SEMI-ANNUAL REPORT

Pacific Life Funding, LLC

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

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

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

Unless otherwise specified, the financial information contained in this Semi-annual Report (1) has been prepared in accordance with accounting principles generally accepted in the United States of America (**"GAAP"**), and (2) is derived from the Company's audited GAAP consolidated financial statements, including the notes thereto, as of December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009 (the **"Audited GAAP Financial Statements"**), and the Company's unaudited GAAP condensed consolidated financial statements, including the notes thereto, as of June 30, 2012 and for the six months ended June 30, 2012 and 2011 (the **"Unaudited Quarterly GAAP Financial Statements"**).

Dated: August 31, 2012

INTERIM MANAGEMENT REPORT

PACIFIC LIFE FUNDING, LLC

Background

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

The only business activity of PLF is to issue debt instruments and to purchase funding agreements from Pacific Life. The indentures governing the terms of the instruments issued by PLF prohibit PLF from engaging in any other business activity. PLF has not issued any instruments or purchased any funding agreements since 2005. Between its organization in 1998 and 2005, PLF issued $5,813 million in aggregate principal amount of instruments, of which $887 million aggregate principal amount remained outstanding as of June 30, 2012. 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 Farjallah and Mr. Martin Couch. Each of the directors is also an employee of MaplesFS Limited. MaplesFS Limited acts as administrator to PLF (the **"Administrator"**). The office of the Administrator serves as the general business office of PLF. Through the office, and pursuant to the terms of an administration agreement between PLF and the Administrator, the Administrator performs in the Cayman Islands various management functions on behalf of PLF, including communications with holders of securities and the general public, and the provision of certain clerical, administrative and other services until termination of the administration agreement. The Administrator's principal office is P.O. Box 1093, Boundary Hall, Cricket Square, George Town, Grand Cayman KY1-1102, Cayman Islands. There are currently no committees of the board of directors. There are currently no existing or proposed service contracts between PLF or any subsidiary thereof and any of the directors of PLF. The directors of PLF are not currently entitled to remuneration or benefits in kind from PLF and do not currently hold any interests in the share capital of PLF.

Capitalization

The authorized share capital of PLF is US$50,000 divided into 50,000 ordinary shares of US$1.00 each, 1,000 of which have been issued. All of the issued shares of PLF are fully paid and are held by MaplesFS Limited (the **"Share Trustee"**) under the terms of a Declaration of Trust dated April 15, 1998 (the **"Declaration of Trust"**) under which the Share Trustee holds the shares in trust. Under the terms of the

Declaration of Trust, so long as there are instruments outstanding, the Share Trustee may not sell or otherwise deal with the shares except to a person previously approved in writing by the indenture trustee for the instruments. It is not anticipated that any distribution will be made on the shares while any instrument is outstanding. When all of the outstanding instruments have matured or otherwise been redeemed, it is expected that the Share Trustee will wind up the trust and make a final distribution to charity. The Share Trustee has no beneficial interest in, and derives no benefit (other than its fee for acting as Share Trustee) from, its holding of the shares.

The following table presents PLF's capitalization as of June 30, 2012 prepared in conformity with GAAP. The information as of June 30, 2012 in this table is derived from the unaudited GAAP condensed financial statements of PLF as of June 30, 2012 and for the six months ended June 30, 2012 and 2011.

	June 30, 2012
Debt:	
Short-term debt	-
Long-term debt	$ 887,130,402
Total debt	887,130,402
Equity:	
Paid-in capital	1,000
Retained earnings	24,589
Accumulated other comprehensive income	-
Total equity	25,589
Total capitalization	$ 887,155,991

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, 2012. 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, 2012. 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, 2012.

STATEMENT OF RESPONSIBILITY

Pacific Life Funding, LLC

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

- the financial statements of PLF included in this report were prepared in accordance with U.S. GAAP and applicable law; and

- this Semi-annual Report constitutes a review by PLF's management of the business and position of PLF during the six months ended June 30, 2012, and contains a fair review of that period.

