted of approximately 38,000 policies with an aggregate face amount of \$8.6 billion, annual premiums of \$200 million and reserves of \$1.7 billion. In 1999, the company also acquired a payout annuity block of business from Confederation Life. This block of business consisted of approximately 16,000 annuitants with reserves of \$2.0 billion.

In 1999, PM Group Life Insurance Company, a wholly-owned subsidiary of Pacific Life domiciled in Arizona, secured its license to conduct business in the state of New York and changed its name to Pacific Life & Annuity Company (PL&A).

In 2005, the company sold the group insurance businesses of Pacific Life and PL&A to an unrelated third party. The business included medical, dental and life coverage for small and large group employers. The transaction was structured as a coinsurance arrangement and effectively eliminated the company's exposure to the group medical market.

Also in 2005, ACG, then a subsidiary of Pacific LifeCorp, acquired Seattle-based Boulliou Aviation Services from WestLB AG. The transaction effectively doubled the size of ACG's commercial aircraft leasing business, placing it among the largest operating lessors in the industry. On December 31, 2009, Pacific LifeCorp contributed its entire ownership in ACG to Pacific Life.

On September 1, 2005, Pacific Life transferred its legal domicile from the State of California to the State of Nebraska. On June 29, 2007, Pacific Mutual Holding Company transferred its legal domicile from the State of California to the State of Nebraska.

In 2005, Pacific Alliance Reinsurance Ltd. (PAR Bermuda) was formed to provide reinsurance exclusively to Pacific Life for no lapse guarantee benefits. PAR Bermuda is a Bermuda-based life reinsurance company 100% owned by Pacific LifeCorp. In 2007, Pacific Alliance Reinsurance Company of Vermont (PAR VT) was incorporated and is a wholly owned subsidiary of Pacific Life. PAR VT is licensed as a special purpose financial captive insurance company under the laws of the State of Vermont and was formed to reinsure certain no lapse guarantee benefits issued by the Company. Effective October 1, 2010, all the reinsurance ceded to PAR Bermuda was novated to PAR VT, consolidating the no lapse guarantee reinsurance into one captive entity.

Pacific Life Re Limited (PL Re) was formed in 2008 following the acquisition by Pacific LifeCorp of the International Life Reinsurance segment of Scottish Re Group Limited. PL Re provides reinsurance to insurance and annuity providers in the United Kingdom and selected markets in Asia.

MANAGEMENT

Officers: Chairman, President and Chief Executive Officer, James T. Morris; Executive Vice President, Chief Financial Officer and Chief Investment Officer, Khanh T. Tran (Corporate Finance & Investment); Executive Vice Presidents, Michael A. Bell (Life Insurance Division), Mary Ann Brown (Corporate Development, Risk Mgmt & Technology), Dewey P. Bushaw (Retirement Solutions Division), Michael S. Robb (Real Estate Division); Senior Vice President and Chief Risk Officer, Henry M. McMillan (Corporate Enterprise Risk Management); Senior Vice Presidents and Chief Marketing Officers, Richard J. Schindler (Life Insurance Division), Christopher van Mierlo (Retirement Solutions Division); Senior Vice President and Treasurer, Denis P. Kalscheur (Corporate Treasury); Senior Vice President and Chief Accounting Officer, Edward R. Byrd (Corporate Financial); Senior Vice President and General Counsel, Sharon A. Cheever (Corporate Law); Senior Vice Presidents, Joseph E. Celentano (Corporate Enterprise Risk Mgmt), Martha A. Gates (Operations, Life Insurance Division), Thomas Gibbons (Corporate Financial), Adrian S. Griggs (Finance & Risk Mgmt, Retirement Solutions Div), Robert G. Haskell (Corporate Brand Mgmt & Public Affairs), Tod M. Nasser (Corporate Investment), Andrew Oleksiw (Corporate Development, Risk Mgmt & Technology), Carol R. Sudbeck (Corporate Human Resources & Facilities), Philip A. Teeter (Technology & Operations, Retirement Solutions Division), Dawn M. Trautman (IT & Strategic Planning, Life Insurance Division); Vice President and Secretary, Jane M. Guon (Corporate Law).

