

SEMI-ANNUAL REPORT



PACIFIC LIFE FUNDING, LLC

Pacific Life Funding, LLC

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

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

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

Unless otherwise specified, the financial information contained in this Semi-annual Report (1) has been prepared in accordance with accounting principles generally accepted in the United States of America (“**GAAP**”), and (2) is derived from the Company’s audited GAAP consolidated financial statements, including the notes thereto, as of December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006 (the “**Audited GAAP Financial Statements**”), and the Company’s unaudited GAAP condensed consolidated financial statements, including the notes thereto, as of June 30, 2009 and for the six months ended June 30, 2009 and 2008 (the “**Unaudited Quarterly GAAP Financial Statements**”).

Dated: August 31, 2009

INTERIM MANAGEMENT REPORT

PACIFIC LIFE FUNDING, LLC

Background

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

The only business activity of PLF is to issue debt instruments and to purchase funding agreements from Pacific Life. The indentures governing the terms of the instruments issued by PLF prohibit PLF from engaging in any other business activity. PLF has not issued any instruments or purchased any funding agreements since 2005. Between its organization in 1998 and 2005, PLF issued \$5,728 million in aggregate principal amount of instruments, of which \$1,883 million aggregate principal amount remained outstanding as of June 30, 2009. PLF issued these instruments in a variety of currencies and with maturities that varied from one to 20 years both to institutional investors in a variety of jurisdictions and to retail investors in the United Kingdom, The Netherlands, Germany and Switzerland.

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

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

Management

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

Capitalization

The authorized share capital of PLF is US\$50,000 divided into 50,000 ordinary shares of US\$1.00 each, 1,000 of which have been issued. All of the issued shares of PLF are fully paid and are held by Maples Finance Limited (the “**Share Trustee**”) under the terms of a Declaration of Trust dated April 15, 1998 (the “**Declaration of Trust**”) under which the Share Trustee holds the shares in trust. Under the terms of the Declaration of Trust, so long as there are instruments outstanding, the Share Trustee may not sell or otherwise deal with the shares except to a person previously approved in writing by the indenture trustee for the instruments. It is not anticipated that any distribution will be made on the shares while any instrument is outstanding. When all of the outstanding instruments have

matured or otherwise been redeemed, it is expected that the Share Trustee will wind up the trust and make a final distribution to charity. The Share Trustee has no beneficial interest in, and derives no benefit (other than its fee for acting as Share Trustee) from, its holding of the shares.

The following table presents PLF's capitalization as of June 30, 2009 prepared in conformity with GAAP. The information as of June 30, 2009 in this table is derived from the unaudited GAAP condensed financial statements of PLF as of June 30, 2009 and for the six months ended June 30, 2009. Long-term debt excludes accrued interest.

	<u>June 30, 2009</u>
Debt:	
Short-term debt	-
Long-term debt.....	<u>\$ 1,883,412,992</u>
Total debt	<u>1,883,412,992</u>
Equity:	
Paid-in capital	1,000
Retained earnings	24,589
Accumulated other comprehensive income	<u>-</u>
Total equity	<u>25,589</u>
Total capitalization.....	<u>\$ 1,883,438,581</u>

Development of PLF's Business

Other than as described herein, there were no developments having a material effect on PLF or its business during the six months ended June 30, 2009. In addition, other than as described herein, there have been no recent developments having a material effect on PLF or its business since June 30, 2009. As of the date of this Semi-annual Report, there exists no condition or event that would constitute an event of default under the terms of the instruments of PLF that are currently outstanding.

There are currently no indications that the business of PLF will change between the date of this report and December 31, 2009.

PACIFIC LIFE INSURANCE COMPANY

Selected Consolidated GAAP Financial Information of the Company

The following table sets forth selected consolidated GAAP financial information for the Company. You should read it in conjunction with the sections of the Semi-annual Report that follow, the Audited GAAP Financial Statements included in the Annual Report of PLF dated as of April 29, 2009, and the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results may differ from such estimates. Additionally, the results for past accounting periods are not necessarily indicative of the results to be expected for any future accounting period.

The selected GAAP financial information for the Company as of June 30, 2009 (other than "life insurance in force" and "employees" included in "Other Data") and for the six months ended June 30, 2009 and 2008 has been derived from the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report.

The Company's broker-dealer operations have been reflected as discontinued operations in the Company's condensed consolidated financial statements. Discontinued operations do not include the operations of Pacific Select Distributors, Inc. ("PSD"), a wholly-owned broker-dealer subsidiary of Pacific Life, which primarily serves as the

underwriter/distributor of registered investment-related products and services, principally variable life and variable annuity contracts issued by the Company, and mutual funds.

In March 2007, the Company classified its broker-dealer subsidiaries, other than PSD, as held for sale. On June 20, 2007, a transaction closed whereby the Company sold certain of these broker-dealer subsidiaries to an unrelated third party. On December 31, 2007, a transaction closed whereby the Company sold another one of its broker-dealer subsidiaries to subsidiary management. As of December 31, 2007, one broker-dealer subsidiary remained classified as held for sale. On March 31, 2008, a transaction closed whereby the Company sold this held for sale subsidiary to an unrelated third party. The Company recognized a pre-tax gain of \$1 million from this transaction during the six months ended June 30, 2008. The broker-dealer operations that the Company sold through these transactions are treated as discontinued operations for purposes of this Semi-annual Report, including for purposes of the financial information in the sections of this Semi-annual Report that follow and in the included Unaudited Quarterly GAAP Financial Statements.

	Six Months Ended		Years Ended December 31,		
	June 30,		2008	2007	2006
	2009	2008	(in millions)		
Unaudited Consolidated Statement of Operations Data:					
Revenues:					
Policy fees and insurance premiums	\$ 1,175	\$ 1,021	\$ 1,997	\$ 1,780	\$ 1,538
Net investment income	904	1,039	1,997	2,114	2,042
Net realized investment gain (loss).....	695	8	(1,327)	(46)	62
Net realized investment gain on interest in PIMCO	-	109	109	-	32
Investment advisory fees.....	93	146	255	327	319
Other income.....	<u>57</u>	<u>67</u>	<u>129</u>	<u>98</u>	<u>47</u>
Total revenues	<u>2,924</u>	<u>2,390</u>	<u>3,160</u>	<u>4,273</u>	<u>4,040</u>
Benefits and Expenses:					
Interest credited to policyholder account balances	619	617	1,234	1,266	1,219
Policy benefits paid or provided	764	567	1,206	855	780
Commission expenses	681	427	715	690	606
Operating expenses	<u>395</u>	<u>379</u>	<u>712</u>	<u>740</u>	<u>630</u>
Total benefits and expenses.....	<u>2,459</u>	<u>1,990</u>	<u>3,867</u>	<u>3,551</u>	<u>3,235</u>
Income (loss) from continuing operations					
before provision (benefit) for income taxes ..	465	400	(707)	722	805
Provision (benefit) for income taxes	<u>100</u>	<u>89</u>	<u>(363)</u>	<u>98</u>	<u>198</u>
Income (loss) from continuing operations.....	365	311	(344)	624	607
Noncontrolling interest ⁽¹⁾	27	(3)	11	(36)	(13)
Discontinued operations, net of taxes.....	<u>(13)</u>	<u>(2)</u>	<u>(6)</u>	<u>11</u>	<u>(4)</u>
Net income (loss)	<u>\$ 379</u>	<u>\$ 306</u>	<u>\$ (339)</u>	<u>\$ 599</u>	<u>\$ 590</u>

⁽¹⁾ Referred to as minority interest in the Company's Audited GAAP Financial Statements included in the Annual Report of PLF dated as of April 29, 2009.

	June 30, 2009	December 31,		
		2008	2007	2006
(\$ in millions)				
Unaudited Consolidated Statement of Financial Condition Data:				
Assets:				
Investments	\$ 38,118	\$ 36,745	\$ 40,414	\$ 37,446
Cash and cash equivalents.....	3,317	3,354	521	1,341
Deferred policy acquisition costs.....	4,429	5,012	4,481	4,248
Other assets	2,370	3,046	1,482	1,262
Separate account assets	45,193	41,505	57,605	48,900
Total assets	<u>\$ 93,427</u>	<u>\$ 89,662</u>	<u>\$ 104,503</u>	<u>\$ 93,197</u>
Liabilities and Equity				
Liabilities:				
Policyholder account balances	\$ 32,724	\$ 32,670	\$ 32,017	\$ 30,744
Future policy benefits	7,853	9,841	6,025	5,341
Short-term and long-term debt.....	1,317	328	397	187
Other liabilities	1,123	1,120	1,697	1,656
Separate account liabilities.....	45,193	41,505	57,605	48,900
Total liabilities.....	<u>88,210</u>	<u>85,464</u>	<u>97,741</u>	<u>86,828</u>
Stockholder's Equity:				
Common stock	30	30	30	30
Paid-in capital	505	505	505	505
Retained earnings.....	5,684	5,130	5,814	5,244
Accumulated other comprehensive income (loss)	(1,185)	(1,679)	232	498
Total stockholder's equity	5,034	3,986	6,581	6,277
Noncontrolling interest ⁽¹⁾	183	212	181	92
Total equity	<u>5,217</u>	<u>4,198</u>	<u>6,762</u>	<u>6,369</u>
Total liabilities and equity	<u>\$ 93,427</u>	<u>\$ 89,662</u>	<u>\$ 104,503</u>	<u>\$ 93,197</u>
Other Data:				
Life insurance in force.....	<u>\$ 220,085</u>	<u>\$ 220,822</u>	<u>\$ 207,548</u>	<u>\$ 195,141</u>
Employees:				
Continuing operations.....	2,592	2,823	2,694	2,588
Discontinued operations.....	-	-	234	547
Total employees	<u>2,592</u>	<u>2,823</u>	<u>2,928</u>	<u>3,135</u>

⁽¹⁾ Referred to as minority interest in the Audited GAAP Financial Statements included in the Annual Report of PLF dated as of April 29, 2009.

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

The following should be read in conjunction with the Selected Consolidated GAAP Financial Information of the Company set forth above and the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report.

Background

Pacific Life was established in 1868 and is organized under the laws of the State of Nebraska as a stock life insurance company, conducting business in the District of Columbia and every state except the State of New York. Pacific Life is an indirect subsidiary of Pacific Mutual Holding Company (“**PMHC**”), a Nebraska mutual insurance holding company, and a wholly-owned subsidiary of Pacific LifeCorp, an intermediate Delaware stock holding company. PMHC and Pacific LifeCorp were organized pursuant to consent received from the California Department of Insurance and the implementation of a plan of conversion to form a mutual insurance holding company structure in 1997. Under Nebraska law and their respective charters, PMHC must always own at least 51% of the outstanding voting stock of Pacific LifeCorp, and Pacific LifeCorp must always own 100% of the voting stock of Pacific Life. Certain owners of Pacific Life’s life insurance policies and annuity contracts have membership interests in PMHC, consisting principally of the right to vote on the election of the Board of Directors of PMHC and on other matters, and certain rights upon liquidation or dissolution of PMHC.

Pacific Life transferred its legal domicile from the State of California to the State of Nebraska, effective September 1, 2005. PMHC transferred its legal domicile from the State of California to the State of Nebraska, effective June 29, 2007, in order to reunite PMHC and Pacific Life under one regulatory authority. Pacific Life’s principal administrative offices are at 700 Newport Center Drive, Newport Beach, California, in a 285,000 square-foot office building it owns.

Pacific Life has been in business for over 140 years. As of June 30, 2009 and December 31, 2008 and 2007, the Company had \$93.4 billion, \$89.7 billion and \$104.5 billion, respectively, in total assets, and total stockholder’s equity of \$5.0 billion, \$4.0 billion and \$6.6 billion, respectively. Life insurance in force was \$220.1 billion, \$220.8 billion and \$207.5 billion as of June 30, 2009 and December 31, 2008 and 2007, respectively. Net income (loss) was \$379 million for the six months ended June 30, 2009 (the “**2009 Period**”), as compared to \$306 million for the six months ended June 30, 2008 (the “**2008 Period**”), and (\$339) million for the year ended December 31, 2008 as compared to \$599 million for the year ended December 31, 2007. The Company’s primary business operations provide life insurance products, individual annuities and mutual funds, and offer to individuals, businesses and pension plans a variety of investment products and services.

The following discusses the Company’s primary operating segments: Life Insurance, Investment Management and Annuities & Mutual Funds, as well as its principal subsidiaries and affiliates.

Segments

The Life Insurance segment provides a broad range of life insurance products through multiple distribution channels operating in the upper income and corporate markets. Principal products include universal life, variable universal life, survivor life, interest sensitive whole life and corporate owned life insurance and traditional products such as whole life and term life. Distribution channels include regional life offices, marketing organizations, broker-dealer firms, wirehouses and M Financial, an association of independently owned and operated insurance and financial producers. As of June 30, 2009 and December 31, 2008 and 2007, Life Insurance represented 30%, 30% and 27% of the Company’s total assets, respectively.

The Investment Management segment provides investment and insurance products to institutional investors, pension fund sponsors and structured settlement annuitants, primarily through its home office marketing team and other intermediaries. The segment’s products include guaranteed interest contracts (“**GICs**”), synthetic GICs, group retirement annuities sold to pension plans, funding agreement-backed notes issued to institutional investors via medium-term note programs or to the Federal Home Loan Bank (“**FHLB**”) of Topeka and structured settlement

annuities issued in conjunction with personal injury awards. As of June 30, 2009 and December 31, 2008 and 2007, Investment Management represented 15%, 17% and 15% of the Company's total assets, respectively.

The Annuities & Mutual Funds segment offers variable and fixed annuity products, mutual funds and college savings plans through multiple distribution sources. Distribution channels include independent planners, financial institutions and national/regional wirehouses. As of June 30, 2009 and December 31, 2008 and 2007, this segment represented 52%, 51% and 55% of the Company's total assets, respectively.

Principal Subsidiaries and Affiliates

Pacific Life & Annuity Company (“**PL&A**”), a wholly-owned subsidiary of Pacific Life, markets and distributes variable universal life insurance, term insurance, variable annuities, structured settlement annuities and GICs. PL&A is licensed to sell certain of its products in the State of New York. Pacific Life and PL&A sold their respective group insurance and stop loss businesses to an unrelated third party during 2005.

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

In March 2007, the Company classified its broker-dealer subsidiaries, other than PSD, as held for sale. On June 20, 2007, a transaction closed whereby the Company sold certain of these broker-dealer subsidiaries to an unrelated third party. On December 31, 2007, a transaction closed whereby the Company sold another one of its broker-dealer subsidiaries to subsidiary management. As of December 31, 2007, one broker-dealer subsidiary remained classified as held for sale. On March 31, 2008, a transaction closed whereby the Company sold this held for sale subsidiary to an unrelated third party. The Company recognized a pre-tax gain of \$1 million from this transaction during the six months ended June 30, 2008.

Operating results of the discontinued operations were as follows:

	For The Six Months Ended June 30,	
	2009	2008
	(in millions)	
Revenues		\$ 12
Benefits and expenses.....	\$ 20	17
Loss from discontinued operations.....	(20)	(5)
Benefit from income taxes.....	(7)	(2)
Loss from discontinued operations, net of taxes.....	(13)	(3)
Net gain on sale of discontinued operations		1
Provision for income taxes	_____	_____
Net gain on sale of discontinued operations, net of taxes.....	_____	1
Discontinued operations, net of taxes.....	<u>\$ (13)</u>	<u>\$ (2)</u>

As of December 31, 2007, the Company owned a beneficial economic interest in Pacific Investment Management Company LLC (“**PIMCO**”). PIMCO offers investment products through separately managed accounts and institutional, retail and offshore mutual funds. The interest in PIMCO was reported at estimated fair value, as

determined by a contractual put and call option price, with changes in estimated fair value reported as a component of other comprehensive income, net of taxes. As of December 31, 2007, the interest in PIMCO, which was included in other investments, had an estimated fair value of \$288 million.

During the first quarter of 2008, the Company exercised a put option and sold all of its remaining interest in PIMCO to Allianz of America Inc., a subsidiary of Allianz SE (“**Allianz**”) for \$288 million and recognized a pre-tax gain of \$109 million. During the year ended December 31, 2006, Allianz exercised a call option and bought approximately \$88 million of the Company’s interest in PIMCO. The pre-tax investment gain recognized for 2006 was \$32 million.

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

Revenues and Expenses

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

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

Results of Operations

Six Months Ended June 30, 2009 compared to the Six Months Ended June 30, 2008

Net income was \$379 million for the 2009 Period as compared to \$306 million for the 2008 Period. The net increase in net income for the 2009 Period over the 2008 Period was primarily attributable to the impact of the improved economic conditions, including the equity markets, leading to gains in the mark to market of certain embedded derivatives, net of hedges and policy fees, related to variable annuity guaranteed living benefits in the Annuities & Mutual Funds segment. Offsetting this gain was higher other than temporary impairment (“**OTTI**”) losses during the 2009 Period and a slight decrease to net investment income in the 2009 Period compared to the 2008 Period due to lower investment returns. Commission expenses were also higher in the 2009 Period as compared to the 2008 Period due to higher DAC amortization in the Annuities & Mutual Funds segment. See the discussion of the condensed consolidated statement of operations line items below. Also, included in net income in the 2008 Period is a pre-tax net realized investment gain relating to the interest in PIMCO of \$109 million. See “Principal Subsidiaries and Affiliates” above for a discussion of the Company’s interest in PIMCO.

Policy fees and insurance premiums for the 2009 Period were \$1,175 million as compared to \$1,021 million for the 2008 Period. Policy fees consist of cost-of-insurance charges, expense loads, surrender charges and other fees related to products. Insurance premiums increased in the Investment Management segment from the sale of structured settlement and retirement annuities in the 2009 Period as compared to the 2008 Period. This increase in

insurance premiums was offset by a decrease in the Annuities & Mutual Funds segment primarily as a result of a decrease in fees from separate account assets.

Net investment income decreased from \$1,039 million in the 2008 Period to \$904 million in the 2009 Period, a decrease of 13%. The decrease in the 2009 Period as compared to the 2008 Period primarily relates to lower net investment income from private equity investments, real estate investments and fixed maturity securities.

Net realized investment gain for the 2009 Period amounted to \$695 million compared to \$8 million for the 2008 Period. The increase in net realized investment gain of \$687 million is primarily related to an \$867 million gain in the positive mark to market of embedded derivatives, net of hedges and policy fees, related to variable annuity riders in the Annuities & Mutual Funds segment. This increase is offset by OTTI losses being \$148 million higher in the 2009 Period as compared to the 2008 Period. OTTI losses recorded during the 2009 Period were primarily related to the Company's exposure to Alt-A residential mortgage backed securities, certain structured securities, and corporate securities. See the Unaudited Quarterly GAAP Financial Statements included elsewhere in this Semi-annual Report for additional information on the components of net realized investment gain.