Dated: August 31, 2012

/s/ Martin Couch
Martin Couch
Director

/s/ Dianne Farjallah
Dianne Farjallah
Director

PACIFIC LIFE INSURANCE COMPANY

Selected Consolidated GAAP Financial Information of the Company

The following tables set forth selected consolidated GAAP financial information for the Company. You should read them in conjunction with the sections of the Semi-annual Report that follow, the Audited GAAP Financial Statements included in the Annual Report of PLF dated as of April 26, 2012, and the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results may differ from such estimates. Additionally, the results for past accounting periods are not necessarily indicative of the results to be expected for any future accounting period.

The selected consolidated GAAP financial information for the Company as of June 30, 2012 (other than **"**life insurance in force**"** and **"**employees**"** included in **"**Other Data**"**) and for the six months ended June 30, 2012 and 2011 has been derived from the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report.

The accompanying unaudited financial information reflects the retrospective adoption of Accounting Standards Update **("ASU")** 2010-26. ASU 2010-26 significantly amends the guidance applicable to accounting for costs associated with acquiring or renewing insurance contracts. As a result of this accounting change, total equity as of December 31, 2011 decreased by $649 million, after tax, due to the reduction of the Company's deferred acquisition cost (**"DAC"**) asset of $1.0 billion for deferred costs that did not meet the provisions of the revised standard. The impacts of the retrospective adoption on net income attributable to the Company and total equity for the periods presented in this Semi-annual Report are as follows:

	Consolidated Statements of Operations		
	As Previously Reported	Effect of Change	As Currently Reported
		(*In Millions*)	
For the six months ended June 30, 2011 Net income attributable to the Company	$ 344	$ (11)	$ 333
For the year ended December 31, 2011 Net income attributable to the Company	683	(121)	562
For the year ended December 31, 2010 Net income attributable to the Company	472	(6)	466
For the year ended December 31, 2009 Net income attributable to the Company	436	(28)	408

	Consolidated Statements of Financial Position		
	As Previously Reported	Effect of Change	As Currently Reported
		(*In Millions*)	
December 31, 2011 Total equity	$ 9,176	$ (649)	$ 8,527
December 31, 2010 Total equity	7,930	(545)	7,385
December 31, 2009 Total equity	6,917	(578)	6,339

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

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

	Six Months Ended June 30,		Years Ended December 31,		
	2012	2011[2]	2011[2]	2010[2]	2009[2]
	(in millions)				
Unaudited Consolidated Statement of Operations Data:					
Revenues:					
Policy fees and insurance premiums	$1,755	$1,494	$3,081	$2,367	$2,275
Net investment income	1,112	1,139	2,186	2,122	1,862
Net realized investment gain (loss)	(641)	(34)	(661)	(94)	153
Other than temporary impairments	(44)	(42)	(153)	(113)	(311)
Investment advisory fees	144	132	268	245	208
Aircraft leasing revenue	317	297	607	591	578
Other income	99	112	226	230	137
Total revenues	2,742	3,098	5,554	5,348	4,902
Benefits and Expenses:					
Policy benefits paid or provided	1,202	944	1,951	1,351	1,226
Interest credited to policyholder account balances	620	665	1,318	1,317	1,253
Commission expenses	140	360	122	831	691
Operating and other expenses	760	670	1,441	1,273	1,288
Total benefits and expenses	2,722	2,639	4,832	4,772	4,458
Income from continuing operations before provision (benefit) for income taxes	20	459	722	576	444
Provision (benefit) for income taxes	(72)	75	80	60	30
Income from continuing operations	92	384	642	516	414
Discontinued operations, net of taxes[1]	-	(6)	(9)	-	(20)
Net income	92	378	633	516	394
Less: net (income) loss attributable to the noncontrolling interest from continuing operations	(15)	(45)	(71)	(50)	14
Net income attributable to the Company	$ 77	$ 333	$ 562	$ 466	$ 408

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

(2) Amounts have been adjusted to reflect the retrospective adoption of ASU 2010-26. See further discussion previously disclosed in this Semi-annual Report and the in Unaudited Quarterly GAAP financial statements included in this Semi-annual report.