Directors: Sharon A. Cheever, Jane M. Guon, Lawrence F. Harr, James T. Morris, Khanh T. Tran.

REINSURANCE

Pacific Life has ceded and assumed life reinsurance programs in place with a number of professional reinsurers and life insurance companies. The life reinsurance ceded is well diversified among more than 15 companies, including RGA Reinsurance Company, Swiss Re Life & Health America, Inc., M Life Insurance Company and London Life Reinsurance Company. Maximum net retention, effective June 1, 2007, is \$12,000,000 on individual life plans and \$20,000,000 on survivorship life plans.

REGULATORY

An examination of the financial condition was made as of December 31, 2008 by the Insurance Department of Nebraska. The 2010 annual independent audit of the company was conducted by Deloitte & Touche, LLP. The annual statement of actuarial opinion is provided by Gary L. Falde, Vice President and Appointed Actuary.

Best's Rating Report



Territory: The company is licensed in the District of Columbia, AL, AK, AZ, AR, CA, CO, CT, DE, FL, GA, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MA, MI, MN, MS, MO, MT, NE, NV, NH, NJ, NM, NC, ND, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VT, VA, WA, WV, WI and WY.

Reserve basis: (Current ordinary business): From the Life Division - 2001 CSO 2.0%, 2.5%, 3.0% and 4.0%; CRVM. (Current annuity business): Annuity 2000 4.50% and 5.25%. From the Corporate Division - 1994 GAR 2.00%. From the Retirement Solutions Division - (Current annuity business): 1994 GAR 4.0%-5.0%; Annuity 2000 4.00%-5.25%; 1994 VA MGDB 4.25%.

FINANCIAL INFORMATION BALANCE SHEET (\$000) - December 31, 2010

Assets		Liabilities	
*Total bonds	25,312,359	+Net policy reserves	33,662,185
*Total preferred stocks	45,280	Policy claims	100,047
*Total common stocks	1,745,356	Deposit type contracts	4,772,082
Mortgage loans	6,651,774	Interest maint reserve	166,016
Real estate	216,081	Comm taxes expenses	166,555
Contract loans	6,686,937	Asset val reserve	243,276
Cash & short-term inv	1,310,968	Contingency reserve	7,673
Other invested assets	951,351	Other liabilities	-355,335
Prens and consids due	273,458		
Accrued invest income	369,078	Tot liab w/o sep accts	38,762,498
Other assets	1,066,545	Separate account bus	54,151,710
		Total Liabilities	92,914,209
Tot assets w/o sep accts	44,629,187	Common stock	30,000
Separate account bus	54,151,710	Surplus notes	1,599,366
		Paid in & contrib surpl	1,185,439
		Unassigned surplus	2,750,756
		Other surplus	301,128
Assets	98,780,898	Total	98,780,898

*Securities are reported on the bases prescribed by the National Association of Insurance Commissioners. +Analysis of reserves; Life \$20,012,709; annuities \$13,632,050; supplementary contracts with life contingencies \$3,138; accidental death benefits \$70; disability active lives \$292; disability disabled lives \$8,985; miscellaneous reserves \$4,940.

SUMMARY OF OPERATIONS (\$000)