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

Investment advisory fees decreased \$53 million to \$93 million in the 2009 Period as compared to \$146 million in the 2008 Period. This decrease is primarily attributable to the decrease in advisory fees earned on assets under management in the separate accounts. Separate account assets decreased by \$9.5 billion from \$54.7 billion as of June 30, 2008 as compared to \$45.2 billion as of June 30, 2009.

Other income was \$57 million in the 2009 Period as compared to \$67 million in the 2008 Period. Other income was lower in the 2009 Period as compared to the 2008 Period due to lower service fee revenue earned by the Annuities & Mutual Funds segment. These fees are asset based fees that are calculated on separate account assets which declined substantially as described above.

Interest credited to policyholder account balances increased slightly to \$619 million for the 2009 Period as compared to \$617 million for the 2008 Period. The Life Insurance segment had increases in its policyholder account values and the Annuities & Mutual Funds segment experienced increases in their average fixed account balances. These increases were offset by a decrease in the Investment Management segment due to maturing funding agreements for institutional investment products and principal paydowns of separate account funding agreements.

Policy benefits paid or provided increased \$197 million to \$764 million for the 2009 Period as compared to \$567 million for the 2008 Period. The increase is primarily related to the sale of structured settlement annuities in the Investment Management segment which is mentioned above.

Commission expenses for the 2009 Period increased \$254 million to \$681 million compared to \$427 million in the 2008 Period. Commission expenses include components of DAC and vary with the level of sales by business segment due to the mix of products, as well as the change in the embedded derivative, net of hedges and policy fees, related to variable annuity guaranteed living benefits in the Annuities & Mutual Funds segment. The commission expenses in the Annuities & Mutual Funds segment was the primary reason for the increase in the 2009 Period as compared to the 2008 Period due to higher DAC amortization.

Operating expenses for the 2009 Period increased by \$16 million compared to the 2008 Period from \$379 million to \$395 million. Operating expenses include components of DAC, and the amortization of DAC is dependent on various factors that affect future gross profits by business segment, including the change in the embedded derivative, net of hedges and policy fees, related to variable annuity guaranteed living benefits in the Annuities & Mutual Funds segment. For most products, DAC amortization represents a percentage of gross profits. This slight increase is primarily due to an increase in the Annuities & Mutual Funds segment related to increased DAC amortization. This increase is partially offset by a decrease in the Annuities & Mutual Funds segment and Corporate and Other segment for general operating expenses.

The provision for income taxes for the 2009 Period amounted to \$100 million compared to \$89 million for the 2008 Period. The taxes in the 2009 Period and in the 2008 Period are lower than the statutory rate due to the separate account dividends received deductions, utilization of low income housing and foreign tax credits, favorable resolution of certain tax contingencies and other non-taxable investment income.

Year Ended December 31, 2008 compared to the Year Ended December 31, 2007

2008 will be remembered as a year when an unprecedented mortgage crisis created a credit crisis that challenged global financial systems and led to a sharp decline in investor confidence in stocks and bonds alike. The Standard & Poor's 500 Index (S&P 500) finished the year down 37%, its worst year since 1931. The bond market, typically a source of stability for investors, was anything but stable. The Company's results were negatively affected by the significant drop in the equity markets, which led to losses in the variable annuity product line resulting primarily from the long-term guarantees associated with these products, and by the weak economic conditions, which led to higher investment losses. Net income (loss) was (\$339) million for the year ended December 31, 2008 as compared to \$599 million for the year ended December 31, 2007. The net loss for the year ended December 31, 2008 was primarily attributable to (1) the impact of the economic recession and severely negative economic conditions which led to higher investment losses and (2) the significant decline in the equity markets, leading to increases in the negative mark to market of certain embedded derivatives, net of hedges and policy fees, related to variable annuity guaranteed living benefits in the Annuities & Mutual Funds segment in 2008 compared to 2007. See the discussion of consolidated statement of operations line items below.

Policy fees and insurance premiums for the year ended December 31, 2008 were \$1,997 million compared to \$1,780 million for the year ended December 31, 2007, an increase of 12%. Policy fees consist of cost-of-insurance charges, expense loads, surrender charges and other fees related to products. These fees increased in the Life Insurance segment primarily as a result of an increase in amortization of unearned revenue and cost-of-insurance charges. In addition to the increase in policy fees, there was also an increase in insurance premiums from the sale of structured settlement and retirement annuities in the Investment Management segment in 2008 as compared to 2007.

Net investment income decreased 6% from \$2,114 million for the year ended December 31, 2007 to \$1,997 million for the year ended December 31, 2008. The decrease in 2008 as compared to 2007 primarily relates to prepayment fees on fixed maturity securities and mortgage loans, which were \$33 million lower in 2008 as compared to 2007. In addition, there was also a decrease in net investment income on private equity investments in 2008 as compared to 2007.

Net realized investment loss for the year ended December 31, 2008 amounted to \$1,327 million compared to \$46 million for the year ended December 31, 2007. The increase in net realized investment loss is primarily related to other than temporary impairment charges being \$479 million higher in 2008 as compared to 2007 and a \$666 million increase in the negative mark to market of embedded derivatives, net of hedges and policy fees, related to variable annuity guaranteed living benefits in the Annuities & Mutual Funds segment in 2008 compared to 2007. In connection with the recent significant disruption in the residential mortgage and credit markets, the other than temporary impairment charges recorded during the year ended December 31, 2008 were primarily related to the Company's exposure to Alt-A residential mortgage backed securities, certain structured securities, and direct exposure to financial companies through corporate equity and debt holdings. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated as of April 29, 2009 for additional information on the components of net realized investment gains and losses.

Realized investment gain on the Company's interest in PIMCO amounted to a pre-tax gain of \$109 million for the year ended December 31, 2008. See "Principal Subsidiaries and Affiliates" above for a discussion of the Company's interest in PIMCO.

Investment advisory fees decreased \$72 million to \$255 million for the year ended December 31, 2008 as compared to \$327 million for the year ended December 31, 2007. Effective May 1, 2007, there was a reduction in certain advisory fees charged by the Company, which contributed to the decrease. Additionally, the decrease in separate account assets during 2008 as compared to December 31, 2007 also contributed to this decrease. See "Principal Subsidiaries and Affiliates" above for additional information.

Other income was \$129 million for the year ended December 31, 2008 as compared to \$98 million for the year ended December 31, 2007. Other income was higher in 2008 as compared to 2007 due to fees earned by PSD in connection with the Pacific Select Fund's service plan mentioned above. See "Principal Subsidiaries and Affiliates" above for additional information.

Interest credited to policyholder account balances decreased to \$1,234 million for the year ended December 31, 2008 as compared to \$1,266 million for the year ended December 31, 2007. This slight decrease in interest credited to policyholder account balances is primarily related to a decrease in interest credited on floating rate institutional investment products due to a fall in short term interest rates in 2008 as compared to 2007, which was slightly offset by an increase in the Life Insurance segment due to a growth in account values.

Policy benefits paid or provided increased \$351 million to \$1,206 million for the year ended December 31, 2008 as compared to \$855 million for the year ended December 31, 2007. The increase is primarily related to the sale of structured settlement annuities in the Investment Management segment, which is mentioned above. The Annuities & Mutual Fund segment also had an increase of \$138 million due to increases in guaranteed living and death benefit reserves. The Life Insurance segment experienced an increase in life insurance benefits of \$64 million principally due to an increase in average death claim size and increased other benefit reserves.

Commission expenses for the year ended December 31, 2008 increased \$25 million to \$715 million compared to \$690 million for the year ended December 31, 2007. Commission expenses include components of deferred acquisition costs ("DAC"), and vary with the level of sales by business segment due to the mix of products. The commission expenses in the Life Insurance segment was the primary reason for the increase related to increased sales and higher amortization of DAC caused by the impact of negative market returns in 2008. This increase was partially offset by the Annuities & Mutual Fund segment's lower trail commissions and DAC benefit from embedded derivative losses.

Operating expenses for the year ended December 31, 2008 decreased by \$28 million, or 4%, compared to the year ended December 31, 2007 from \$740 million to \$712 million. This slight decrease is primarily due to a settlement accrual recorded in 2007, partially offset by an increase in net DAC and other operating expenses in 2008. Operating expenses include components of DAC, and the amortization of DAC is dependent on various factors that affect future gross profits by business segment. For most products, DAC amortization represents a percentage of gross profits.

The provision (benefit) for income taxes for the year ended December 31, 2008 was (\$363) million as compared to \$98 million for the year ended December 31, 2007. This decrease in tax expense is primarily due to lower taxable income realized by the Company in 2008. The taxes in 2008 and in 2007 are lower than the statutory rate primarily due to the separate account dividends received deductions and utilization of low income housing and foreign tax credits.

Year Ended December 31, 2007 compared to the Year Ended December 31, 2006

Net income was \$599 million for the year ended December 31, 2007 as compared to \$590 million for the year ended December 31, 2006. The slight increase in net income in 2007 as compared to 2006 is primarily a result of increases in policy fees and insurance premiums and net investment income and a decrease in provision for income taxes. These positive components of net income were offset by decreases in net realized investment gains and increases in total benefits and expenses. See the discussion of consolidated statement of operations line items below.

Policy fees and insurance premiums for the year ended December 31, 2007 were \$1,780 million compared to \$1,538 million for the year ended December 31, 2006, an increase of 16%. Policy fees consist of cost-of-insurance charges, expense loads, surrender charges and other fees related to products. These fees increased primarily as a result of an increase in policies in force, an increase in the net amount at risk for life insurance policies and an increase of separate account assets in the Annuities & Mutual Funds segment. In addition, insurance premiums were higher in 2007 as compared to 2006 due to the sale of structured settlement annuities in the Investment Management segment.

Net investment income increased from \$2,042 million for the year ended December 31, 2006 to \$2,114 million for the year ended December 31, 2007, an increase of 4%. The increase in 2007 as compared to 2006 is primarily attributable to higher average invested assets during 2007 as compared to 2006. Prepayment fees on fixed maturity securities and mortgage loans were \$18 million lower in 2007 as compared to 2006.

Net realized investment gain (loss) for the year ended December 31, 2007 amounted to (\$46) million compared to \$62 million for the year ended December 31, 2006. The decrease in net realized investment gain (loss) of \$108 million is primarily related to the negative mark to market of certain derivatives, including the negative mark to market of embedded derivatives related to variable annuity riders in the Annuities & Mutual Funds segment. In addition, other than temporary impairments were \$89 million higher in 2007 as compared to 2006, primarily attributable to other than temporary impairments of \$73 million related to investments in collateralized debt obligations with exposure to sub-prime residential mortgage loans. Net investment gains on the sale of fixed maturity securities and real estate investments, as well as net investment gains on other investments, also increased in 2007 as compared to 2006. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated as of April 29, 2009 for additional information on the components of net realized investment gain (loss).

Investment advisory fees increased \$8 million to \$327 million for the year ended December 31, 2007 as compared to \$319 million for the year ended December 31, 2006. This increase is primarily attributable to the growth of advisory fees earned on assets under management in the Company's separate accounts. Separate account assets increased from \$48.9 billion at the end of 2006 to \$57.6 billion at the end of 2007. The increase in separate account assets is from sales of variable products in the Life Insurance and Annuities & Mutual Funds segments and the market appreciation of these assets, net of contract surrenders, during 2006 and 2007. Effective May 1, 2007, there was a reduction in certain advisory fees charged by the Company in conjunction with the service plan mentioned above that was adopted by the Pacific Select Fund. These reductions had the effect of offsetting any larger increases in the advisory fees earned by the Company. See "Principal Subsidiaries and Affiliates" above for additional information.

Other income was \$98 million for the year ended December 31, 2007 as compared to \$47 million for the year ended December 31, 2006. Other income was higher in 2007 as compared to 2006 due to fees earned by PSD in connection with the service plan mentioned above. See "Principal Subsidiaries and Affiliates" above for additional information.

Interest credited to policyholder account balances increased to \$1,266 million for the year ended December 31, 2007 as compared to \$1,219 million for the year ended December 31, 2006. This increase in interest credited to policyholder account balances is primarily related to the increase of policies in force as previously discussed and an increase in interest credited on floating rate institutional investment products due to a rise in short-term interest rates in 2007 as compared to 2006.

Policy benefits paid or provided increased \$75 million to \$855 million for the year ended December 31, 2007 as compared to \$780 million for the year ended December 31, 2006. This increase is mainly attributable to the Investment Management segment, which also saw a corresponding increase in insurance premiums noted above. This increase is offset by favorable mortality experience in the Life Insurance segment.

Commission expenses for the year ended December 31, 2007 increased \$84 million to \$690 million compared to \$606 million for the year ended December 31, 2006. Commission expenses include components of DAC and vary with the level of sales by business segment due to the mix of products. Increased commission expenses in the Annuities & Mutual Funds segment was the primary reason for the increase in 2007 as compared to 2006 due to higher asset based trail commissions and higher DAC amortization.

Operating expenses for the year ended December 31, 2007 increased by \$110 million, or 17%, compared to the year ended December 31, 2006 from \$630 million to \$740 million. Operating expenses include components of DAC, and the amortization of DAC is dependent on various factors that affect future gross profits by business segment. For most products, DAC amortization represents a percentage of gross profits. Product gross profits were higher in 2007 as compared to 2006, primarily in the Life Insurance and Annuities & Mutual Funds segments. Variable product sub-advisory fees were higher during 2007 as compared to 2006 due to the increase in assets of the separate accounts as previously mentioned.

The provision for income taxes for the year ended December 31, 2007 amounted to \$98 million compared to \$198 million for the year ended December 31, 2006. The taxes in 2007 and in 2006 are lower than the statutory rate due to the separate account dividends received deductions, utilization of low income housing and other non-taxable investment income.

Assets

As of June 30, 2009, the Company had total assets of \$93.4 billion as compared to \$89.7 billion as of December 31, 2008. This increase in total assets is primarily from an increase in separate account assets from \$41.5 billion at December 31, 2008 to \$45.2 billion at June 30, 2009. Total investments also increased from \$36.7 billion as of December 31, 2008 to \$38.1 billion due to increases in fixed maturity securities of \$1.4 billion and mortgage loans of \$0.4 billion, partially offset by decreases in policy loans of \$0.4 billion. See the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report for additional information.

As of December 31, 2008, the Company had total assets of \$89.7 billion as compared to \$104.5 billion as of December 31, 2007. This decrease in total assets is primarily from the decrease in separate account assets from \$57.6 billion as of December 31, 2007 to \$41.5 billion as of December 31, 2008, which was primarily the result of the negative equity market in 2008. Total investments also decreased from \$40.4 billion at December 31, 2007 to \$36.7 billion at December 31, 2008, primarily as a result of lower estimated fair values due to an increase in net unrealized losses. General spread widening on fixed maturity investments caused by the recent disruption in the financial markets led to the decrease in estimated fair values. Partially offsetting these decreases was an increase in mortgage loan investments of \$1.0 billion and an increase to cash and cash equivalents of \$2.8 billion. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated as of April 29, 2009 for additional information on investments.

As of December 31, 2007, the Company had total assets of \$104.5 billion as compared to \$93.2 billion as of December 31, 2006. This increase in total assets is primarily from the increase in separate account assets from \$48.9 billion at December 31, 2006 to \$57.6 billion at December 31, 2007. In addition, total general account investments increased from \$37.4 billion at December 31, 2006 to \$40.4 billion at December 31, 2007.

Liabilities

As of June 30, 2009, the Company had total liabilities of \$88.2 billion as compared to \$85.5 billion as of December 31, 2008. This increase in total liabilities is primarily from the issuance by Pacific Life of an aggregate principal amount of \$1.0 billion in surplus notes in June 2009 and an increase in separate account liabilities from \$41.5 billion at December 31, 2008 to \$45.2 billion at June 30, 2009. See the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report for additional information, including information about Pacific Life's issuance of an aggregate principal amount of \$1.0 billion in surplus notes in June 2009.

As of December 31, 2008, the Company had total liabilities of \$85.5 billion as compared to \$97.7 billion as of December 31, 2007. This decrease in total liabilities is primarily from the decrease in separate account liabilities from \$57.6 billion at December 31, 2007 to \$41.5 billion at December 31, 2008, which is consistent with the decrease in separate account assets described above. This decrease was offset by an increase to future policy benefits of \$3.8 billion.

As of December 31, 2007, the Company had total liabilities of \$97.7 billion as compared to \$86.8 billion as of December 31, 2006. This increase in total liabilities is primarily from the increase in separate account liabilities from \$48.9 billion at December 31, 2006 to \$57.6 billion at December 31, 2007. Additionally, the remainder of the increase in liabilities is from policyholder account balances, future policy benefits, an increase in commercial paper borrowings and an increase in non-recourse long-term debt related to subsidiary real estate.

Liquidity and Capital Resources

The Company's principal capital resources come from insurance premiums, deposits to policyholder account balances, investment income, sales, maturities, calls and principal repayments of investments and cash flows from

other operations. The principal uses of these funds are investment purchases, payment of policy acquisition costs, payment of policyholder benefits, withdrawal of policyholder account balances, income taxes and current operating expenses. Remaining funds not used as noted above are generally used to increase the asset base, to provide funds to meet the need for future policy benefit payments and for writing new business. As described below, total cash and cash equivalents decreased \$37 million during the 2009 Period as compared to an increase of \$616 million during the 2008 Period and increased \$2,833 million during 2008 as compared to a decrease of \$820 million during 2007.

Net cash provided by operating activities was \$949 million during the 2009 Period as compared to \$842 million in the 2008 Period and was \$2,081 million during 2008 and \$2,052 million in 2007. Net cash provided by operating activities can vary depending on the level and type of sales, particularly those of annuity and other investment-type products. For example, sales of universal life insurance products and investment-type products result in cash flows that are predominantly shown as cash flow from financing activities rather than as cash flow from operations, while sales of variable products result in cash flows that are predominantly reflected in the separate accounts and are not a part of the cash flow statement.