	June 30, 2012	December 31, 2011[1]	2010[1]	2009[1]
		($ in millions)		
Unaudited Consolidated Statement of Financial Condition Data:				
Assets:				
Investments	$ 47,408	$ 45,884	$ 44,222	$ 41,410
Cash and cash equivalents	1,855	2,829	2,270	1,919
Restricted cash	705	280	214	221
Deferred policy acquisition costs	4,541	4,264	3,606	3,917
Aircraft leasing portfolio, net	6,598	5,845	5,259	5,304
Other assets	3,155	3,069	2,579	2,253
Separate account assets	53,187	51,450	55,683	52,564
Total assets	$ 117,449	$ 113,621	$ 113,833	$ 107,588
Liabilities and Equity				
Liabilities:				
Policyholder account balances	$ 34,713	$ 34,392	$ 35,076	$ 33,984
Future policy benefits	10,426	9,467	7,080	7,403
Short-term debt	-	-	-	105
Long-term debt	7,444	7,152	6,516	5,632
Other liabilities	2,756	2,633	2,093	1,561
Separate account liabilities	53,187	51,450	55,683	52,564
Total liabilities	108,526	105,094	106,448	101,249
Stockholder's Equity:				
Common stock	30	30	30	30
Paid-in capital	982	982	982	982
Retained earnings	6,184	6,177	5,761	5,445
Accumulated other comprehensive income (loss)	1,380	1,004	361	(349)
Total stockholder's equity	8,576	8,193	7,134	6,108
Noncontrolling interest	347	334	251	231
Total equity	8,923	8,527	7,385	6,339
Total liabilities and equity	$ 117,449	$ 113,621	$ 113,833	$ 107,588
Other Data:				
Life insurance in force	$ 221,173	$ 302,532	$ 221,560	$ 220,935
Employees	2,705	2,701	2,541	2,592

[1] Amounts have been adjusted to reflect the retrospective adoption of ASU 2010-26. See further discussion previously disclosed in this Semi-annual Report and in the Unaudited Quarterly GAAP financial statements included in this Semi-annual report.

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

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

Background

Pacific Life was established in 1868 and is a stock life insurance company incorporated in the State of Nebraska, United States of America (**"U.S."**) that conducts business in the District of Columbia and every state in the U.S. except the State of New York. Pacific Life is a direct, wholly owned subsidiary of Pacific LifeCorp, a stock holding company incorporated in the State of Delaware, United States of America. Pacific LifeCorp is a direct, wholly owned subsidiary of Pacific Mutual Holding Company (**"PMHC"**), a mutual insurance holding company incorporated in the State of Nebraska, United States of America. PMHC and Pacific LifeCorp were created in 1997 when Pacific Life converted into a mutual insurance holding company structure. Under this mutual insurance holding company structure, certain owners of insurance policies and annuity contracts (other than funding agreements and certain other types of contracts) issued by Pacific Life are automatically members of PMHC. Members of PMHC have the right to elect the directors of PMHC, to vote on other matters coming to a vote of the members at annual and special meetings and to receive distributions of surplus in the event of the dissolution or liquidation of PMHC. Under State of Nebraska law and the applicable organizational and conversion documents, PMHC must at all times own at least 51% of the outstanding voting stock of Pacific LifeCorp, and Pacific LifeCorp must at all times own all of the voting stock of Pacific Life.

The Company's primary business operations consist of life insurance, annuities, mutual funds and aircraft leasing. As of June 30, 2012 and December 31, 2011 and 2010, the Company had $117.4 billion, $113.6 billion and $113.8 billion, respectively, in total assets, and total stockholder's equity of $8.6 billion, $8.2 billion and $7.1 billion, respectively. Life insurance in force was $221.2 billion, $302.5 billion and $221.6 billion as of June 30, 2012 and December 31, 2011 and 2010, respectively. Net income attributable to the Company was $77 million for the six months ended June 30, 2012 (the **"2012 Period"**), as compared to $333 million for the six months ended June 30, 2011 (the **"2011 Period"**), and $562 million for the year ended December 31, 2011 as compared to $466 million for the year ended December 31, 2010.