Premiums:		Death benefits	321,434
Ordinary life	1,581,118	Matured endowments	1,316
Individual annuities	3,467,574	Annuity benefits	409,656
Group life	-39	Disability benefits	1,410
Group annuities	190,012	Surrender benefits	5,810,183
Total premiums	5,238,665	Int on policy funds	223,097
Supplementary contracts	604	Supplementary contracts	505
Net investment income	1,681,210	Other benefits	6,693
Amort interest maint res	13,729	Incr life reserves	277,274
Comm & exp reins ceded	154,718	Change in reserves	322
Res adj on reins ceded	-1,223,943	Commissions	579,103
Other income	1,244,873	Comm exp reins assumed	4,432
Mgt and/or service fee	46,379	Insur taxes lic & fees	59,402
		General ins expenses	457,518
		Net trans to sep acct	-1,802,018
		Misc operating expense	1,667
Total	7,156,235	Total	6,351,995
Gain from operations before FIT & div to policyholders.....			804,240
Dividends to policyholders: life.....			18,096
Gains from operations after dividends to policyholders.....			786,144
Federal income taxes incurred.....			97,773
Net gain from operations after FIT and dividends.....			688,371

CASH FLOW ANALYSIS (\$000)

Funds Provided

Grass cash from oper	7,655,002
Transf from sep account	2,156,348
Long-term bond proceeds	5,481,812
Other invest proceeds	1,078,747
Other cash provided	450,016
Deer cash & short-term	282,144
Total	17,104,070

Funds Applied

Benefits paid	7,231,586
Comm, taxes, expenses	1,094,903
Long-term bonds acquired	5,714,780
Other invest acquired	1,789,793
Other cash applied	1,273,008
Total	17,104,070

SEPARATE ACCOUNT DATA

	2010	2009	2008	2007	2006
Sep Acct Assets	54,151,710	51,226,559	40,678,919	56,666,312	48,339,693
% Growth	5.7	25.9	-28.2	17.2	28.6
S/A Assets/Adm Assets	54.8	54.1	48.6	58.7	56.1
Sep Acct Reserves	52,591,275	49,303,006	38,446,292	54,335,473	46,293,288
% Ordinary Life	10.9	10.7	11.1	11.4	12.1
% Individual Annuities	89.1	89.1	88.2	88.0	87.8
% Group Annuities	0.0	0.1	0.7	0.6	0.1
Deposit Type Liabilities	117,758	122,948	227,747	288,680	219,901
Other Liabilities	1,442,677	1,800,604	2,004,880	2,042,158	1,826,504
S/A Prens & Deposits	3,074,592	4,118,564	7,817,407	11,513,355	10,366,633
% Ordinary Life	15.4	12.7	9.4	7.5	7.2
% Individual Annuities	84.8	90.2	91.7	89.6	92.0
% Group Annuities	-0.2	-2.9	-1.0	2.9	0.8
Sep Acct Fees & Charges	1,222,809	1,105,522	1,142,230	1,159,058	932,745
% Ordinary Life	24.0	29.2	28.9	27.1	31.7
% Individual Annuities	75.4	70.4	71.1	72.6	67.9
% Group Annuities	0.7	0.4	0.1	0.3	0.4
Fees & Chgs to Assets%	2.3	2.4	2.3	2.2	2.2
Sep Acct Ben & Wdrwls	5,211,034	4,006,652	4,786,671	5,131,799	4,036,287
% Ordinary Life	8.2	7.9	6.3	5.9	6.8
% Individual Annuities	90.7	86.2	93.3	93.8	91.1
% Group Annuities	1.1	5.9	0.4	0.2	2.1
Ben & Wdrwl to Assets%	9.9	8.7	9.8	9.8	9.4

ORDINARY LIFE STATISTICS

Year	Ord. Lapse Ratio %	Average Ord. Policy (in dollars)	Avg. Prem (\$/M)	1st Yr Prem / Total Prem	1st Yr Comm / 1st Yr Prem	Gen. Exp. / Policies In Force
2006	4.2	1,094,499	399,663	11.66	29.9	43.2
2007	3.5	1,136,845	388,660	11.85	35.4	30.7
2008	4.6	1,356,704	417,864	11.47	36.9	30.1
2009	6.8	1,259,166	457,602	10.84	36.9	27.1
2010	5.7	1,151,146	473,759	10.65	31.0	27.5