Net cash provided by (used in) investing activities was (\$1,496) million during the 2009 Period as compared to (\$457) million in the 2008 Period and was \$1,448 million during 2008 as compared to (\$2,874) million during 2007. Due to the financial environment, the Company reduced purchases of fixed maturity and equity securities during 2008 resulting in increased investing cash flow. It is the Company's objective to remain fully invested in assets with maturities and yields that it believes are matched to its product liabilities. As assets mature, are redeemed or are sold, the Company evaluates the available investment alternatives, reinvests according to existing and expected product liabilities as well as seeks to ensure that sufficient marketable assets and other sources of liquidity are in place to provide for large unexpected demands for cash. Discrepancies between the timing of financial statement preparation and the timing of reinvestment activity sometimes result in the presentation of levels of short-term investments that are not typical of day-to-day operations. These short-term investments are considered cash equivalents.

Net cash provided by (used in) financing activities was \$510 million during the 2009 Period as compared to \$231 million in the 2008 Period and was (\$696) million during 2008 as compared to \$2 million during 2007. The increase in the 2009 Period as compared to the 2008 Period primarily relates to the issuance by Pacific Life of an aggregate principal amount of \$1.0 billion in surplus notes in June 2009, partially offset by an increase in policyholder account balance withdrawals. The decrease in 2008 as compared to 2007 is due to the \$345 million cash dividend paid by Pacific Life to Pacific LifeCorp during 2008. Also, changes in universal life and investment-type product account balances and changes in short-term debt are additional drivers of the change in cash flows from financing.

The payment of dividends by Pacific Life to Pacific LifeCorp is subject to restrictions set forth in the insurance laws of the State of Nebraska. Under these laws, Pacific Life must deliver notice to the Nebraska Department of Insurance of any dividend to Pacific LifeCorp within five business days after declaration of the dividend, and may not pay the dividend to Pacific LifeCorp within the ten business day period following delivery of such notice unless the Nebraska Department of Insurance approves payment of the dividend within such ten business day period. In addition, Pacific Life may not pay an "extraordinary dividend" to Pacific LifeCorp until the Nebraska Department of Insurance has either (i) approved the payment of the dividend or (ii) not disapproved the payment of the dividend within thirty days after receiving notice of the declaration of the dividend. For purposes of applicable Nebraska law, an "extraordinary" dividend or distribution is a dividend or distribution of cash or other property with a fair market value that, together with that of other dividends or distributions made by Pacific Life to Pacific LifeCorp within the preceding twelve months, exceeds the greater of either (i) 10% of Pacific Life's statutory policyholders surplus as of the preceding December 31 or (ii) Pacific Life's statutory net gain from operations for the twelve month period ending the preceding December 31. Based on the 2008 statutory results, Pacific Life could pay \$256 million in ordinary dividends during 2009, subject to the ten business day notice period described above. Dividends in excess of such amount would be considered extraordinary dividends for purposes of Nebraska law and would be subject to the thirty day notice and non-disapproval requirement described above. No dividends were paid by Pacific Life during the 2009 Period or during 2007. During 2008, Pacific Life paid a cash dividend to Pacific LifeCorp of \$345 million. During 2006, Pacific Life paid dividends of \$185 million to Pacific LifeCorp consisting of \$169 million in cash and a real estate investment with an estimated fair value of \$16 million.

Liquidity Sources and Requirements

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

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

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

	June 30, 2009		December 31, 2008	
	Amount	% of Total	Amount	% of Total
	(\$ in millions)			
Subject to discretionary withdrawal:				
With fair value adjustment.....	\$ 3,633	6%	\$ 2,263	4%
At book value less current surrender charge of 5% or more	1,313	2%	1,923	3%
At fair value	<u>38,187</u>	<u>67%</u>	<u>35,114</u>	<u>63%</u>
Total with adjustment or at fair value.....	43,133	75%	39,300	70%
At book value without adjustment.....	2,381	4%	1,790	3%
Not subject to discretionary withdrawal	<u>12,182</u>	<u>21%</u>	<u>14,816</u>	<u>27%</u>
Total (gross).....	57,696	<u>100%</u>	55,906	<u>100%</u>
Reinsurance ceded	128		409	
Total (net)	<u>\$ 57,568</u>		<u>\$ 55,497</u>	

As noted in the table above, as of June 30, 2009 and December 31, 2008, only 4% and 3%, respectively, of these liabilities were subject to withdrawal at book value without adjustment. The other 96% and 97% of these liabilities as of June 30, 2009 and December 31, 2008, respectively, were either subject to withdrawal with an adjustment or at fair value or were not subject to discretionary withdrawal. The products are designed in this manner to discourage early withdrawals and protect Pacific Life from liquidity risks. Pacific Life believes the structuring of liabilities in this manner provides it with a stable block of liabilities that reduces its exposure to unexpected cash withdrawals and demands and the adverse financial effects that could occur as a result.

In June 2009, Pacific Life issued an aggregate principal amount of \$1.0 billion in surplus notes maturing on June 15, 2039. Pacific Life is required to pay interest on these surplus notes at an annual rate of 9.25% subject to regulatory approval. Pacific Life also has outstanding \$150 million of surplus notes due December 30, 2023 on which Pacific Life is required to pay interest at an annual rate of 7.90%, subject to regulatory approval.

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

Additional sources of liquidity include facilities for short-term borrowing to meet working capital requirements. Pacific Life maintains a \$700 million commercial paper program. There were no borrowings outstanding under the commercial paper program as of June 30, 2009 and December 31, 2008. As of December 31, 2007, there was \$100 million outstanding under the commercial paper program. In addition, a bank revolving credit facility totaling \$400 million is also in place that serves as a back-up line of credit for the commercial paper program. The credit facility matures in June 2012 and does not contain a material adverse change clause. This facility had no debt outstanding as of June 30, 2009 and December 31, 2008 and 2007. As of June 30, 2009 and December 31, 2008 and 2007, and for the six months ended June 30, 2009 and years ended December 31, 2008 and 2007, Pacific Life was in compliance with its debt covenants related to this credit facility.

PL&A maintains a \$40 million reverse purchase line of credit with a commercial bank. These borrowings are at variable rates of interest based on collateral and market conditions. There was no debt outstanding in connection with this line of credit as of June 30, 2009 and December 31, 2008 and 2007.

Pacific Life is a member of the FHLB of Topeka. Pacific Life has approval from the FHLB of Topeka to borrow amounts up to 40% of Pacific Life's statutory general account assets provided it has available collateral and is in compliance with debt covenant restrictions and insurance laws and regulations. There was no debt outstanding with the FHLB of Topeka as of June 30, 2009 and December 31, 2008 and 2007. Assets with an estimated fair value of \$2.2 billion as of June 30, 2009 are in a custodial account with the FHLB of Topeka pledged as collateral. Due to rating downgrades during 2009 of eligible collateral, the Company's borrowing capacity declined from \$1.0 billion as of December 31, 2008 to \$25 million as of June 30, 2009. As of July 31, 2009, the borrowing capacity increased to \$497 million as a result of changes to eligible collateral and a \$150 million advance repayment.

PL&A is a member of the FHLB of San Francisco. PL&A is eligible to borrow from the FHLB of San Francisco amounts based on a percentage of statutory capital and surplus and could borrow amounts up to \$70 million. Of this amount, half, or \$35 million, can be borrowed for terms other than overnight, out to a maximum term of nine months. These borrowings are at variable rates of interest, collateralized by certain mortgage loan and government securities. As of June 30, 2009 and December 31, 2008 and 2007, PL&A had no debt outstanding with the FHLB of San Francisco.

Dividends and Distributions from Subsidiaries

In recent years, the subsidiaries of Pacific Life have provided other sources of liquidity through the payment of distributions and dividends. Of the principal subsidiaries, only Pacific Asset Holding LLC ("PAH"), a wholly-owned subsidiary of Pacific Life, has recently made cash distributions to Pacific Life. Dividends received from other subsidiaries of Pacific Life have been nominal during the past few years.

Operating cash flow for PAH has been generated by the cash distributions from and sales of the interest in PIMCO owned by PAH. These cash distributions from the interest in PIMCO are the primary source of distributions that PAH pays to Pacific Life. In connection with the exercise of the final put option of the Company's interest in PIMCO, as noted above, PAH made distributions to Pacific Life of \$300 million during the year ended December 31, 2008. PAH paid distributions to Pacific Life of \$12 million during the year ended December 31, 2007. PAH paid no distributions to Pacific Life during the six months ended June 30, 2009.

The payment of dividends by PL&A to Pacific Life is subject to restrictions set forth in the Arizona insurance laws. These laws require that PL&A notify the Arizona Department of Insurance of the declaration of any dividend to be paid by PL&A to Pacific Life. PL&A may not pay an "extraordinary" dividend to Pacific Life until the Arizona Department of Insurance has either (i) approved the payment of the dividend or (ii) not disapproved the payment of the dividend within thirty days after receiving notice of the declaration of the dividend. For purposes of applicable Arizona law, an "extraordinary" dividend or distribution is a dividend or distribution of cash or other property whose fair market value, together with that of other dividends or distributions made by PL&A to Pacific Life within the preceding twelve months, exceeds the lesser of either (i) 10% of PL&A's statutory policyholders surplus with respect to policyholders as of the preceding December 31 or (ii) PL&A's statutory net gain from operations for the twelve month period ending the preceding December 31. PL&A would be unable to pay ordinary dividends in 2009 based on 2008 statutory results. Any dividends paid by PL&A in 2009 would be considered extraordinary dividends for purposes of Arizona law and would be subject to the thirty day notice and non-disapproval requirement

described above. PL&A did not pay any dividends to Pacific Life during the six months ended June 30, 2009 or 2008 or for the years ended December 31, 2008 or 2007.

General

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

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

Effects of Interest Rate Changes

Interest rate changes may affect the sale and profitability of the life insurance, institutional and annuity products the Company offers. The Company monitors interest rates and sells life insurance, institutional and annuity products that permit flexible responses to interest rate changes as part of its management of interest spreads. However, the profitability of its products is not based solely upon interest rate spreads but also on persistency, mortality and expenses.

The Company manages its investment portfolio in part to reduce its exposure to interest rate fluctuations. In general, the market value of the Company's fixed maturity portfolio increases or decreases in an inverse relationship with fluctuations in interest rates.

The Company has emphasized interest-sensitive life insurance and institutional products and has developed an asset/liability management approach that utilizes option-adjusted analysis to manage the interest-rate sensitivities for each of its major product business units and for the portfolio as a whole. The Company utilizes cash flow matching for known cash inflows and outflows and considers numerous potential stress scenarios to determine the impact of changing interest rates on earnings and equity.

In force reserves and the assets allocated to each identified business unit are modeled on a regular basis to analyze projected cash flows under a variety of economic scenarios. The results of this modeling are used to modify asset allocation, investment portfolio duration and renewal crediting strategies. The Company may utilize interest rate swaps, floors, caps and options to hedge interest rate risk and reduce the impact of fluctuations in market prices. The Company has in place stringent guidelines that limit the potential exposure to derivatives and control the selection of derivative counterparties. For further discussion and disclosure of the nature and extent of the Company's use of derivatives, see the Audited GAAP Financial Statements included in the Annual Report of PLF dated as of April 29, 2009.

Prospects for the Remainder of 2009

The Company believes that the remainder of 2009 will continue to be challenging. Even though the Company believes its investment portfolio is diversified, continued stress in financial markets and recessionary global economic conditions have continued to impact the Company. As discussed above and in the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report, the Company completed a \$1.0 billion surplus note offering in June 2009, however, this may not be indicative of the Company's ability to access capital markets in the future. Negative market conditions may limit the Company's ability to refinance existing credit facilities and access the capital necessary to grow the business. The Company's business, results of operations, financials condition, and cash flows could be materially adversely affected by future disruptions in the financial markets. Fluctuations in the fixed income or equity markets could result in investment losses that impact the Company's consolidated financial condition and results of operations through realized and unrealized losses.

In addition, given recent events involving certain financial institutions and the financial markets, it is possible that the U.S. federal government will impose a federal system of insurance regulation or otherwise increase federal oversight of the business activities in which the Company engages. Similarly, state insurance regulators in the U.S. continually reexamine existing laws and regulations, and may adopt changes as a result of recent financial market

turmoil that place additional regulatory burdens on the Company. The Company cannot predict whether these initiatives will be adopted, or what impact, if any, such initiatives could have on the Company's business, results of operations and financial condition.

Principal Risks and Uncertainties

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

- continued downturns and volatility in the equity and credit markets and the global economy;
- fluctuations in reserves relating to the Company's guaranteed minimum benefit riders together with changes in the valuation of derivatives, including derivatives entered into in connection with these guaranteed minimum benefit riders;
- changes in interest rates which may reduce profitability, negatively affect liquidity and significantly affect the value of the Company's fixed maturity investment portfolio;
- adverse capital and credit market conditions which may significantly affect the Company's access to capital and affect the Company's ability to meet liquidity needs or refinancing requirements in the future;
- losses due to defaults by others, including issuers of investment securities or reinsurance and derivative counterparties;
- the ability of the U.S. government, the Federal Reserve and other governmental and regulatory bodies to act successfully to stabilize the financial markets;
- adverse regulatory developments;
- new accounting rules, changes to existing accounting rules or the grant of permitted accounting practices to the Company's competitors;
- downgrades or potential downgrades in Pacific Life's ratings;
- strong competition in the Company's business;
- changes in tax laws and the interpretation thereof;
- deviations from assumptions regarding future persistency, mortality and interest rates used in calculating reserve amounts;
- deviations from assumptions regarding future persistency, mortality and interest rates used in pricing the Company's products;
- significant market valuation fluctuations of the Company's investments that are relatively illiquid;
- subjectivity in valuation of fixed maturity, equity and trading securities;
- sensitivity of the statutory risk-based capital the Company is required to hold to factors outside of the Company's control;
- market capacity constraints on statutory reserve financings;

- unavailability of separate accounts assets to fund general account liabilities;
- litigation and regulatory investigations;
- lack of available, affordable or adequate reinsurance;
- inability of Pacific LifeCorp, the parent company of Pacific Life, to access its credit facilities;
- inability to attract and retain key personnel;
- acceleration of the amortization of deferred policy acquisition costs;
- impact of current international tensions between the U.S. and other nations, including any terrorist attack, or on-going military and other actions, or a large-scale pandemic;
- requirements to post collateral or make payments related to declines in market value of specified assets;
- exposure to unidentified or unanticipated risks;
- a computer system failure or security breach; and
- global climate changes.

Recently Adopted Accounting Pronouncements

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

Future Adoption of New Accounting Pronouncements

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

Legal Proceedings

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

Although the Company is confident of its position in these matters, success is not a certainty and it is possible that in any case a judge or jury could rule against the Company. In the opinion of management, the outcome of such proceedings is not likely to have a material adverse effect on the Company's consolidated financial position. The Company believes adequate provision has been made in its consolidated financial statements for all probable and estimable losses for litigation and indemnification claims against the Company. For a further discussion, see Note 16 to Pacific Life's Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report.

Ratings

An insurer's financial strength rating represents an opinion by the issuing agency regarding the ability of an insurance company to meet its financial obligations to its policyholders and contract holders. A rating is an opinion of the rating agency only and not a statement of fact or recommendation to purchase, sell or hold any security,

policy or contract. These ratings do not imply approval of the Company's products and do not reflect any indication of their performance. There can be no assurance that Pacific Life's ratings will continue for any given period of time or that they will not be adjusted or withdrawn. A negative outlook indicates that the rating could change based on certain future events relating to the financial condition of the rated entity. Pacific Life's financial strength ratings and outlook as of the date of this Semi-annual Report are set forth in the chart below.

<u>Rating Agency</u>	<u>Rating</u>	<u>Rating Structure</u>	<u>Ratings Outlook</u>
Moody's Investors Service, Inc.	A1 (Good)	Fifth highest of 21 ratings	Negative
Standard and Poor's Rating Services	AA- (Very strong)	Fourth highest of 21 ratings	Negative
Fitch Ratings	AA- (Very strong)	Fourth highest of 21 ratings	Negative
A.M. Best Company, Inc.	A+ (Superior)	Second highest of 16 ratings	Negative

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

Employees

As of June 30, 2009, the Company had over 2,500 employees. None of the Company's employees are covered by a collective bargaining agreement. The Company believes that its employee relations are satisfactory.

Properties

The Company's principal administrative offices are located at 700 Newport Center Drive, Newport Beach, California, in a 285,000 square-foot office building it owns. The Company also leases office space at various locations throughout the U.S. Other principal leases include other subsidiary home offices, regional life and other sales offices and storage facilities. In March 2007, the Company began construction for a new office building in Aliso Viejo, California that was completed in February 2008. The Company believes that its facilities are adequate for its present needs in all material respects.

STATEMENT OF RESPONSIBILITY

Pacific Life Funding, LLC

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

- the financial statements of PLF included in this Semi-annual Report were prepared in accordance with U.S. GAAP and give a true and fair view of the assets, liabilities, financial position and profit or loss of PLF as of June 30, 2009 and for the six months ended June 30, 2009; and
- this Semi-annual Report includes a fair review of the development and performance of the business and position of PLF during the six months ended June 30, 2009, including the principal risks and uncertainties faced by PLF.

Dated: *August 31, 2009*

/s/ Martin Couch
Martin Couch
Director

/s/ Dianne Scott
Dianne Scott
Director

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

**Unaudited GAAP Condensed Financial Statements of Pacific Life Funding, LLC as of June 30,
2009 and for the six months ended June 30, 2009 and 2008**

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**Unaudited GAAP Condensed Consolidated Financial Statements of Pacific Life Insurance
Company and Subsidiaries as of June 30, 2009 and December 31, 2008 and for the six months
ended June 30, 2009 and 2008**

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Pacific Life Funding, LLC

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

June 30,
2009

ASSETS

Cash and cash equivalents	\$25,589
Funding agreements	1,934,443,673

TOTAL ASSETS **\$1,934,469,262**

LIABILITIES AND MEMBER'S EQUITY

Liabilities:

Notes payable	\$1,934,443,673
TOTAL LIABILITIES	1,934,443,673

Member's Equity:

Share capital	1,000
Retained earnings	24,589
TOTAL MEMBER'S EQUITY	25,589

TOTAL LIABILITIES & MEMBER'S EQUITY **\$1,934,469,262**

See Notes to Condensed Financial Statements

Pacific Life Funding, LLC

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

	Six Months Ended	
	June 30,	
	2009	2008
<hr/>		
INCOME		
Interest on funding agreements	\$66,082,756	\$101,384,177
Foreign exchange gain on notes issued	139,319,282	28,959,022
Other	-	71
TOTAL INCOME	205,402,038	130,343,270
<hr/>		
EXPENSES		
Interest on notes issued	66,082,756	101,384,177
Foreign exchange loss on funding agreements	139,319,282	28,959,022
TOTAL EXPENSES	205,402,038	130,343,199
<hr/>		
NET INCOME	\$0	\$71
<hr/>		
RETAINED EARNINGS, BEGINNING OF PERIOD	\$24,589	\$24,495
Net income	-	71
RETAINED EARNINGS, END OF PERIOD	\$24,589	\$24,566

See Notes to Condensed Financial Statements.