On August 31, 2011, Pacific Life and Pacific Life Reinsurance (Barbados) Limited (**"PLRB"**), a newly formed insurer and wholly owned subsidiary of Pacific LifeCorp, acquired Manulife Financial Corporation's (**"Manulife"**) life retrocession business. On July 28, 2011, the Company acquired a pension advisory business, which began operations in a newly formed, wholly owned subsidiary of Pacific Life named Pacific Global Advisors LLC (**"PGA"**). For more information about PGA and the life retrocession business acquired from Manulife, see the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report.

Pacific Life's principal administrative offices are located at 700 Newport Center Drive, Newport Beach, California, United States of America, in a 285,000 square-foot office building it owns.

Segments

The Company's primary operating segments are: Life Insurance, Retirement Solutions, Aircraft Leasing, Reinsurance (a new segment formed as a result of the acquisition of Manulife's life retrocession business) and Corporate and Other, as well as its principal subsidiaries and affiliates.

The Life Insurance segment provides a broad range of life insurance products through multiple distribution channels operating in the upper income and corporate markets. Principal products include universal life, variable universal life, survivor life, interest sensitive whole life, corporate-owned life insurance and traditional products such as whole life and term life. Distribution channels include regional life offices, marketing organizations, broker-dealer firms, wirehouses and M Financial, an association of independently owned and operated insurance and financial producers. As of June 30, 2012 and December 31, 2011, the Life Insurance segment represented 27% of the Company's total assets.

The Retirement Solutions segment's principal products include variable and fixed annuity products, mutual funds, and structured settlement and group retirement annuities, which are offered through multiple distribution channels. Distribution channels include independent planners, financial institutions and national/regional wirehouses. As of June 30, 2012 and December 31, 2011, this segment represented 60% and 58%, respectively, of the Company's total assets.

The Aircraft Leasing segment encompasses the operations of ACG. This segment focuses primarily on the acquisition and leasing of commercial jet aircraft to airlines worldwide, while also engaging in third-party aircraft management advisory services, aircraft trading activities and aircraft brokerage services. The Aircraft Leasing segment's portfolio included, as of June 30, 2012, 262 owned and managed aircraft. As of June 30, 2012 and December 31, 2011, the Aircraft Leasing segment represented 7% of the Company's total assets.

The Reinsurance segment primarily includes the domestic life portion of the retrocession business acquired from Manulife in 2011 and international reinsurance the Company has assumed from Pacific Life Re Limited, a wholly owned subsidiary of Pacific LifeCorp incorporated in the United Kingdom. As of June 30, 2012 and December 31, 2011, the Reinsurance segment represented 1% of the Company's total assets.

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

Principal Subsidiaries and Affiliates

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

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

PSD is a registered broker-dealer and the underwriter and wholesale distributor of certain of the Company's investment-related products and services, principally variable life and annuity contracts and retail mutual funds. Pacific Select Fund, the investment vehicle provided to the Company's variable life insurance policyholders and variable annuity contract owners, 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.

The Company's former broker-dealer operations have been reflected as discontinued operations in the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report. In May 2007, the Company classified its broker-dealer subsidiaries, other than PSD, as held for sale. During 2008 and 2007, these broker-dealers were sold.

Pacific Asset Holding LLC (**"PAH"**), a wholly owned subsidiary of Pacific Life, holds certain other investments, primarily private equity and real estate holdings.

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

PGA, a wholly owned subsidiary of Pacific Life, is a pension advisory business acquired by Pacific Life in 2011. PGA's primary business objective is to provide advisory services to employee benefit plans.

Revenues and Expenses

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

Operating earnings result primarily from (1) the spread between the rates earned on invested assets and the rates credited to policyholders, (2) the fees earned on mortality and expense charges on variable products, (3) investment advisory fees earned on separate account assets and (4) income generated from aircraft leasing. Operating earnings are affected by claims experience and the persistency of policies and their continuing premiums and the investment markets. In addition, the Company seeks to increase earnings by carefully managing operating expenses through its budgeting process, monitoring of expense recoveries and improvements through the use of technology. Included in operating expenses are components such as salary and wages, employee benefits, rent, professional services, interest, depreciation and other sundry expenses.