Year	# Policies Issued (000)	# Policies in Force (000)	First Year Premium (000)	Gen'l Exp / Reserves (%)	Return on Reserves (%)
2006	17	482	657,706	1.31	0.70
2007	17	522	834,676	1.24	0.71
2008	17	514	892,671	1.16	0.59
2009	14	470	839,999	1.22	0.76
2010	13	455	697,406	1.18	0.40

INDIVIDUAL ANNUITY STATISTICS

Year	NPW & Dep (000)	Res & Dep Liab (000)	Exp to Res & Dep Liab (%)*	Comm & Exp to NPW & Dep (%)	Benefits & Wdrwls to NPW & Dep (%)	Benefits & Wdrwls to Res & Dep Liab (%)*
2006	8,344,688	47,330,369	0.6	9.6	52.0	9.2
2007	6,990,462	54,382,946	0.5	9.2	77.8	10.0
2008	4,801,964	43,654,911	0.5	10.0	102.2	11.2
2009	6,187,319	54,067,679	0.4	8.4	63.4	7.3
2010	3,515,709	56,651,621	0.3	11.9	145.5	9.0

* Includes Separate Account reserves.

Best's Rating Report



GROUP ANNUITY STATISTICS

Year	NPW & Dep (000)	Res & Dep Liab (000)	Exp to Res & Dep Liab (%)*	Comm & Exp to NPW & Dep (%)	Benefits & Wdrwls to NPW & Dep (%)	Benefits & Wdrwls to Res & Dep Liab (%)*
2006	1,188,657	11,421,666	0.2	2.0	95.4	9.9
2007	2,643,116	12,564,981	0.2	1.0	43.9	9.2
2008	2,131,571	11,803,880	0.2	1.1	48.7	8.8
2009	1,230,630	9,616,420	0.1	1.1	72.0	9.2
2010	248,958	8,699,419	0.1	3.7	370.7	10.6

* Includes Separate Account reserves.

LIFE INSURANCE IN FORCE (\$000)

Year	Whole Life Endow. & Adds	Term	Credit	Group	Industrial	Total Insurance In Force
2006	125,861,754	66,718,032	...	18,974	...	192,598,760
2007	111,731,085	91,322,236	...	18,199	...	203,071,520
2008	115,464,560	99,357,988	...	18,568	...	214,841,116
2009	114,931,291	99,933,788	...	18,546	...	214,883,625
2010	112,261,426	103,254,839	...	18,812	...	215,535,077

TOTAL ANNUITY ACTUARIAL RESERVES & DEPOSIT TYPE LIABILITIES BY WITHDRAWAL CHARACTERISTICS

Year	Total Annuity Res & Dep Liab (000)	Min or No Surrender Charge (%)*	With Surrender Charge 5% or more (%)*	With MVA (%)*	No Surrender Allowed (%)*
2006	58,791,843	72.3	3.6	3.4	20.8
2007	66,997,783	74.4	3.1	2.1	20.3
2008	55,905,659	66.0	3.4	4.0	26.5
2009	63,725,652	72.7	4.4	5.8	17.0
2010	65,391,794	74.7	5.0	5.9	14.4

* Includes Separate Account reserves.

NEW LIFE BUSINESS ISSUED (\$000)

Year	Whole Life & Endow.	Term	Credit	Group	Industrial	Total Insurance Issued	Non-Par (%)	Par (%)
2006	9,161,225	9,328,141	...	...	...	18,489,366	100	0
2007	8,710,996	10,185,646	...	...	...	18,896,642	100	0
2008	10,125,118	12,876,450	23,001,568	100	0
2009	6,443,531	11,747,636	18,191,167	100	...
2010	5,535,475	9,446,691	14,982,166	100	...

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The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of insurance companies since 1899. The Best's Financial Strength Rating **opinion** addresses the relative ability of an insurer to meet its ongoing insurance obligations. The rating is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of an insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Best's Financial Strength Rating is **not a recommendation** to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

The company information appearing in this pamphlet is an extract from the complete company report prepared by the A.M. Best Company.

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A and A- Excellent
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D Poor
E Under Regulatory Supervision
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