Pacific Life Funding, LLC

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

	Six Months Ended	
	June 30,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$0	\$71
NET CASH PROVIDED BY OPERATING ACTIVITIES	-	71
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of funding agreements	629,863,411	326,546,498
NET CASH PROVIDED BY INVESTING ACTIVITIES	629,863,411	326,546,498
CASH FLOWS FROM FINANCING ACTIVITIES:		
Redemption of notes payable	(629,863,411)	(326,546,498)
NET CASH USED IN FINANCING ACTIVITIES	(629,863,411)	(326,546,498)
NET CHANGE IN CASH AND CASH EQUIVALENTS	-	71
Cash and cash equivalents, beginning of period	25,589	25,495
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$25,589	\$25,566
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$94,337,563	\$140,455,211

See Notes to Condensed Financial Statements

Pacific Life Funding, LLC

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Expressed in United States Dollars)

(Unaudited)

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

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

The Company has established a program (the Program) for the issuance of up to \$8,000,000,000 of debt instruments. Each series or tranche of instruments issued under the Program is secured by a funding agreement (the Funding Agreements) entered into between the Company and Pacific Life Insurance Company (Pacific Life), a stock life insurance company domiciled in the State of Nebraska. The Company has funded its investment in the Funding Agreements through the issuance of notes payable (Note 5). The creation and issuance of each series of notes is governed by an indenture dated April 15, 1998, as supplemented between the Company, Banque Generale du Luxembourg S.A. as Transfer Agent and Paying Agent, and The Bank of New York as trustee.

2. BASIS OF PRESENTATION

The information set forth in the accompanying condensed balance sheet as of June 30, 2009 and the accompanying condensed statements of operations and retained earnings and cash flows for the six months ended June 30, 2009 and 2008 is unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted. The information presented reflects all adjustments, including normal recurring adjustments that, in the opinion of management, are necessary to present fairly the financial position and results of operations of Pacific Life Funding, LLC for the periods indicated. Results of operations for the interim periods presented are not necessarily indicative of the results of operations for the full year.

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

The Company has evaluated events subsequent to June 30, 2009 and through August 27, 2009, the date the condensed financial statements were available to be issued. The Company has not evaluated subsequent events after that date for presentation in these condensed financial statements.

3. NEW ACCOUNTING PRONOUNCEMENTS

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Effective June 30, 2009, the Company adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standard (SFAS) No. 165, *Subsequent Events*. This statement's objective is to establish general standards of accounting for and disclosure of events that occur after the statement of financial condition date but before financial statements are issued. Companies are required to disclose the date through which subsequent events were evaluated as well as the date the financial statements were available to be issued. Adoption of this statement did not have any impact on the Company's condensed financial statements. See Note 2 for expanded disclosure.

In April 2009, the FASB issued FASB Staff Position (FSP) Financial Accounting Standards (FAS) 107 and Accounting Pronouncements Board (APB) 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This FSP amends SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about the fair value of financial instruments for interim reporting periods as well as in annual financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. FSP FAS 107 and APB 28-1 is applicable to public companies only. The Company did not adopt this FSP, and therefore, it had no impact on the Company's condensed financial statements.

Effective January 1, 2008, the Company adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115*. This statement permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The Company did not elect the fair value option on any of the eligible assets or liabilities. Therefore, adoption of SFAS No. 159 had no impact on the Company's condensed financial statements.

Effective January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements*. This statement creates a common definition of fair value to be used throughout U.S. GAAP. SFAS No. 157 will apply whenever another standard requires or permits assets or liabilities to be measured at fair value, with certain exceptions. The standard establishes a hierarchy for determining fair value, which emphasizes the use of observable market data whenever available. The statement also requires expanded disclosures, which include the extent to which assets and liabilities are measured at fair value, the methods and assumptions used to measure fair value and the effect of fair value measures on earnings. The adoption of SFAS No. 157 had no impact on the Company's condensed financial statements.

FUTURE ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. This standard identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements that are presented in conformity with U.S. GAAP. SFAS No. 168 established the FASB Accounting Standards Codification (Codification) as the single source of authoritative accounting principles recognized by the FASB in the preparation of financial statements in conformity with U.S. GAAP. Codification does not create new accounting and reporting guidance rather it reorganizes U.S. GAAP pronouncements into approximately 90 topics within a consistent structure. All guidance contained in the Codification carries an equal level of authority. Relevant portions of authoritative content, issued by the U.S. Securities and Exchange Commission (SEC), for SEC registrants, have been included in the Codification. After the effective date of SFAS No. 168,

all nongrandfathered, non-SEC accounting literature not included in the Codification is superseded and deemed nonauthoritative. SFAS No. 168 is effective for the Company as of September 30, 2009, and will change how the Company references U.S. GAAP in its condensed financial statements.

4. TRANSACTIONS WITH AFFILIATES

In addition to purchases of Funding Agreements from Pacific Life, certain operating expenses of the Company are paid directly by Pacific Life. During the six months ended June 30, 2009 and 2008, Pacific Life paid \$238,000 and \$283,000, respectively, on behalf of the Company for general operating and administrative expenses.

5. FUNDING AGREEMENTS/NOTES PAYABLE

Each series of notes payable issued under the Program is secured by one or more Funding Agreements. Under the terms of the Funding Agreements, Pacific Life agrees to accept, and the Company agrees to pay, net proceeds from the issuance of notes payable under the Program. The notes of one series do not have any right to receive payments under a funding agreement related to any other series of notes. Therefore, the Company is only able to make timely payments with respect to a series of notes payable if Pacific Life has made all required payments under the Funding Agreements securing such series of notes payable.

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

The Instruments may be interest bearing or non-interest bearing, and any interest may accrue at either a fixed or floating rate. The notes mature on dates ranging from July 2009 to September 2021.

The following schedule details the notes payable outstanding as of June 30, 2009. The detail schedule for the Funding Agreements is not included, but would contain similar information, except that the schedule would reflect the investments and receivables related to the Instruments.

5. FUNDING AGREEMENTS/NOTES PAYABLE (CONTINUED)

June 30, 2009:

<u>Issue</u>	<u>Currency</u>	<u>Principal Denominated in Currency of Issuance</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Accrued Interest</u>	<u>Foreign Currency Gains (Losses)</u>	<u>Carrying Value</u>
Series 5 Tranche 1	NLG	106,000,000	7/15/2009	5.15 %	\$1,606,757	\$15,660,663	\$69,228,204
Series 11 Tranche 1	EUR	36,500,000	3/12/2019	4.70 %	730,224	10,433,773	52,043,997
Series 20 Tranche 1	EUR	10,000,000	12/30/2009	(A)	1,256	3,558,568	14,059,824
Series 23 Tranche 1	EUR	100,000,000	12/12/2011	(B)	4,120,918	37,335,680	144,706,598
Series 25 Tranche 1	EUR	90,000,000	8/17/2011	6.08 %	6,702,262	35,672,112	133,229,374
Series 26 Tranche 1	JPY	3,000,000,000	1/26/2010	2.00 %	269,955	2,949,600	31,619,555
Series 31 Tranche 1	CHF	100,000,000	6/30/2010	4.75 %	12,179	32,181,426	92,224,821
Series 33 Tranche 1	USD	28,560,000	9/15/2021	6 mth USD LIBOR + .40 %	195,558	-	28,755,558
Series 36 Tranche 1	EUR	29,000,000	9/29/2020	3 mth EURIBOR + .37 %	3,437	15,351,318	40,772,755
Series 39 Tranche 1	GBP	25,000,000	12/7/2015	5.81 %	160,356	5,871,550	41,531,906
Series 40 Tranche 1	EUR	27,000,000	2/5/2021	3 mth EURIBOR + .43 %	107,880	12,646,425	38,066,805
Series 41 Tranche 1	GBP	200,000,000	2/8/2011	6.25 %	8,216,849	35,972,397	339,189,246
Series 47 Tranche 1	GBP	150,000,000	8/16/2013	6.00 %	13,016,736	34,228,798	261,245,534
Series 47 Tranche 2	GBP	50,000,000	8/16/2013	6.00 %	4,338,912	9,843,099	87,082,011
Series 61 Tranche 1	USD	72,257,000	12/20/2009	4.47 %	342,637	-	14,852,078
Series 62 Tranche 1	USD	43,473,000	12/20/2009	4.47 %	207,424	-	8,991,327
Series 63 Tranche 1	USD	111,146,000	12/20/2010	5.28 %	2,178,615	-	81,093,167
Series 65 Tranche 1	USD	30,645,000	12/20/2009	4.54 %	147,644	-	6,305,117
Series 66 Tranche 1	HKD	160,000,000	7/31/2014	5.00 %	175,341	45,028	20,820,369
BALANCE TO CARRYFORWARD					\$42,534,940	\$251,750,437	\$1,505,818,246

5. FUNDING AGREEMENTS/NOTES PAYABLE (CONTINUED)

June 30, 2009 (Continued):

<u>Issue</u>	<u>Currency</u>	Principal Denominated in <u>Currency of Issuance</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Accrued Interest</u>	<u>Foreign Currency Gains (Losses)</u>	<u>Carrying Value</u>
CARRYFORWARD BALANCE					\$42,534,940	\$251,750,437	\$1,505,818,246
Series 67 Tranche 1	GBP	200,000,000	1/20/2015	5.13 %	7,528,489	(44,027,603)	338,500,886
Series 68 Tranche 1	HKD	200,000,000	1/26/2015	4.28 %	205,772	142,228	26,012,057
Series PLF003 Tranche 1	EUR	25,358,000	2/15/2014	4.00 %	531,327	2,430,738	36,181,045
Series PLF005 Tranche 1	EUR	200,000	2/15/2010	3.15 %	3,300	21,971	284,471
Series PLF007 Tranche 1	GBP	1,010,000	2/15/2013	5.00 %	3,714	(234,964)	1,675,125
Series PLF012 Tranche 1	EUR	10,000,000	3/15/2015	3.80 %	158,072	1,198,568	14,216,640
Series PLF014 Tranche 1	GBP	256,000	3/15/2013	4.80 %	904	(60,631)	424,548
Series PLF015 Tranche 1	GBP	500,000	5/15/2013	5.00 %	1,839	(130,818)	829,271
Series PLF019 Tranche 1	EUR	5,016,000	6/15/2017	4.00 %	12,365	711,552	7,064,141
Series PLF025 Tranche 1	GBP	250,000	7/15/2010	4.55 %	8,613	(39,410)	422,328
Series PLF029 Tranche 1	GBP	650,000	11/15/2013	4.65 %	2,223	(83,289)	1,077,884
Series PLF031 Tranche 1	EUR	1,350,000	12/15/2015	3.80 %	39,123	318,272	1,937,031
TOTAL					\$51,030,681	\$211,997,051	\$1,934,443,673

5. FUNDING AGREEMENTS/NOTES PAYABLE (CONTINUED)

(A) Interest shall be calculated at 87% of the mid spot ten-year EUR fixed versus six-month EUR EURIBOR swap rate.

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

6. SHARE CAPITAL

Authorized:

50,000 ordinary shares of US\$1 par value each

Issued and fully paid:

1,000 ordinary shares of US\$1 par value each

As of June 30, 2009, 1,000 ordinary shares had been issued at par to QSPV Limited, the trustee of the Charitable Trust.

Pacific Life Insurance Company and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

	June 30, 2009	December 31, 2008
<i>(In Millions)</i>		
ASSETS		
Investments:		
Fixed maturity securities available for sale, at estimated fair value	\$23,308	\$21,942
Equity securities available for sale, at estimated fair value	240	216
Mortgage loans	6,053	5,622
Policy loans	6,539	6,920
Other investments	1,978	2,045
TOTAL INVESTMENTS	38,118	36,745
Cash and cash equivalents	3,317	3,354
Deferred policy acquisition costs	4,429	5,012
Other assets	2,370	3,046
Separate account assets	45,193	41,505
TOTAL ASSETS	\$93,427	\$89,662
LIABILITIES AND EQUITY		
Liabilities:		
Policyholder account balances	\$32,724	\$32,670
Future policy benefits	7,853	9,841
Long-term debt	1,317	328
Other liabilities	1,123	1,120
Separate account liabilities	45,193	41,505
TOTAL LIABILITIES	88,210	85,464
Commitments and contingencies (Note 16)		
Stockholder's Equity:		
Common stock - \$50 par value; 600,000 shares authorized, issued and outstanding	30	30
Paid-in capital	505	505
Retained earnings	5,684	5,130
Accumulated other comprehensive loss	(1,185)	(1,679)
Total Stockholder's Equity	5,034	3,986
Noncontrolling interest	183	212
TOTAL EQUITY	5,217	4,198
TOTAL LIABILITIES AND EQUITY	\$93,427	\$89,662

See Notes to Condensed Consolidated Financial Statements

Pacific Life Insurance Company and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Six Months Ended June 30,	
	2009	2008
	<i>(In Millions)</i>	
REVENUES		
Policy fees and insurance premiums	\$1,175	\$1,021
Net investment income	904	1,039
Net realized investment gain	897	62
Other than temporary impairments, consisting of \$556 in total, net of \$354 recognized in other comprehensive income (loss) for the six months ended June 30, 2009	(202)	(54)
Realized investment gain on interest in PIMCO		109
Investment advisory fees	93	146
Other income	57	67
TOTAL REVENUES	2,924	2,390
BENEFITS AND EXPENSES		
Interest credited to policyholder account balances	619	617
Policy benefits paid or provided	764	567
Commission expenses	681	427
Operating expenses	395	379
TOTAL BENEFITS AND EXPENSES	2,459	1,990
INCOME FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES	465	400
Provision for income taxes	100	89
INCOME FROM CONTINUING OPERATIONS	365	311
Discontinued operations, net of taxes	(13)	(2)
Net income	352	309
Less: net (income) loss attributable to the noncontrolling interest from continuing operations	27	(3)
NET INCOME ATTRIBUTABLE TO THE COMPANY	\$379	\$306

See Notes to Condensed Consolidated Financial Statements

Pacific Life Insurance Company and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss) Unrealized Gain (Loss) On Derivatives and Securities Available for Sale, Net	Other, Net	Total Stockholder's Equity	Noncontrolling Interest	Total Equity
<i>(In Millions)</i>								
BALANCES, JANUARY 1, 2008	\$30	\$505	\$5,814	\$186	\$46	\$6,581	\$181	\$6,762
Comprehensive income (loss):								
Net income			306			306	3	309
Other comprehensive loss, net				(691)	(66)	<u>(757)</u>		<u>(757)</u>
Total comprehensive loss						<u>(451)</u>		<u>(448)</u>
Dividend to parent			(345)			(345)		(345)
Contributions, net, from noncontrolling interest							24	24
BALANCES, JUNE 30, 2008	\$30	\$505	\$5,775	(\$505)	(\$20)	\$5,785	\$208	\$5,993
BALANCES, JANUARY 1, 2009	\$30	\$505	\$5,130	(\$1,628)	(\$51)	\$3,986	\$212	\$4,198
Cumulative effect of adoption of new accounting principle, net of tax			175	(170)		5		5
REVISED BALANCES JANUARY 1, 2009	30	505	5,305	(1,798)	(51)	3,991	212	4,203
Comprehensive income (loss):								
Net income (loss)			379			379	(27)	352
Other comprehensive income, net				662	2	<u>664</u>		<u>664</u>
Total comprehensive income						1,043		1,016
Distributions, net, to noncontrolling interest							(2)	(2)
BALANCES, JUNE 30, 2009	\$30	\$505	\$5,684	(\$1,136)	(\$49)	\$5,034	\$183	\$5,217

See Notes to Condensed Consolidated Financial Statements

Pacific Life Insurance Company and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES	<i>(In Millions)</i>	
Net income excluding discontinued operations	\$365	\$311
Adjustments to reconcile net income excluding discontinued operations to net cash provided by operating activities:		
Net accretion on fixed maturity securities	(73)	(71)
Depreciation and other amortization	23	27
Deferred income taxes	211	88
Net realized investment gain	(897)	(62)
Other than temporary impairments	202	54
Realized investment gain on interest in PIMCO		(109)
Net change in deferred policy acquisition costs	368	(59)
Interest credited to policyholder account balances	619	617
Change in future policy benefits and other insurance liabilities	85	340
Other operating activities, net	61	(278)
NET CASH PROVIDED BY OPERATING ACTIVITIES BEFORE DISCONTINUED OPERATIONS	964	858
Net cash used in operating activities of discontinued operations	(15)	(16)
NET CASH PROVIDED BY OPERATING ACTIVITIES	949	842
CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed maturity and equity securities available for sale:		
Purchases	(2,453)	(1,629)
Sales	799	1,086
Maturities and repayments	1,425	1,142
Repayments of mortgage loans	118	234
Purchases of mortgage loans and real estate	(586)	(1,228)
Change in policy loans	381	(38)
Sale of interest in PIMCO		288
Purchases and terminations, net, of derivative instruments	(121)	(85)
Proceeds and payments, net, from nonhedging derivative settlements	(541)	35
Change in cash collateral received or pledged	(703)	58
Other investing activities, net	185	(327)
NET CASH USED IN INVESTING ACTIVITIES BEFORE DISCONTINUED OPERATIONS	(1,496)	(464)
Net cash provided by investing activities of discontinued operations		7
NET CASH USED IN INVESTING ACTIVITIES	(1,496)	(457)

(Continued)

See Notes to Condensed Consolidated Financial Statements

Pacific Life Insurance Company and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

<i>(Continued)</i>	Six Months Ended	
	June 30,	
	2009	2008
	<i>(In Millions)</i>	
CASH FLOWS FROM FINANCING ACTIVITIES		
Policyholder account balances:		
Deposits	\$3,818	\$3,762
Withdrawals	(4,324)	(3,483)
Net change in short-term debt		(100)
Issuances of long-term debt	1,020	30
Payments of long-term debt	(2)	(2)
Other financing activities, net	(2)	24
NET CASH PROVIDED BY FINANCING ACTIVITIES	510	231
Net change in cash and cash equivalents	(37)	616
Cash and cash equivalents, beginning of period	3,354	521
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$3,317	\$1,137
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Income taxes paid (received)	(\$135)	\$19
Interest paid	\$10	\$14

See Notes to Condensed Consolidated Financial Statements

Pacific Life Insurance Company and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Pacific Life Insurance Company (Pacific Life) was established in 1868 and is domiciled in the State of Nebraska as a stock life insurance company. Pacific Life is an indirect subsidiary of Pacific Mutual Holding Company (PMHC), a Nebraska mutual holding company, and a wholly owned subsidiary of Pacific LifeCorp, an intermediate Delaware stock holding company. PMHC and Pacific LifeCorp were 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.