Results of Operations

Six Months Ended June 30, 2012 compared to the Six Months Ended June 30, 2011

Net income attributable to the Company was $77 million for the 2012 Period as compared to $333 million for the 2011 Period. The decrease in net income was the result of higher mark-to-market losses on variable annuity rider guarantees, net of reinsurance, hedges and DAC, losses on forward starting swaps, higher macro equity hedge losses and lower returns from the Corporate surplus portfolio, partially offset by macro interest rate hedge gains provided by the Corporate and Other segment. See the discussion of the condensed consolidated statement of operations line items below.

Policy fees and insurance premiums increased $261 million for the 2012 Period to $1,755 million as compared to $1,494 million for the 2011 Period. Policy fees consist of cost-of-insurance charges, expense loads, surrender charges and other fees related to products. This increase was primarily due to growth in new business and acquisition of the Manulife retrocession business in the third quarter of 2011.

Net investment income slightly decreased from $1,139 million in the 2011 Period to $1,112 million in the 2012 Period, a decrease of 2%. The decrease in the 2012 Period as compared to the 2011 Period was primarily related to lower investment income from partnership and joint venture investments, partially offset by higher investment income from mortgage loan investments.

Net realized investment loss for the 2012 Period amounted to $641 million compared to $34 million for the 2011 Period. This increase in net realized investment losses of $607 million was primarily related to higher losses of $465 million from the negative mark-to-market of certain embedded derivatives and hedges related to variable annuity guaranteed living benefits, net of policy fees, in the Retirement Solutions segment, which increased from a loss of $72 million in the 2011 Period to a loss of $537 million in the 2012 Period, primarily as a result of lower interest rates and credit spread tightening. Also contributing to these losses was a $141 million loss from the Company's macro hedges, which increased from a loss of $99 million in the 2011 Period. In addition, the Company experienced losses on forward starting interest rate swaps of $77 million in the 2012 Period compared to zero in the 2011 Period. See the Unaudited Quarterly GAAP Financial Statements included elsewhere in this Semi-annual Report for additional information on the components of net realized investment gain (loss).

Other than temporary impairments (**"OTTI"**) increased slightly to $44 million in the 2012 Period as compared to $42 million in the 2011 Period. See the Unaudited Quarterly GAAP Financial Statements included elsewhere in this Semi-annual Report for additional information on the components of OTTI.

Investment advisory fees increased $12 million to $144 million in the 2012 Period from $132 million in the 2011 Period. This increase was primarily attributable to the acquisition of the pension advisory business operated by PGA.

Aircraft leasing revenue increased $20 million to $317 million in the 2012 Period from $297 million in the 2011 Period. This increase was primarily the result of net aircraft additions, partially offset by an increase in the number of aircraft in transition.

Other income was $99 million in the 2012 Period as compared to $112 million in the 2011 Period, a decrease of $13 million primarily due to fewer sales of aircraft in the Aircraft Leasing segment in 2012.

Policy benefits paid or provided increased $258 million to $1,202 million for the 2012 Period from $944 million for the 2011 Period. The increase was primarily related to the acquisition of the life retrocession business from Manulife, and increases to other annuity benefits and reserves in the Retirement Solutions segment. These increases were partially offset by a decrease in the Life Insurance segment, which was primarily attributable to lower death benefit payments.

Interest credited to policyholder account balances decreased to $620 million for the 2012 Period from $665 million for the 2011 Period. This decrease of $45 million was attributable to a decrease in Corporate and Other segment primarily as a result of less interest credited due to declining liabilities in Corporate Products, partially offset by increases due to Life Insurance segment's higher policyholder account values and Retirement Solutions segment's higher average fixed account liability balances.

Commission expenses for the 2012 Period decreased $220 million to $140 million compared to $360 million in the 2011 Period. Commission expenses include components of DAC and vary with the level of sales by business segment due to the mix of products, as well as the change in the embedded derivative, net of hedges and policy fees, related to variable annuity guaranteed living benefits in the Retirement Solutions segment. The commission expenses decrease in the 2012 Period as compared to the 2011 Period was $242 million due to rider-related reserve and hedge losses driving negative DAC amortization in the Retirement Solutions segment, partly offset by an increase due to the retrocession businesses and an increase in the Life Insurance segment due to increased DAC amortization.