Pacific Life and its subsidiaries and affiliates have primary business operations consisting of life insurance, individual annuities, mutual funds, and pension and institutional products. Pacific Life's primary business operations provide life insurance products, individual annuities and mutual funds, and offer to individuals, businesses, and pension plans a variety of investment products and services.

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.

2. BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The information set forth in the accompanying condensed consolidated statement of financial condition as of June 30, 2009 and the accompanying condensed consolidated statements of operations, equity and cash flows for the six months ended June 30, 2009 and 2008 is unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted. The information presented reflects all adjustments, including normal recurring adjustments that, in the opinion of management, are necessary to present fairly the financial position and results of operations of Pacific Life Insurance Company and subsidiaries (the Company) for the periods indicated. Results of operations for the interim periods presented are not necessarily indicative of the results of operations for the full year. The condensed consolidated statement of financial condition as of December 31, 2008 was derived from the audited consolidated financial statements as of and for the year ended December 31, 2008. Therefore, the information included in these unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements as of and for the year ended December 31, 2008.

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

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these 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 financial instruments in the absence of quoted market values
- Investment impairments
- Application of consolidation rules to certain investments
- The fair value of and accounting for derivatives
- The capitalization and amortization of deferred policy acquisition costs (DAC)
- The liability for future policy 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 condensed consolidated financial statements to conform to the 2009 financial statement presentation.

The Company has evaluated events subsequent to June 30, 2009 and through August 27, 2009, 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.

3. NEW ACCOUNTING PRONOUNCEMENTS

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Effective June 30, 2009, the Company adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standard (SFAS) No. 165, *Subsequent Events*. This statement's objective is to establish general standards of accounting for and disclosure of events that occur after the statement of financial condition date but before financial statements are issued or are available to be issued. Companies are required to disclose the date through which subsequent events were evaluated as well as the date the financial statements were issued or available to be issued. Adoption of this statement did not have any impact on the Company's condensed consolidated financial statements. See Note 2 for expanded disclosure.

In April 2009, the FASB issued FASB Staff Position (FSP) Financial Accounting Standards (FAS) No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, which 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 FSP provides additional guidance for estimating fair value in accordance with SFAS No. 157, *Fair Value Measurements*, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. The adoption of this FSP 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 June 30, 2009, the year to date effect of this adoption was an increase of \$272 million to the estimated fair value and a decrease of \$272 million to the gross unrealized investment loss of RMBS. See Note 12 for information on the Company's fair value measurements and expanded disclosures.

In April 2009, the FASB issued FSP FAS 107 and Accounting Pronouncements Board (APB) 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This FSP amends SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about the fair value of financial instruments for interim reporting periods as well as in annual financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. FSP FAS 107 and APB 28-1 is applicable to public companies only. The Company did not adopt this FSP, and therefore, it had no impact on the Company's condensed consolidated financial statements.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. 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 FSP 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 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 FSP provides for enhanced presentation and disclosure of OTTIs of debt and equity securities in the financial statements. The Company early adopted this guidance effective January 1, 2009, resulting in

a net after tax decrease to OCI of \$170 million, including an after tax DAC impact of \$5 million, and an increase to retained earnings of \$175 million.

Effective January 1, 2009, the Company adopted FSP FAS No. 142-3, *Determination of the Useful Life of Intangible Assets*. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R), *Business Combinations*, and other U.S. GAAP. The adoption of FSP FAS No. 142-3 did not have any impact on the Company's condensed consolidated financial statements.

Effective January 1, 2009, the Company adopted SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133*, which establishes the disclosure requirements for derivative instruments and for hedging activities. This statement amends and expands the disclosure requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, with the intent to disclose how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. The adoption of SFAS No. 161 had no impact on the Company's condensed consolidated financial statements. See Note 10 for expanded disclosures related to derivative instruments and hedging activities.

Effective January 1, 2009, the Company adopted SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an Amendment of ARB No. 51*. SFAS No. 160 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 implementation of SFAS 160, which required retrospective application of presentation requirements, total equity as of December 31, 2008 and 2007, increased by \$212 million and \$181 million, respectively, representing the noncontrolling interest, and other liabilities and total liabilities as of December 31, 2008 and 2007 decreased by \$212 million and \$181 million, respectively, as a result of reclassifying noncontrolling interest (previously known as minority interest) to equity.

Effective January 1, 2009, the Company adopted SFAS No. 141(R), which replaces SFAS No. 141, *Business Combinations*. SFAS No. 141(R) establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, recognizes and measures the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The adoption of SFAS No. 141(R) had no impact on the Company's condensed consolidated financial statements. The Company will apply SFAS No. 141(R) prospectively to any business combination on or after January 1, 2009 as required.

Effective December 31, 2008, the Company adopted FSP FAS No. 140-4 and FASB Interpretation No. (FIN) 46(R)-8 – *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities*. This FSP improves the transparency of transfers of financial assets and an enterprise's involvement with VIEs. The adoption of this FSP had no impact on the Company's condensed consolidated financial statements. See Note 5 for information on the Company's VIEs and expanded disclosure.

Effective December 31, 2008, the Company adopted FSP FAS No. 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161*. The FSP is intended to improve disclosures about credit derivatives by requiring more information about the potential adverse effects of changes in credit risk on the financial position, financial performance, and cash flows of the sellers of credit derivatives. It amends SFAS No. 133 to require disclosures by sellers of credit derivatives, including credit derivatives embedded in hybrid instruments. The FSP also amends FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others*, to require an additional disclosure about the current status of the payment/performance risk of a guarantee. This FSP also clarifies that the disclosures required by SFAS No. 161 have been incorporated upon adoption of SFAS No. 161 on January 1, 2009. The adoption of FSP FAS No. 133-1 and FIN 45-4 had no impact on the Company's condensed consolidated financial statements. See Note 10 for information on the Company's credit derivatives and expanded disclosure.

Effective December 31, 2008, the Company adopted FSP Emerging Issues Task Force (EITF) Issue No. 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*, to revise guidance for beneficial interests in securitized financial assets that are

within the scope of EITF Issue No. 99-20, *Recognition of Interest Income and Impairment of Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets*, to achieve more consistent determination of whether an OTTI has occurred. The FSP also retains and emphasizes the objective of an OTTI assessment and the related disclosure requirements in SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and other related guidance. The adoption of the FSP had no impact on the Company's condensed consolidated financial statements. See Note 9 for information of the Company's OTTIs and expanded disclosures.

Effective January 1, 2008, the Company adopted FSP FIN 39-1, *Amendment of FASB Interpretation No. 39*. FSP FIN 39-1 amends FIN 39, *Offsetting of Amounts Related to Certain Contracts*, to permit a reporting entity to offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement that have been offset in accordance with FIN 39. FSP FIN 39-1 also amends FIN 39 for certain terminology modifications. This statement permits offsetting of fair value amounts recognized for derivative instruments under master netting arrangements. The adoption of FSP FIN 39-1 did not have a material impact on the Company's condensed consolidated financial statements.

Effective January 1, 2008, the Company adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115*. This statement permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The Company did not elect the fair value option on any of the eligible assets or liabilities. Therefore, adoption of SFAS No. 159 had no impact on the Company's condensed consolidated financial statements.

Effective January 1, 2008, the Company adopted SFAS No. 157. This statement creates a common definition of fair value to be used throughout U.S. GAAP. SFAS No. 157 applies whenever another standard requires or permits assets or liabilities to be measured at fair value, with certain exceptions. The standard establishes a hierarchy for determining fair value, which requires the use of observable market data whenever available. The statement also requires expanded disclosures, which include the extent to which assets and liabilities are measured at fair value, the methods and assumptions used to measure fair value and the effect of fair value measures on earnings. The adoption of SFAS No. 157 did not have a material impact on the Company's condensed consolidated financial statements. See Note 12 for information on the Company's fair value measurements and expanded disclosures.

Effective January 1, 2009, the Company adopted FSP FAS No. 157-2 – *Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS No. 157 to January 1, 2009 for certain nonfinancial assets and nonfinancial liabilities. Examples of applicable nonfinancial assets and nonfinancial liabilities to which FSP FAS No. 157-2 applies include, but are not limited to:

- Nonfinancial assets and nonfinancial liabilities initially measured at fair value in a business combination that are not subsequently remeasured at fair value;
- Reporting units measured at fair value in the goodwill impairment test as described in SFAS No. 142 and nonfinancial assets and nonfinancial liabilities measured at fair value in the SFAS No. 142 goodwill impairment test, if applicable; and
- Nonfinancial long-lived assets measured at fair value for impairment assessment under SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*.

The adoption of this FSP had no impact on the Company's condensed consolidated financial statements.

FUTURE ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets*. SFAS No. 166 is a revision to SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. SFAS No. 166 will require more information about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a "qualifying special-purpose entity", changes the requirements for derecognizing financial assets, and requires additional disclosures. SFAS No. 166 will be effective January 1, 2010 and early adoption is not permitted. The Company is currently evaluating the impact of this statement on the condensed consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*. SFAS No. 167 is a revision to FIN 46(R), *Consolidation of Variable Interest Entities*, and changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly affect the entity's economic performance. SFAS No. 167 provides for enhanced disclosure requirements and will be effective on January 1, 2010. Early adoption is not permitted. The Company is currently evaluating the impact of this statement on the condensed consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. This standard identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements that are presented in conformity with U.S. GAAP. SFAS No. 168 established the FASB Accounting Standards Codification (Codification) as the single source of authoritative accounting principles recognized by the FASB in the preparation of financial statements in conformity with U.S. GAAP. Codification does not create new accounting and reporting guidance, rather it reorganizes U.S. GAAP pronouncements into approximately 90 topics within a consistent structure. All guidance contained in the Codification carries an equal level of authority. Relevant portions of authoritative content, issued by the U.S. Securities and Exchange Commission (SEC), for SEC registrants, have been included in the Codification. After the effective date of SFAS No. 168, all non-grandfathered, non-SEC accounting literature not included in the Codification is superseded and deemed nonauthoritative. SFAS No. 168 is effective for the Company as of September 30, 2009, and will change how the Company references U.S. GAAP in its condensed consolidated financial statements.

In December 2008, the FASB issued FSP SFAS No. 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*, an amendment to SFAS No. 132(R), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. FSP SFAS No. 132(R)-1 is effective for the Company as of December 31, 2009, which will result in expanded disclosures related to the Company's employee benefit plans.

4. STATUTORY FINANCIAL INFORMATION AND DIVIDEND RESTRICTIONS

STATUTORY ACCOUNTING PRACTICES

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

Pacific Life has two permitted practices approved by the NE DOI that differ from statutory accounting practices adopted by the National Association of Insurance Commissioners (NAIC). The first permitted practice relates to the valuation of certain statutory separate account assets that are carried at book value instead of estimated fair value. Pacific Life's statutory capital and surplus as of June 30, 2009 and December 31, 2008 did not reflect unrealized losses of \$48 million and \$88 million, respectively, with regards to this permitted practice. The second permitted practice has a financial statement filing date of December 31, 2008 and will continue until December 30, 2009. This permitted practice allows Pacific Life to apply the revised version of Actuarial Guideline 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 \$383 million and \$442 million as of June 30, 2009 and December 31, 2008, respectively.

In addition, Pacific Life uses a NE DOI prescribed accounting practice for certain synthetic guaranteed interest contract (GIC) reserves that differs from statutory accounting practices adopted by the NAIC. As of June 30, 2009 and December 31, 2008, this NE DOI prescribed accounting practice resulted in statutory reserves of \$17 million and \$12 million, respectively, as opposed to statutory reserves of \$45 million and \$640 million, respectively, using statutory accounting practices adopted by the NAIC.

STATUTORY NET INCOME AND SURPLUS

Statutory net income of Pacific Life was \$496 million and \$322 million for the six months ended June 30, 2009 and 2008, respectively. Statutory capital and surplus of Pacific Life was \$4,155 million and \$3,136 million as of June 30, 2009 and December 31, 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 June 30, 2009 and December 31, 2008, Pacific Life, its wholly owned, Arizona domiciled life insurance subsidiary, Pacific Life & Annuity Company (PL&A) and Pacific Alliance Reinsurance Company of Vermont (PAR Vermont), a Vermont-based life reinsurance company wholly owned by Pacific Life, exceeded the minimum risk-based capital requirements.

NO LAPSE GUARANTEE RIDER REINSURANCE

Certain no lapse guarantee rider (NLGR) benefits of Pacific Life's universal life (UL) insurance products are subject to Actuarial Guideline 38 (AG 38) statutory reserving requirements. AG 38 results in additional statutory reserves on UL products with NLGRs issued after June 30, 2005. U.S. GAAP benefit reserves for such riders are based on American Institute of Certified Public Accountants Statement of Position (SOP) 03-1, *Accounting and Reporting by Insurance Enterprises for Certain Non Traditional Long-Duration Contracts and for Separate Accounts*. Substantially all the U.S. GAAP benefit reserves relating to NLGRs issued after June 30, 2005 are ceded from Pacific Life to Pacific Alliance Reinsurance Ltd. (PAR Bermuda), a Bermuda-based life reinsurance company wholly owned by Pacific LifeCorp and PAR Vermont under reinsurance agreements. Funded reserves and irrevocable letters of credit held in trust accounts with Pacific Life as beneficiary provide security for statutory reserve credits taken by Pacific Life. See Note 16 for further discussion of these letters of credit.

DIVIDEND RESTRICTIONS

The payment of dividends by Pacific Life to Pacific LifeCorp is subject to restrictions set forth in the State of Nebraska insurance laws. These laws require (i) notification to the NE DOI for the declaration and payment of any dividend and (ii) approval by the NE DOI for accumulated dividends within the preceding twelve months that exceed the greater of 10% of statutory policyholder surplus as of the preceding December 31 or statutory net gain from operations for the preceding twelve months ended December 31. Based on these restrictions and 2008 statutory results, Pacific Life could pay \$256 million in dividends in 2009 to Pacific LifeCorp without prior approval from the NE DOI, subject to the notification requirement. During the six months ended June 30, 2009, Pacific Life paid no dividends to Pacific LifeCorp. In June 2008, Pacific Life declared and accrued a dividend to Pacific LifeCorp of \$345 million. This cash dividend was paid in July 2008.

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 because PL&A recorded a \$116 million statutory net loss from operations for the year ended December 31, 2008, PL&A will be unable to pay dividends to Pacific Life in 2009 without prior regulatory approval. No dividends were paid during the six months ended June 30, 2009 and 2008.

OTHER

In November 2008, the NAIC issued Statement of Statutory Accounting Principles (SSAP) No. 98, *Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, An Amendment to SSAP No. 43 – Loan-backed and Structured Securities*. SSAP 98 requires the use of discounted cash flows for impairment analysis and subsequent valuation of loan-backed and structured securities based on estimated fair value. On April 17, 2009, the NAIC Joint Executive (EX) Committee / Plenary adopted a revision that changed the effective date of SSAP No. 98 to quarterly and annual reporting periods ending on or after September 30, 2009.

On July 20, 2009, the NAIC Statutory Accounting Principles Working Group exposed for public comment a draft of SSAP No. 43 – Revised, *Loan-backed and Structured Securities*, (SSAP No. 43R). This exposure draft is a continuation of discussions regarding loan-backed and structured securities and includes substantive revisions to SSAP No. 43, *Loan-backed and Structured Securities*. SSAP No. 43R proposes to supersede SSAP No. 98. The substantive revisions to SSAP No. 43R include accounting guidance for securities acquired in a transfer, impairment, and beneficial interests. Furthermore, as noted within the proposed SSAP No. 43R, when an OTTI has occurred when there is a non-interest related decline, the amount of the OTTI recognized as a realized loss shall equal the difference between the investment's amortized cost basis and the present value of cash flows expected to be collected, discounted at the effective interest rate as outlined in the exposure draft. In such situations, the amortized cost of the security, less the OTTI recognized as a realized loss shall become the new amortized cost basis of the investment. SSAP No. 43R is proposed to be effective September 30, 2009. The estimated impact of adopting SSAP No. 43R, based on June 30, 2009 information, would be an additional statutory loss of approximately \$75 million.

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 June 30, 2009, statutory reserves ceded to this reinsurer amounted to approximately \$160 million.

5. VARIABLE INTEREST ENTITIES

The following table presents, as of June 30, 2009 and December 31, 2008, the total assets of and maximum exposure to loss relating to VIEs, which the Company (i) has consolidated because it is the primary beneficiary or (ii) holds a significant variable interest, but has not consolidated because it is not the primary beneficiary:

	Primary Beneficiary		Not Primary Beneficiary	
	Total Assets	Maximum Exposure to Loss	Total Assets	Maximum Exposure to Loss
<i>(In Millions)</i>				
<u>June 30, 2009:</u>				
Private equity funds	\$223	\$25		
Asset-backed securities			\$1,910	\$104
Total	\$223	\$25	\$1,910	\$104
<u>December 31, 2008:</u>				
Private equity funds	\$236	\$30		
Asset-backed securities			\$3,816	\$93
Total	\$236	\$30	\$3,816	\$93

PRIVATE EQUITY FUNDS

Private equity funds (the Funds) are three limited partnerships that invest in private equity investments for outside investors, where the Company is the general partner. The Company provides investment management services to the Funds for a fee and receives carried interest based upon the performance of the Funds and is a VIE due to the lack of control by the other equity investors. The Company has not guaranteed the performance, liquidity or obligations of the Funds, and the Company's maximum exposure to loss is equal to the carrying amounts of its retained interest. VIE debt consolidated from the Funds was \$20 million and \$2 million as of June 30, 2009 and December 31, 2008, respectively. Consolidated assets are reported in other investments and cash and cash equivalents. Consolidated liabilities are reported in long-term debt.

ASSET-BACKED SECURITIES

As part of the Company's investment strategy, the Company purchases primarily investment grade beneficial interests issued from bankruptcy-remote special purpose entities (SPEs), which are collateralized by financial assets including corporate debt. The Company has not guaranteed the performance, liquidity or obligations of the SPEs, and the Company's maximum exposure to loss is limited to its carrying value of the beneficial interests in the SPEs. The Company has no liabilities related to these VIEs. The Company has determined that it is not the primary beneficiary of these entities as the Company does not absorb a majority of the expected losses or receive a majority of the expected residual return. The Company does not consolidate these entities. The investments are reported as fixed maturity securities available for sale and had a net carrying amount of \$104 million and \$93 million as of June 30, 2009 and December 31, 2008, respectively. During the six months ended June 30, 2009 and 2008, the Company recorded OTTI of \$60 million and \$30 million, respectively, related to these securities.

6. INTEREST IN PIMCO

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

During the first quarter of 2008, the Company exercised a put option and sold all of its remaining interest in PIMCO to Allianz of America, Inc., a subsidiary of Allianz SE, for \$288 million. The Company recognized a pre-tax gain of \$109 million for the six months ended June 30, 2008.

7. DISCONTINUED OPERATIONS

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

In March 2007, the Company classified its broker-dealer subsidiaries, other than PSD, as held for sale. On June 20, 2007, a transaction closed whereby the Company sold certain of these broker-dealer subsidiaries to an unrelated third-party. On December 31, 2007, a transaction closed whereby the Company sold another one of its broker-dealer subsidiaries to subsidiary management. As of December 31, 2007, one broker-dealer subsidiary remained classified as held for sale. On March 31, 2008, a transaction closed whereby the Company sold this held for sale subsidiary to an unrelated third-party. The Company recognized a pre-tax gain of \$1 million from this transaction during the six months ended June 30, 2008.

Operating results from discontinued operations were as follows:

	Six Months Ended	
	June 30,	
	2009	2008
	<i>(In Millions)</i>	
Revenues		\$12
Benefits and expenses	\$20	17
Loss from discontinued operations	(20)	(5)
Benefit from income taxes	(7)	(2)
Loss from discontinued operations, net of tax	(13)	(3)
Net gain on sale of discontinued operations		1
Provision for income taxes		
Net gain on sale of discontinued operations, net of taxes		1
Discontinued operations, net of taxes	(\$13)	(\$2)

Assets and liabilities from discontinued operations are included in other assets and other liabilities, respectively. Assets and liabilities as of June 30, 2009 and December 31, 2008 relate to discontinued operations that have been sold. Other assets related to discontinued operations were zero and \$6 million as of June 30, 2009 and December 31, 2008, respectively. Other liabilities related to discontinued operations were \$5 million and \$13 million as of June 30, 2009 and December 31, 2008, respectively.

8. DEFERRED POLICY ACQUISITION COSTS

Components of the DAC asset are as follows:

	Six Months Ended	
	June 30,	
	2009	2008
	<i>(In Millions)</i>	
Balance, January 1	\$5,012	\$4,481
Cumulative pre-tax effect of adoption of new accounting principle (Note 3)	7	
Additions:		
Capitalized during the period	322	417
Amortization:		
Allocated to commission expenses	(564)	(282)
Allocated to operating expenses	(126)	(76)
Total amortization	(690)	(358)
Allocated to OCI	(222)	133
Balance, June 30	\$4,429	\$4,673

For UL, variable annuities and other investment-type contracts, acquisition costs are amortized through earnings in proportion to the present value of estimated gross profits (EGPs) from projected investment, mortality and expense margins, and surrender charges over the estimated lives of the contracts. 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.

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 future EGPs to the extent that actual or anticipated experience indicates such a prospective change. During the six months ended June 30, 2009 and 2008, the Company revised certain assumptions used to develop EGPs for its products subject to DAC amortization. This resulted in an increase in DAC amortization expense of \$33 million and a decrease in DAC amortization expense of \$21 million for the six months ended June 30, 2009 and 2008, respectively.

The Company defers sales inducements and amortizes them over the life of the policy using the same methodology and assumptions used to amortize DAC. The Company offers a sales inducement to the policyholder where the policyholder receives a bonus credit, typically ranging from 0.5% to 8% of each deposit. The capitalized sales inducement balances included in the DAC asset were \$489 million and \$532 million as of June 30, 2009 and 2008, respectively.

9. 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 OTTI and changes in the estimated fair value of fixed maturity securities attributable to the hedged risk in a fair value hedge. See Note 12 for information on the Company's fair value measurements and disclosure.

	Net			Estimated Fair Value
	Carrying Amount	Gross Unrealized Gains	Losses	
	<i>(In Millions)</i>			
<u>June 30, 2009:</u>				
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$105	\$12		\$117
Obligations of states and political subdivisions	553	6	\$47	512
Foreign government debt	316	34	5	345
Corporate securities	16,339	491	864	15,966
RMBS	5,952	108	1,414	4,646
Commercial mortgage-backed securities	1,075	38	70	1,043
Collateralized debt obligations	125	3	35	93
Other asset-backed securities	590	42	46	586
Total fixed maturity securities	<u>\$25,055</u>	<u>\$734</u>	<u>\$2,481</u>	<u>\$23,308</u>
Perpetual preferred securities	\$364	\$3	\$133	\$234
Other equity securities	4	2		6
Total equity securities	<u>\$368</u>	<u>\$5</u>	<u>\$133</u>	<u>\$240</u>

	Net		Estimated	
	Carrying	Gross Unrealized		Fair Value
	Amount	Gains	Losses	
<i>(In Millions)</i>				
<u>December 31, 2008:</u>				
U.S. Treasury securities and obligations of				
U.S. government authorities and agencies	\$98	\$19		\$117
Obligations of states and political subdivisions	512	5	\$148	369
Foreign government debt	211	41	7	245
Corporate securities	15,828	307	1,618	14,517
RMBS	6,133	105	1,306	4,932
Commercial mortgage-backed securities	1,191	15	106	1,100
Collateralized debt obligations	126		2	124
Other asset-backed securities	615	32	109	538
Total fixed maturity securities	<u>\$24,714</u>	<u>\$524</u>	<u>\$3,296</u>	<u>\$21,942</u>
Perpetual preferred securities	\$385	\$3	\$174	\$214
Other equity securities	2			2
Total equity securities	<u>\$387</u>	<u>\$3</u>	<u>\$174</u>	<u>\$216</u>

The Company has investments in perpetual preferred securities that are primarily issued by European and U.S. banks. The net carrying amount and estimated fair value of total available for sale perpetual preferred securities was \$540 million and \$344 million, respectively, as of June 30, 2009. Included in these amounts are perpetual preferred securities carried in trusts with a net carrying amount and estimated fair value of \$176 million and \$110 million, respectively, that are held in fixed maturities and included in the tables above in corporate securities. Perpetual preferred securities reported as equity securities available for sale are presented in the tables above as perpetual preferred securities.

The net carrying amount and estimated fair value of fixed maturity securities available for sale as of June 30, 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.

	Net		Estimated	
	Carrying	Gross Unrealized		Fair Value
	Amount	Gains	Losses	
<i>(In Millions)</i>				
Due in one year or less	\$1,964	\$43	\$61	\$1,946
Due after one year through five years	4,938	172	133	4,977
Due after five years through ten years	6,367	163	416	6,114
Due after ten years	4,044	165	306	3,903
	<u>17,313</u>	<u>543</u>	<u>916</u>	<u>16,940</u>
Mortgage-backed and asset-backed securities	7,742	191	1,565	6,368
Total	<u>\$25,055</u>	<u>\$734</u>	<u>\$2,481</u>	<u>\$23,308</u>

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		
	Number	Estimated Fair Value	Gross Unrealized Losses
	<i>(In Millions)</i>		
<u>June 30, 2009:</u>			
Obligations of states and political subdivisions	28	\$367	\$47
Foreign government debt	6	77	5
Corporate securities	848	7,688	864
RMBS	308	3,460	1,414
Commercial mortgage-backed securities	33	575	70
Collateralized debt obligations	11	73	35
Other asset-backed securities	42	292	46
Total fixed maturity securities	<u>1,276</u>	<u>12,532</u>	<u>2,481</u>
Perpetual preferred securities	28	212	133
Other securities	36	127	41
Total other securities	<u>64</u>	<u>339</u>	<u>174</u>
Total	<u>1,340</u>	<u>\$12,871</u>	<u>\$2,655</u>

	Less Than 12 Months			12 Months or Greater		
	Number	Estimated Fair Value	Gross Unrealized Losses	Number	Estimated Fair Value	Gross Unrealized Losses
	<i>(In Millions)</i>			<i>(In Millions)</i>		
<u>June 30, 2009:</u>						
Obligations of states and political subdivisions	17	\$289	\$41	11	\$78	\$6
Foreign government debt	3	43	2	3	34	3
Corporate securities	379	2,656	197	469	5,032	667
RMBS	31	323	138	277	3,137	1,276
Commercial mortgage-backed securities	9	83	9	24	492	61
Collateralized debt obligations	9	71	34	2	2	1
Other asset-backed securities	15	104	7	27	188	39
Total fixed maturity securities	<u>463</u>	<u>3,569</u>	<u>428</u>	<u>813</u>	<u>8,963</u>	<u>2,053</u>
Perpetual preferred securities	8	41	25	20	171	108
Other securities	25	100	30	11	27	11
Total other securities	<u>33</u>	<u>141</u>	<u>55</u>	<u>31</u>	<u>198</u>	<u>119</u>
Total	<u>496</u>	<u>\$3,710</u>	<u>\$483</u>	<u>844</u>	<u>\$9,161</u>	<u>\$2,172</u>

	Total		
	Number	Estimated	Gross
		Fair Value	Unrealized
<i>(In Millions)</i>			
<u>December 31, 2008:</u>			
Obligations of states and political subdivisions	32	\$276	\$148
Foreign government debt	5	66	7
Corporate securities	956	9,674	1,618
RMBS	342	3,693	1,306
Commercial mortgage-backed securities	45	796	106
Collateralized debt obligations	5	2	2
Other asset-backed securities	43	326	109
Total fixed maturity securities	<u>1,428</u>	<u>14,833</u>	<u>3,296</u>
Perpetual preferred securities	30	197	174
Other securities	24	95	28
Total other securities	<u>54</u>	<u>292</u>	<u>202</u>
Total	<u>1,482</u>	<u>\$15,125</u>	<u>\$3,498</u>

	Less than 12 Months			12 Months or Greater		
	Number	Estimated	Gross	Number	Estimated	Gross
		Fair Value	Unrealized		Fair Value	Unrealized
<i>(In Millions)</i>			<i>(In Millions)</i>			
<u>December 31, 2008:</u>						
Obligations of states and political subdivisions	29	\$254	\$144	3	\$22	\$4
Foreign government debt	5	66	7			
Corporate securities	655	6,692	805	301	2,982	813
RMBS	145	2,229	699	197	1,464	607
Commercial mortgage-backed securities	31	569	74	14	227	32
Collateralized debt obligations	4	1	2	1	1	
Other asset-backed securities	25	203	47	18	123	62
Total fixed maturity securities	<u>894</u>	<u>10,014</u>	<u>1,778</u>	<u>534</u>	<u>4,819</u>	<u>1,518</u>
Perpetual preferred securities	7	29	16	23	168	158
Other securities	18	89	27	6	6	1
Total other securities	<u>25</u>	<u>118</u>	<u>43</u>	<u>29</u>	<u>174</u>	<u>159</u>
Total	<u>919</u>	<u>\$10,132</u>	<u>\$1,821</u>	<u>563</u>	<u>\$4,993</u>	<u>\$1,677</u>

Gross unrealized losses as of June 30, 2009 have been impacted by the general spread widening on fixed maturity securities caused by the disruption in the financial markets, which has led to decreased estimated fair values. 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 for 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 June 30, 2009.

Rating	Net Carrying Amount	Estimated Fair Value	Rating as % of Net Carrying Amount	Vintage Breakdown					
				2004 and Prior	2005	2006	2007	2008	2009
<i>(\$ In Millions)</i>									
Prime RMBS:									
AAA	\$1,365	\$1,147	39%	25%	9%	5%			
AA	297	223	8%	2%	3%	2%	1%		
A	341	262	10%	1%	2%	5%	2%		
BAA	508	361	15%	1%	6%	6%	2%		
BA and below	972	611	28%		6%	11%	11%		
Total	\$3,483	\$2,604	100%	29%	26%	29%	16%	0%	0%
Alt-A RMBS:									
AAA	\$158	\$122	16%	6%	1%	2%	7%		
AA	14	16	1%	1%					
A	13	9	1%	1%					
BAA	18	17	2%			2%			
BA and below	814	482	80%		10%	25%	45%		
Total	\$1,017	\$646	100%	8%	11%	29%	52%	0%	0%
Sub-prime RMBS:									
AAA	\$249	\$173	55%	52%		1%	2%		
AA	99	62	22%	22%					
A	23	12	5%	5%					
BAA	47	32	10%		10%				
BA	39	18	8%		8%				
Total	\$457	\$297	100%	79%	18%	1%	2%	0%	0%
CMBS:									
AAA	\$951	\$952	89%	69%	4%		15%	1%	
AA	47	39	4%	4%					
A	37	25	3%	3%					
BAA	28	18	3%				3%		
BA	12	9	1%	1%					
Total	\$1,075	\$1,043	100%	77%	4%	0%	18%	1%	0%

Monoline insurers guarantee the timely payment of principal and interest of certain securities. Municipalities will often purchase monoline insurance to wrap a security issuance in order to benefit from better market execution. The Company's net carrying amount and estimated fair value of total monoline insured securities was \$849 million and \$801 million, respectively, as of June 30, 2009. Included in these amounts are monoline insured municipal securities with a net carrying amount and estimated fair value of \$574 million and \$520 million, respectively, as of June 30, 2009. As of June 30, 2009, the Company had no direct investments in monoline insurers.

As of June 30, 2009, the Company has received cash advances and issued \$1.7 billion in funding agreements to the Federal Home Loan Bank (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 \$2.2 billion as of June 30, 2009 are in a custodial account pledged as collateral for the funding agreements. The Company is required to purchase stock in the FHLB of Topeka each time it receives an advance. As of June 30, 2009, the Company holds \$84 million of FHLB of Topeka stock, which is recorded in other investments.

PL&A is a member of the FHLB of San Francisco. As of June 30, 2009, no assets are pledged as collateral. As of June 30, 2009, the Company holds \$25 million of FHLB of San Francisco stock, which is recorded in other investments.

The Company lends securities in connection with its securities lending program administered by one of the largest U.S. financial institutions specializing in securities lending and short-term fixed-income asset management. The Company requires an amount equal to 102% of the estimated fair value of the loaned securities to be separately maintained as collateral for the loaned securities. The collateral is restricted and not available for general use. Securities loaned were zero as of June 30, 2009 and December 31, 2008.

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

	Six Months Ended June 30,	
	2009	2008
	<i>(In Millions)</i>	
Fixed maturity securities	\$711	\$751
Equity securities	11	16
Mortgage loans	148	135
Real estate	49	46
Policy loans	116	109
Partnerships and joint ventures	(58)	47
Other	6	6
Gross investment income	983	1,110
Investment expense	79	71
Net investment income	\$904	\$1,039

The components of net realized investment gain and impairment losses are as follows:

	Six Months Ended	
	June 30,	
	2009	2008
	<i>(In Millions)</i>	
Fixed maturity securities:		
Gross gains on sales	\$16	\$75
Gross losses on sales	(8)	(4)
OTTIs	(176)	(52)
Other	3	
Total fixed maturity securities	<u>(165)</u>	<u>19</u>
Equity securities		
Gross gains on sales		1
Gross losses on sales	(9)	
OTTIs	(5)	(2)
Total equity securities	<u>(14)</u>	<u>(1)</u>
Trading securities	2	(3)
Variable annuity guaranteed living benefit embedded derivatives	1,877	(177)
Variable annuity guaranteed living benefit policy fees	68	52
Variable annuity derivatives - interest rate swaps	(183)	(13)
Variable annuity derivatives - total return swaps	(487)	99
Equity put options	(413)	34
Synthetic GIC policy fees	12	6
Other derivatives	18	(14)
Other investments - OTTIs	(21)	
Other	1	6
Total	<u>\$695</u>	<u>\$8</u>

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 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 several 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 connection with the significant disruption in the housing, financial and credit markets, the OTTI charges recorded during the six months ended June 30, 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*):

	Total	Included in OCI	Credit Losses Recorded in Earnings
<u>Six months ended June 30, 2009:</u>			
Corporate securities	\$30		\$30
RMBS	423	\$342	81
Collateralized debt obligations	77	12	65
Perpetual preferred securities	5		5
Other investments	21		21
Total OTTIs	<u>\$556</u>	<u>\$354</u>	<u>\$202</u>
 <u>Six months ended June 30, 2008:</u>			
Corporate securities			\$9
RMBS			5
Collateralized debt obligations			36
Other asset-backed securities			2
Perpetual preferred securities			2
Total OTTIs			<u>\$54</u>

Upon adoption of FSP FAS 115-2 and FAS 124-2 effective January 1, 2009, the Company began recording the credit loss portion of OTTI adjustments in earnings and the portion related to other factors in OCI. The table below details the amount of OTTIs attributable to credit losses recorded in earnings for which a portion was recognized in OCI as of June 30, 2009 (*In Millions*).

Cumulative credit loss, January 1, 2009	\$88
Additions for credit impairments recognized on:	
Securities not previously other than temporarily impaired	25
Securities previously other than temporarily impaired	89
Total additions	<u>114</u>
Reductions for credit impairments previously recognized on:	
Securities that matured or were sold	(20)
Securities other than temporarily impaired to fair value	(32)
Securities due to an increase in expected cash flows and time value of cash flows	(1)
Total subtractions	<u>(53)</u>
Cumulative credit loss, June 30, 2009	<u>\$149</u>

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

	Gross Unrealized Losses		
	OTTI Investments	Non-OTTI Investments	Total
	<i>(In Millions)</i>		
<u>June 30, 2009:</u>			
Obligations of states and political subdivisions		\$47	\$47
Foreign government debt		5	5
Corporate securities	\$1	863	864
RMBS	360	1,054	1,414
CMBS		70	70
Collateralized debt obligations	34	1	35
Other asset-backed securities	1	45	46
Total fixed maturity securities	<u>\$396</u>	<u>\$2,085</u>	<u>\$2,481</u>
Perpetual preferred securities		\$133	\$133
Total equity securities		<u>\$133</u>	<u>\$133</u>

Trading securities totaled \$174 million and \$114 million as of June 30, 2009 and December 31, 2008, respectively. The cumulative net unrealized losses on trading securities held as of June 30, 2009 and December 31, 2008 were \$10 million and \$19 million, respectively.

Mortgage loans totaled \$6,053 million and \$5,622 million as of June 30, 2009 and December 31, 2008, respectively. Mortgage loans are collateralized by commercial properties primarily located throughout the U.S. As of June 30, 2009, \$1,129 million, \$766 million, \$660 million, \$510 million and \$376 million were located in California, Florida, Washington, Texas and Washington D.C., respectively. As of June 30, 2009, \$526 million was located in Canada. There were no defaults during the six months ended June 30, 2009 and 2008. The Company did not have mortgage loans with accrued interest more than 180 days past due as of June 30, 2009 or December 31, 2008. As of June 30, 2009, mortgage loan investments with one commercial sponsor exceeded 10% of stockholder's equity. The carrying value of these investments was \$772 million as of June 30, 2009.

Investments in real estate totaled \$508 million and \$459 million as of June 30, 2009 and December 31, 2008, respectively, and are included in other investments. There were no real estate write-downs during the six months ended June 30, 2009 and 2008.

10. DERIVATIVES AND HEDGING ACTIVITIES

The Company primarily utilizes derivative instruments to manage its exposure to interest rate risk, foreign currency risk, credit risk, and equity risk. Derivative instruments are 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.

SFAS No. 133 requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the condensed consolidated statement of financial condition. In accordance with SFAS No. 133, 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 UNDER SFAS NO. 133

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

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

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

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

When a 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, and the ineffective portion of changes in the estimated fair value of the derivative is recorded in net realized investment gain. For the six months ended June 30, 2009 and 2008, the Company did not have any net losses reclassified from accumulated other comprehensive income (AOCI) to earnings resulting from the discontinuance of cash flow hedges due to forecasted transactions that were no longer probable of occurring. Over the next twelve months, the Company anticipates that \$24 million of deferred losses on derivative instruments in AOCI will be reclassified to earnings. For the six months ended June 30, 2009 and 2008, all of the Company's hedged forecasted transactions were determined to be probable of occurring.

As of June 30, 2009, the Company had the following outstanding derivatives designated as cash flow hedges:

	Notional Amount
	<u>(In Millions)</u>
Foreign currency interest rate swaps	\$5,225
Forward starting interest rate swaps	1,060
Interest rate swaps	704

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 UNDER SFAS NO. 133

The Company primarily uses interest rate swaps to manage its exposure to changes in the estimated fair values of its assets and liabilities due to fluctuations in the benchmark interest rate.

Interest rate swap agreements are used to convert a fixed rate asset or liability to a floating rate to hedge the changes in estimated fair value of the hedged asset or liability due to changes in benchmark interest rates. These derivatives are used primarily to closely match the duration of the assets supporting specific liabilities.

When a 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. 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 the six months ended June 30, 2009 and 2008, hedge ineffectiveness related to designated fair value hedges reflected in net realized investment gain was (\$0.8) million. No component of the hedging instrument's estimated fair value is excluded from the determination of effectiveness.

As of June 30, 2009, the Company had the following outstanding derivatives designated as fair value hedges:

	Notional Amount
	<u>(In Millions)</u>
Foreign currency interest rate swaps	\$13
Interest rate swaps	1,055

DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS UNDER SFAS NO. 133

The Company has certain insurance and reinsurance contracts that are considered to have embedded derivatives. When it is determined that the embedded derivative possesses economic and risk characteristics that are not clearly and closely related to those of the host contract and that a separate instrument with the same terms would qualify as a derivative instrument, it is separated from the host contract and accounted for as a stand-alone derivative. The changes in the estimated fair value of the derivatives not designated as hedging instruments are recognized in net realized investment gain.

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

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

The Company employs hedging strategies (variable annuity derivatives) to mitigate equity risk associated with the GLBs not covered by reinsurance. The Company utilizes total return swaps based upon the S&P 500 Index (S&P 500) primarily to economically hedge the equity risk of the mortality and expense fees in its variable annuity products. These contracts provide periodic payments to the Company in exchange for the total return of the S&P 500 in the form of a payment or receipt, depending on whether the return relative to the index on trade date is positive or negative, respectively. The Company uses interest rate swaps to hedge fluctuations in the valuation of GLBs as a result of changes in risk free rates. These agreements involve the exchange, at specified intervals, of interest payments resulting from the difference between fixed rate and floating rate interest amounts calculated by reference to an underlying notional amount.

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

estimated fair value of the assets, then the Company is required to pay the ERISA Plan the difference between book value and estimated fair value. The Company mitigates the investment risk through pre-approval and monitoring of the investment guidelines, requiring high quality investments and adjustments to the plan crediting rates to compensate for unrealized losses in the portfolios.

The Company employs hedging strategies to mitigate the equity and credit risk associated with our variable annuities, direct equity investments, and corporate bond defaults. The Company uses equity put options to economically hedge against a portion of the movements in the equity markets. These equity put options involve the exchange of periodic fixed rate payments for the return, at the end of the option agreement, of the equity index below a specified strike price. Generally, no cash is exchanged at the outset of the contract and no principal payments are made by either party.

The Company uses credit default swaps in combination with cash instruments to reproduce the investment characteristics of certain investments. Credit default swaps involve the receipt or payment of fixed amounts at specific intervals in exchange for the assumption of or protection from potential credit events associated with the underlying security. The Company writes credit default swaps for which a payment is delivered if the underlying security of the derivative defaults. Under this event, the required maximum potential amounts of future payments were \$70 million and \$95 million as of June 30, 2009 and 2008, respectively. As of June 30, 2009 and 2008, the fair value of credit derivatives sold by the Company was (\$30) million and (\$11) million, respectively. The terms for these instruments range from five to seven years.

As of June 30, 2009, the Company had the following outstanding derivatives not designated as hedging instruments:

	Notional Amount
	<u>(In Millions)</u>
Variable annuity GLB embedded derivatives	\$35,068
Variable annuity derivatives - interest rate swaps	2,050
Variable annuity derivatives - total return swaps	4,973
Variable annuity GLB reinsurance contracts	14,718
Equity put options	5,267
Synthetic GICs	24,449
Interest rate swaps	160
Foreign currency interest rate swaps	398
Other	760

CONDENSED CONSOLIDATED FINANCIAL STATEMENT IMPACT

Derivative instruments are recorded on 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.

The following table summarizes the gross asset or liability derivative fair value. Cash collateral payables and receivables and income accruals are not netted against the fair value amounts.

	Asset Derivatives		Liability Derivatives	
	Estimated Fair Value		Estimated Fair Value	
	June 30, 2009	December 31, 2008	June 30, 2009	December 31, 2008
	<i>(In Millions)</i>		<i>(In Millions)</i>	
Derivatives designated as hedging instruments under SFAS No. 133:				
Foreign currency interest rate swaps	\$191	\$308 ⁽¹⁾	\$70	\$87 ⁽¹⁾
	64	146 ⁽⁵⁾	258	423 ⁽⁵⁾
Forward starting interest rate swap agreements	27	88 ⁽¹⁾		23 ⁽¹⁾
	57	232 ⁽⁵⁾		45 ⁽⁵⁾
Interest rate swaps	12	32 ⁽¹⁾	70	124 ⁽¹⁾
	36	72 ⁽⁵⁾	50	143 ⁽⁵⁾
Total derivatives designated as hedging instruments under SFAS No. 133	387	878	448	845
Derivatives not designated as hedging instruments under SFAS No. 133:				
Variable annuity derivatives - interest rate swaps	119	232 ⁽¹⁾		
	21	140 ⁽⁵⁾		
Variable annuity derivatives - total return swaps	52		41	33 ⁽¹⁾
	5	55 ⁽⁵⁾		53 ⁽⁵⁾
Equity put options	522	350 ⁽¹⁾	8	
	55	587 ⁽⁵⁾	8	
Foreign currency interest rate swaps	13	1 ⁽¹⁾		
	16	15 ⁽⁵⁾		13 ⁽⁵⁾
Interest rate swaps	9	18 ⁽¹⁾	4	3 ⁽¹⁾
		11 ⁽⁵⁾		39 ⁽⁵⁾
Other	18	2 ⁽¹⁾	29	1 ⁽¹⁾
		9 ⁽⁵⁾	2	38 ⁽⁵⁾
Embedded derivatives:				
Variable annuity GLB embedded derivatives (including reinsurance contracts)	29	429 ⁽²⁾	1,065	3,342 ⁽³⁾
Synthetic GICs			1	3 ⁽³⁾
Other			21	8 ⁽⁴⁾
Total derivatives not designated as hedging instruments under SFAS No. 133	859	1,849	1,179	3,533
Total derivatives	\$1,246	\$2,727	\$1,627	\$4,378

Location on the condensed consolidated statements of financial condition:

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

Condensed consolidated statements of financial condition amounts include the impact of offsetting assets and liabilities held with the same counterparty as permitted by FIN 39 and FSP FIN 39-1.

Net cash collateral received from counterparties was \$683 million and \$1,392 million as of June 30, 2009 and December 31, 2008, respectively. This unrestricted cash collateral is included in cash and cash equivalents and the obligation to return it is netted against the estimated fair value of derivatives in other investments or other liabilities. Net cash collateral pledged to counterparties was \$59 million and \$66 million as of June 30, 2009 and December 31, 2008, respectively. A receivable representing the right to call this collateral back from the counterparty is netted against the estimated fair value of derivatives in other investments or other liabilities. If the net estimated fair value exposure to the counterparty is positive, the amount is reflected in other investments, whereas, if the net estimated fair value exposure to the counterparty is negative, the estimated fair value is included in future policy benefits or other liabilities, depending on the nature of the derivative.

As of June 30, 2009 and December 31, 2008, the Company had also accepted collateral consisting of various securities with an estimated fair value of \$45 million and \$147 million, respectively, which are held in separate custodial accounts. The Company is permitted by contract to sell or repledge this collateral and as of June 30, 2009 and December 31, 2008, zero and \$15 million, respectively, of the collateral had been repledged. As of June 30, 2009 and December 31, 2008, the Company provided collateral in the form of various securities of zero and \$17 million, respectively, which are included in fixed maturity securities. The counterparties are permitted by contract to sell or repledge this collateral.

The following tables summarize gains and losses on derivative instruments on the Company's condensed consolidated statement of operations.

	Gain (Loss)		Gain (Loss)	
	Recognized in		Recognized in	
	Income on Derivatives		Income on Hedged Items	
	Six Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
	<i>(In Millions)</i>		<i>(In Millions)</i>	
Derivatives in SFAS No. 133 fair value hedges:				
Foreign currency interest rate swaps		\$1		(\$1)
Interest rate swaps	\$89	6	(\$90)	(6)
Total	\$89	\$7	(\$90)	(\$7)

Each of the above mentioned relationships are recorded in net realized investment gain. The amounts presented do not include the periodic net coupon settlements of the derivative or the coupon income (expense) related to the hedged item. The net of the amounts presented represent the ineffective portion of the hedge.

	Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)		Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion)	
	Six Months Ended June 30,		Six Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008	2009	2008
	<i>(In Millions)</i>		<i>(In Millions)</i>		<i>(In Millions)</i>	
Derivatives in SFAS No. 133 cash flow hedges:						
Foreign currency interest rate swaps	\$38	(\$67)	(\$33)	\$112 ⁽¹⁾		
			5	8 ⁽³⁾		
Forward starting interest rate swaps	(212)	28			(\$1)	\$1 ⁽¹⁾
			(5)			
Interest rate swaps	(14)	16	9		9	
				1 ⁽²⁾		
			(9)			
Futures			1	2 ⁽²⁾		
				(1) ⁽³⁾		
Total	<u>(\$188)</u>	<u>(\$23)</u>	<u>(\$32)</u>	<u>\$122</u>	<u>\$8</u>	<u>\$1</u>

Location on the condensed consolidated statements of operations:

⁽¹⁾ Net realized investment gain ⁽²⁾ Net investment income ⁽³⁾ Interest credited to policyholder account balances

	Amount of Gain (Loss) Recognized in Income on Derivative	
	Six Months Ended June 30,	
	2009	2008
	<i>(In Millions)</i>	
Derivatives not designated as hedging instruments under SFAS No. 133:		
Variable annuity derivatives - interest rate swaps	(\$221)	(\$14) ⁽¹⁾
Variable annuity derivatives - total return swaps	39	36 ⁽¹⁾
Equity put options	(370)	63 ⁽¹⁾
Foreign currency interest rate swaps		1 ⁽¹⁾
Interest rate swaps	(3)	(3) ⁽¹⁾
	(1)	
Other	10	(16) ⁽¹⁾
Embedded derivatives:		
Variable annuity GLB embedded derivatives (including reinsurance contracts)	1,877	(176) ⁽¹⁾
Other		7 ⁽¹⁾
Total	<u>\$1,331</u>	<u>(\$102)</u>

Location on the condensed consolidated statements of operations:

⁽¹⁾ Net realized investment gain ⁽²⁾ Interest credited to policyholder account balances

CREDIT EXPOSURE AND CREDIT RISK RELATED CONTINGENT FEATURES

Credit exposure is measured on a counterparty basis as the net positive aggregate estimated fair value, net of collateral received, if any. The credit exposure for over the counter derivatives as of June 30, 2009 was \$136 million. The maximum exposure to any single counterparty was \$27 million at June 30, 2009.

For all derivative contracts other than GLBs and synthetic GICs, the Company enters into master agreements that may include a termination event clause associated with the Company's insurer financial strength ratings. If the Company's insurer financial strength rating falls below a specified level assigned by certain rating agencies 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 June 30, 2009, the Company's insurer financial strength ratings were above the specified level.

If the Company'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 June 30, 2009, is \$153 million for which the Company has posted collateral of \$59 million in the normal course of business. If certain of the Company's insurer financial strength ratings were to fall one grade as of June 30, 2009, the Company would have been required to post an additional \$13 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 six months ended June 30, 2009, the Company has incurred losses of \$4 million, included in net realized gain, 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.

11. DEBT

Debt consists of the following:

	June 30, 2009	December 31, 2008
	<i>(In Millions)</i>	
Long-term debt:		
Surplus notes	\$1,150	\$150
SFAS No. 133 fair value adjustment	26	55
Other non-recourse debt	121	121
VIE debt (Note 5)	20	2
Total long-term debt	<u>\$1,317</u>	<u>\$328</u>

SHORT-TERM DEBT

Pacific Life maintains a \$700 million commercial paper program. There was no commercial paper debt outstanding as of June 30, 2009 and December 31, 2008. In addition, Pacific Life has a bank revolving credit facility of \$400 million maturing in 2012 that serves as a back-up line of credit for the commercial paper program. This facility had no debt outstanding as of June 30, 2009 and December 31, 2008. As of and during the six months ended June 30, 2009, Pacific Life was in compliance with the debt covenants related to this facility.

PL&A maintains a \$40 million reverse repurchase line of credit with a commercial bank. These borrowings are at variable rates of interest based on collateral and market conditions. There was no debt outstanding in connection with this line of credit as of June 30, 2009 and December 31, 2008.

Pacific Life is a member of the FHLB of Topeka. Pacific Life has approval from the FHLB of Topeka to advance amounts up to 40% of Pacific Life's statutory general account assets provided it has available collateral and is in compliance with debt covenant restrictions and insurance laws and regulations. There was no debt outstanding with the FHLB of Topeka as of June 30, 2009 and December 31, 2008. Assets with an estimated fair value of \$2.2 billion as of June 30, 2009 are in a custodial account with the FHLB of Topeka pledged as collateral. Due to rating downgrades of eligible collateral during 2009, the Company's borrowing capacity declined from \$1.0 billion as of December 31, 2008 to \$25 million as of June 30, 2009. As of July 31, 2009, the borrowing capacity increased to \$497 million as a result of changes to eligible collateral and a \$150 million advance repayment.

PL&A is a member of the FHLB of San Francisco. PL&A is eligible to borrow from the FHLB of San Francisco amounts based on a percentage of statutory capital and surplus and could borrow up to amounts of \$70 million. Of this amount, half, or \$35 million, can be borrowed for terms other than overnight, out to a maximum term of nine months. These borrowings are at variable rates of interest, collateralized by certain mortgage loan and government securities. As of June 30, 2009 and December 31, 2008, PL&A had no debt outstanding with the FHLB of San Francisco.

LONG-TERM DEBT

In June 2009, Pacific Life issued \$1.0 billion of surplus notes at a fixed interest rate of 9.25%, maturing on June 15, 2039. Interest is payable semiannually on June 15 and December 15. The surplus notes may not be redeemed at the option of Pacific Life or any holder of the surplus notes. The surplus notes are unsecured and subordinated to all present and future senior indebtedness and policy claims of Pacific Life. All future payments of interest and principal on the surplus notes can be made only with the prior approval of the Director of Insurance of the State of Nebraska.

Pacific Life has \$150 million of surplus notes outstanding at a fixed interest rate of 7.9%, maturing on December 30, 2023. Interest is payable semiannually on June 30 and December 30. The surplus notes may not be redeemed at the option of Pacific Life or any holder of the surplus notes. The surplus notes are unsecured and subordinated to all present and future senior indebtedness and policy claims of Pacific Life. All future payments of interest and principal on the surplus notes can be made only with the prior approval of the Director of Insurance of the State of Nebraska.

Pacific Life entered into interest rate swaps converting the \$150 million fixed interest rate surplus notes to variable rate notes based upon the London Interbank Offered Rate. In accordance with SFAS No. 133, the interest rate swaps were designated as fair value hedges of the surplus notes. The SFAS No. 133 fair value adjustment, which increased long-term debt by \$26 million and \$55 million as of June 30, 2009 and December 31, 2008, respectively, represents the cumulative change in the estimated fair value of the interest rate swaps. An offsetting fair value adjustment has also been recorded for the interest rate swap derivative instruments.

Certain subsidiaries of Pacific Asset Holding LLC (PAH), a wholly owned subsidiary of Pacific Life, entered into various term loans with third-parties. Interest on these loans accrues at fixed rates, is payable monthly and range from 5.8% to 6.2% as of June 30, 2009 and December 31, 2008. As of June 30, 2009 and December 31, 2008, there was \$87 million outstanding on these loans with maturities ranging from 2010 to 2012. All of these loans are secured by real estate properties and are non-recourse to the Company.

Certain subsidiaries of PAH also entered into various property improvement loans with third-parties for a maximum loan balance of \$43 million. Interest on these loans accrues at variable rates, is payable monthly and range from 1.5% to 2.1% as of June 30, 2009 and from 2.6% to 3.2% as of December 31, 2008. As of June 30, 2009 and December 31, 2008, there was \$34 million outstanding on these loans with maturities ranging from 2010 to 2011. Principal payments due over the next twelve months are \$26 million. All of these loans are secured by real estate properties and are non-recourse to the Company.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 157

SFAS No. 157 establishes a hierarchy that prioritizes the inputs of valuation methods used to measure fair value for assets and 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 on a recurring basis as of June 30, 2009.

	Level 1	Level 2	Level 3	Gross Derivatives Fair Value	Netting Adjustments ⁽¹⁾	Total
<i>(In Millions)</i>						
Assets:						
U.S. Treasury securities and obligations of						
U.S. government authorities and agencies		\$117				\$117
Obligations of states and political subdivisions		512				512
Foreign government debt		259	\$86			345
Corporate securities		12,772	3,194			15,966
RMBS		1,099	3,547			4,646
CMBS		777	266			1,043
Collateralized debt obligations		14	79			93
Other asset-backed securities		300	286			586
Total fixed maturity securities		15,850	7,458			23,308
Perpetual preferred securities		164	70			234
Other equity securities	\$6					6
Total equity securities	6	164	70			240
Trading securities ⁽²⁾	83	39	52			174
Cash equivalents	3,245					3,245
Other investments			149			149
Derivatives		564	682	\$1,246	(\$476)	770
Separate account assets ⁽³⁾	44,756	291	115			45,162
Total	\$48,090	\$16,908	\$8,526	\$1,246	(\$476)	\$73,048
Liabilities:						
Derivatives		\$451	\$1,176	\$1,627	(\$476)	\$1,151
Total		\$451	\$1,176	\$1,627	(\$476)	\$1,151

⁽¹⁾ Netting adjustments represent the impact of offsetting asset and liability positions held with the same counterparty as permitted by FIN 39 and FSP FIN 39-1.

⁽²⁾ Trading securities are presented in other investments in the condensed consolidated statement 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 SOP 03-1. Separate account assets as presented in the table above differ from the amounts presented in the condensed consolidated statement of financial condition because cash and receivables for securities are not subject to SFAS No. 157.

FAIR VALUE MEASUREMENT

SFAS No. 157 defines fair value as the price that would be received to sell the asset or paid to transfer the liability at the measurement date. This "exit price" notion is a market-based measurement that requires a focus on the value that market participants would assign for an asset or liability.

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

FIXED MATURITY, EQUITY AND TRADING SECURITIES

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

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

Where matrix model pricing is not used, particularly for RMBS and other asset-backed securities, other internally derived valuation models are utilized. The inputs used to measure fair value in the internal valuations include, but are not limited to, benchmark yields, issuer spreads, bids, offers, reported trades, estimated cash flows and prepayment speeds.

For certain non-agency RMBS backed by prime, sub-prime and Alt-A collateral, the Company has determined that there has been a significant decrease in the volume and level of transaction activity indicating the need for a valuation technique not solely based on observable transactions and/or quoted market prices. As permitted by FSP FAS 157-4, the Company determines the estimated fair value for these assets utilizing an internally developed weighting of valuations derived from internal pricing models and independent pricing services. This approach utilizes multiple valuation techniques incorporating an income approach (maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs) and a market approach (based on data provided by independent pricing services) producing a result more representative of an investment's fair value as compared to a single valuation technique. The income approach incorporates cash flows for each investment adjusted for expected losses assuming various interest rate and housing price-level scenarios. The adjusted cash flows are discounted using a risk premium that market participants would demand given the risk in the modeled cash flows. The risk premium utilized is reflective of an orderly transaction between market participants under current market conditions and includes considerations such as liquidity and structure risk. These internally generated prices are then reviewed in conjunction with prices obtained from multiple independent pricing services. The internally generated prices are weighted with the prices obtained from independent pricing services, with consideration given to the relative range of values that are most representative of fair value under current conditions. These securities have been classified as Level 3 financial assets.

Prices obtained from independent third-parties are generally evaluated based on the inputs indicated above. The Company's management analyzes and evaluates these prices and determines whether they are reasonable estimates of fair value. Management's analysis may include, but is not limited to, review of third-party pricing methodologies and inputs, analysis of recent trades, and development of internal models utilizing observable market data of comparable securities. Based on this analysis, prices received from third-parties may be adjusted if the Company determines that there is a more appropriate fair value based on available market information.

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

CASH EQUIVALENTS

Cash equivalents include, but are not limited to, corporate discount notes and money market mutual funds instruments. The fair value of cash equivalents is measured at amortized cost due to the short-term, highly liquid nature of these securities, which have original maturities of three months or less. These securities are classified as Level 1.

DERIVATIVE INSTRUMENTS

Derivative instruments are reported at fair value using pricing valuation models, which utilize market data inputs or independent broker quotations. Excluding embedded derivatives, as of June 30, 2009, 99% of derivatives based upon notional values were priced by valuation models, which utilize independent market data. The remaining derivatives were priced by broker quotations. The derivatives are valued using mid-market inputs that are predominantly observable in the market. Inputs used to value derivatives include, but are not limited to, interest swap rates, foreign currency forward and spot rates, credit spreads and correlations, interest and equity volatility and equity index levels. In accordance with SFAS No. 157, a credit valuation analysis was performed for all derivative positions to measure the risk that one of the counterparties to the transaction will be unable to perform under the contractual terms (nonperformance risk), and was determined to be immaterial as of June 30, 2009.

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

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

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

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

OTHER INVESTMENTS

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

SEPARATE ACCOUNT ASSETS

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

VARIABLE ANNUITY GLBs

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

Prior to January 1, 2008, the Company used the guidance prescribed in SFAS No. 133 and other related accounting literature on fair value, which represented the amount for which a financial instrument could be exchanged in a current transaction between knowledgeable, unrelated and willing parties (the Pre-SFAS No. 157 definition of fair value) using assumptions, which include capital market and policyholder behavior inputs.

The Company's SFAS No. 157 fair value is calculated as an aggregation of the Pre-SFAS No. 157 definition of fair value and additional risk margins including, Behavior Risk Margin, Mortality Risk Margin and Credit Standing Adjustment. The resulting aggregation is reconciled or calibrated, if necessary, to market information that is, or may be, available to the Company, but may not be observable by other market participants, including reinsurance discussions and transactions. Each of the components described below are unobservable in the market place and requires subjectivity by the Company in determining their value.

- Behavior Risk Margin: This component adds a margin that market participants would require for the risk that the Company's assumptions about policyholder behavior used in the Pre-SFAS No. 157 definition of fair value model could differ from actual experience.
- Mortality Risk Margin: This component adds a margin in mortality assumptions, both for decrements for policyholders with GLBs, and for expected payout lifetimes in guaranteed minimum withdrawal benefits.
- Credit Standing Adjustment: This component makes an adjustment that market participants would make to reflect the chance that GLB obligations or the GLB reinsurance recoverables will not be fulfilled (nonperformance risk).

LEVEL 3 RECONCILIATION

The table below presents a reconciliation of the beginning and ending balances of the Level 3 financial assets and liabilities that have been measured at fair value on a recurring basis using significant unobservable inputs.

	January 1, 2009	Total Gains or Losses		Transfers In and/or Out of Level 3	Purchases, Sales, Issuances, and Settlements	June 30, 2009	Unrealized Gains (Losses) Still Held ⁽¹⁾
		Included in Earnings	Included in OCI				
<i>(In Millions)</i>							
Assets:							
Foreign government debt	\$22	\$1	\$2	\$62	(\$1)	\$86	
Corporate securities	2,243	(14)	356	260	349	3,194	(\$10)
RMBS	3,355	(84)	95	419	(238)	3,547	
CMBS	201		10	75	(20)	266	
Collateralized debt obligations	104	(66)	45		(4)	79	
Other asset-backed securities	210	2	(4)	96	(18)	286	
Total fixed maturity securities	6,135	(161)	504	912	68	7,458	(10)
Perpetual preferred securities	12	(12)	(4)	13	61	70	
Other equity securities		1	2	(5)	2	-	
Total equity securities	12	(11)	(2)	8	63	70	
Trading securities	97	(2)		(17)	(26)	52	5
Other investments	150		3		(4)	149	
Derivatives, net	(2,042)	1,531	(1)		18	(494)	1,540
Separate account assets ⁽²⁾	61	2		21	31	115	7
Total	\$4,413	\$1,359	\$504	\$924	\$150	\$7,350	\$1,542

(1) Represents the net amount of total gains or losses for the period, recorded in earnings, attributable to the change in unrealized gains (losses) relating to assets and liabilities classified as Level 3 that are still held as of June 30, 2009.

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

The Company did not have any nonfinancial assets or liabilities measured at fair value on a nonrecurring basis resulting from impairments as of June 30, 2009. The Company has not made any changes in the valuation methodologies.

13. INCOME TAXES

The provision for income taxes is as follows:

	Six Months Ended June 30,	
	2009	2008
	<i>(In Millions)</i>	
Current	(\$111)	\$1
Deferred	211	88
Provision for income taxes from continuing operations	100	89
Benefit from income taxes from discontinued operations	(7)	(2)
Total	<u>\$93</u>	<u>\$87</u>

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

	Six Months Ended June 30,	
	2009	2008
	<i>(In Millions)</i>	
Provision for income taxes at the statutory rate	\$163	\$140
Separate accounts dividends received deduction	(43)	(50)
Resolution of contingencies	(19)	
Low income housing and foreign tax credits	(11)	(13)
Other	10	12
Provision for income taxes from continuing operations	<u>\$100</u>	<u>\$89</u>

Upon adoption of FIN 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109*, on January 1, 2007, the Company had unrecognized tax benefits of \$32 million, which relate entirely to an uncertain tax position regarding refund claims for the impact of short-term capital gains on computing separate account Dividends Received Deductions (DRD).

During 2008, the Company's FIN 48 tax contingency increased by \$402 million for a tax position for which there is uncertainty about the timing, but not the deductibility, of certain tax deductions. Since the benefits of the tax position will be claimed on an amended return and the Company will not receive cash until the claim is audited and approved by the taxing authority, interest or penalties will not be accrued on this tax position. Due to the nature of deferred tax accounting, the tax position does not have an impact on the annual effective tax rate.

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

Balance at January 1, 2008	\$32
Additions and deletions	<u>402</u>
Balance at December 31, 2008	434
Additions and deletions	<u>(139)</u>
Balance at June 30, 2009	<u>\$295</u>

The \$402 million FIN 48 tax contingency was reduced by \$121 million as a result of events that occurred during the six months ended June 30, 2009. In addition, the Company effectively settled \$18 million of the gross uncertain tax position related to DRD,

which resulted in the realization of \$9 million of tax benefits. All realized tax benefits and related interest are recorded as a discrete item that will impact the effective tax rate in the accounting period in which the uncertain DRD tax position is ultimately settled. Income tax expense has also been reduced by \$10 million for additional interest income resulting from favorable tax settlements.

The Company files income tax returns in U.S. Federal and various state tax jurisdictions. The Company is under continuous audit by the Internal Revenue Service (IRS) and is audited periodically by some state taxing authorities. By statute, or valid extension thereof, all tax years after 1997 remain open. The IRS has completed audits of the Company's tax returns through the tax years ended December 31, 2005 and has commenced audits for tax years 2006 and 2007. The State of California is currently auditing tax years 2004 and 2005. The Company does not expect the Federal and state audits to result in any material assessments.

14. SEGMENT INFORMATION

The Company has three operating segments: Life Insurance, Investment Management and Annuities & Mutual Funds. These segments are managed separately and have been identified based on differences in products and services offered. All other activity is included in the Corporate and Other segment.

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

The Investment Management segment provides investment and insurance products to institutional investors, pension fund sponsors and structured settlement annuitants, primarily through its home office marketing team and other intermediaries. The segment's principal products include GICs, synthetic GICs, group retirement annuities sold to pension plans, funding agreement-backed notes issued to institutional investors via medium-term note programs or to the FHLB of Topeka and structured settlement annuities issued in conjunction with personal injury awards.

The Annuities & Mutual Funds segment offers variable and fixed annuity products, mutual funds and college savings plans through multiple distribution sources. Distribution channels include independent planners, financial institutions and national/regional wirehouses.

The Corporate and Other segment primarily includes investment income, expenses and assets not attributable to the operating segments, and the operations of certain subsidiaries that do not qualify as operating segments. The Corporate and Other segment also includes the interest in PIMCO and the elimination of intersegment transactions. Discontinued operations (Note 7) are also included in the Corporate and Other segment.

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

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

The Company generates substantially all of its revenues and net income from customers located in the U.S. As of June 30, 2009 and December 31, 2008, the Company had foreign investments with an estimated fair value of \$6.2 billion and \$5.8 billion, respectively. Revenues derived from any customer did not exceed 10% of consolidated total revenues for the six months ended June 30, 2009 and 2008.

The following is segment information as of and for the six months ended June 30, 2009:

	Life Insurance	Investment Management	Annuities & Mutual Funds	Corporate and Other	Total
<i>(In Millions)</i>					
REVENUES					
Policy fees and insurance premiums	\$469	\$444	\$262		\$1,175
Net investment income	441	393	115	(\$45)	904
Net realized investment gain (loss)	(3)	29	860	11	897
Other than temporary impairments	(35)	(125)	(9)	(33)	(202)
Investment advisory fees	8		85		93
Other income	5		48	4	57
Total revenues	885	741	1,361	(63)	2,924
BENEFITS AND EXPENSES					
Interest credited	337	202	80		619
Policy benefits	184	578	2		764
Commission expenses	127	11	539	4	681
Operating expenses	132	13	217	33	395
Total benefits and expenses	780	804	838	37	2,459
Income (loss) from continuing operations					
before provision (benefit) for income taxes	105	(63)	523	(100)	465
Provision (benefit) for income taxes	27	(24)	131	(34)	100
Income (loss) from continuing operations	78	(39)	392	(66)	365
Discontinued operations, net of taxes				(13)	(13)
Net income (loss)	78	(39)	392	(79)	352
Less: net loss attributable to the noncontrolling interest					
from continuing operations				27	27
Net income (loss) attributable to the Company	\$78	(\$39)	\$392	(\$52)	\$379
Total assets	\$27,611	\$14,330	\$48,448	\$3,038	\$93,427
DAC	2,017	62	2,350		4,429
Separate account assets	4,953	286	39,954		45,193
Policyholder and contract liabilities	20,989	13,542	6,046		40,577
Separate account liabilities	4,953	286	39,954		45,193

The following is segment information for the six months ended June 30, 2008:

	Life Insurance	Investment Management	Annuities & Mutual Funds	Corporate and Other	Total
<i>(In Millions)</i>					
REVENUES					
Policy fees and insurance premiums	\$441	\$202	\$378		\$1,021
Net investment income	422	444	88	\$85	1,039
Net realized investment gain (loss)	5	64	(5)	(2)	62
Other than temporary impairments	(9)	(42)	(1)	(2)	(54)
Realized investment gain on interest in PIMCO				109	109
Investment advisory fees	12		134		146
Other income	6		60	1	67
Total revenues	877	668	654	191	2,390
BENEFITS AND EXPENSES					
Interest credited	316	237	64		617
Policy benefits	191	371	5		567
Commission expenses	122	7	298		427
Operating expenses	134	16	181	48	379
Total benefits and expenses	763	631	548	48	1,990
Income from continuing operations					
before provision (benefit) for income taxes	114	37	106	143	400
Provision (benefit) for income taxes	30	10	(11)	60	89
Income from continuing operations	84	27	117	83	311
Discontinued operations, net of taxes				(2)	(2)
Net income	84	27	117	81	309
Less: net income attributable to the noncontrolling interest from continuing operations				(3)	(3)
Net income attributable to the Company	\$84	\$27	\$117	\$78	\$306

The following is segment information as of December 31, 2008:

Total assets	\$26,695	\$15,155	\$45,285	\$2,527	\$89,662
DAC	2,118	64	2,830		5,012
Separate account assets	4,525	284	36,696		41,505
Policyholder and contract liabilities	20,786	14,099	7,626		42,511
Separate account liabilities	4,525	284	36,696		41,505

15. TRANSACTIONS WITH AFFILIATES

Pacific Life Fund Advisors LLC, a wholly owned subsidiary of Pacific Life formed in 2007, serves as the investment adviser for the Pacific Select Fund, an investment vehicle provided to the Company's variable life insurance policyholders and variable annuity contract owners, and the Pacific Life Funds, the investment vehicle for the Company's mutual fund products. 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 \$109 million and \$157 million for the six months ended June 30, 2009 and 2008, 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 six months ended June 30, 2009 and 2008, PSD received \$39 million and \$54 million, respectively, in service fees from the Pacific Select Fund, which are recorded in other income. The service fees were allocated to the operating segments, primarily the Annuities & Mutual Funds segment (Note 14).

As discussed in Note 4, no lapse guarantee benefit riders are reinsured with PAR Bermuda.

16. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

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

<u>Twelve Months Ending June 30:</u>	
2010	\$1,107
2011 through 2014	639
2015 and thereafter	80
Total	<u>\$1,826</u>

The Company leases office facilities under various operating leases, which in most, but not all cases, are noncancelable. In connection with the sale of a block of business in 2005, PL&A is contingently liable for certain future rent and expense obligations, not to exceed \$16 million, related to an office lease that has been assigned to the buyer.

In connection with the reinsurance of NLGR benefits from Pacific Life to PAR Bermuda and PAR Vermont (Note 4), PAR Bermuda and PAR Vermont entered into a three year letter of credit agreement with a group of banks in April 2009. This agreement allows for the issuance of letters of credit with an expiration date of March 2012 to PAR Bermuda and PAR Vermont for up to a combined total amount of \$500 million. As of June 30, 2009, a \$286 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 June 30, 2009. Pacific LifeCorp guarantees the obligations of PAR Bermuda and PAR Vermont under the letter of credit agreement.

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 - IRS REVENUE RULING

On August 16, 2007, the IRS issued Revenue Ruling 2007-54, which provided the IRS' interpretation of tax law regarding the computation of the Company's 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 has been added to the IRS' priority guidance plan. If, after public notice and comment, the IRS regulation project ultimately adopts the IRS' interpretation contained in Revenue Ruling 2007-54, the Company could lose a substantial amount of DRD tax benefits, which could have a material adverse effect on the Company's condensed consolidated financial statements.

CONTINGENCIES - OTHER

In connection with the sale of certain broker-dealer subsidiaries (Note 7), 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 an asset securitization sponsored by Aviation Capital Group Corp., a wholly owned subsidiary of Pacific LifeCorp, Pacific Life is contingently obligated to purchase certain notes from the asset securitization trust to cover shortfalls in amounts due to the holders of the notes, up to certain levels as specified under the related agreements. As of June 30, 2009, the maximum potential amount of this future investment commitment was \$50 million.

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

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

See Note 13 for discussion of other contingencies related to income taxes.