Operating and other expenses for the 2012 Period increased by $90 million compared to the 2011 Period, to $760 million from $670 million. Operating and other expenses include components of DAC, and the amortization of DAC is dependent on various factors that affect future gross profits by business segment, including the change in the embedded derivative, net of hedges and policy fees, related to variable annuity guaranteed living benefits in the Retirement Solutions segment. Operating and other expenses in the Life Insurance segment increased $10 million due to higher software amortization, external services and net DAC expenses. The Aircraft Leasing segment had an increase of $36 million in operating expenses primarily due to higher aircraft maintenance expenses, aircraft depreciation, operating lease expenses and interest expense. Operating and other expense in the Corporate and Other segment increased $34 million primarily due to increased interest expense and the PGA acquisition. The Reinsurance segment's operating expenses were $12 million higher due to the retrocession business acquired in 2011.

The provision (benefit) for income taxes for the 2012 Period amounted to ($72) million compared to $75 million for the 2011 Period. This decrease in tax expense was primarily due to lower taxable income in the 2012 Period. The taxes in the 2012 Period and in the 2011 Period were lower than the statutory rate primarily due to the separate account dividends received deductions, other tax credits, and the reduction of Aircraft Leasing segment deferred tax liabilities.

Year Ended December 31, 2011 compared to the Year Ended December 31, 2010

Net income attributable to the Company increased $96 million from $466 million in 2010 to $562 million in 2011. This increase was primarily related to higher net income of $219 million in the Corporate and Other segment, which increased from a net loss of ($145) million in 2010 to net income of $74 million in 2011, principally due to higher hedging gains, partially offset by lower net investment income in the segment. Net income attributable to the Company from the other business segments combined decreased $123 million from $611 million in 2010 to $488 million in 2011. The decrease was primarily attributable to the retrospective adjustment for ASU 2010-26 for the Life Insurance and Retirement Solutions segments, which decreased net income in 2011 by $121 million compared to a decrease of $6 million in 2010. For more information, see the discussion of the consolidated statement of operations line items below.

Policy fees and insurance premiums increased $714 million in 2011 to $3,081 million as compared to $2,367 million in 2010. Policy fees consist of cost-of-insurance charges, expense loads, surrender charges and other fees related to products. The Retirement Solutions segment had an increase of $436 million, principally from sales of a new product and higher retail contract fees. Also contributing to the increase was an increase in insurance premiums of $188 million in the Reinsurance segment, primarily attributable to the acquisition of the Manulife life retrocession business in 2011. Policy fees and insurance premiums increased $90 million for the Life Insurance segment, primarily from higher policy charges.

Net investment income increased slightly from $2,122 million in 2010 to $2,186 million in 2011. The increase in 2011 as compared to 2010 was primarily related to higher investment income from mortgage loan and real estate investments and higher returns from partnership and joint venture investments, partially offset by lower investment income from fixed maturity securities and other investments.

Net realized investment gain (loss) for 2011 amounted to ($661) million compared to ($94) million for 2010. This increase in net realized investment losses of $567 million was primarily related to higher losses of $1,219 million from the negative mark-to-market of certain embedded derivatives and hedges related to variable annuity guaranteed living benefits, net of policy fees, in the Retirement Solutions segment, which increased from a loss of $141 million in 2010 to a loss of $1,360 million in 2011, primarily as a result of lower interest rates. Partially offsetting these losses was a $294 million gain from the Company's equity put option hedges, which increased from a loss of $159 million in 2010 to a gain of $135 million in 2011. In addition, the Company experienced higher gains on forward starting interest rate swaps and foreign currency and interest rate swaps, which combined for an increase of $358 million in 2011. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 26, 2012 for additional information on the components of net realized investment gain (loss).

OTTI increased to $153 million in 2011 as compared to $113 million in 2010, primarily from higher OTTI of $38 million related to residential mortgage-backed securities. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 26, 2012 for additional information on the components of OTTI.

Investment advisory fees increased $23 million to $268 million in 2011 from $245 million in 2010. This increase was primarily attributable to fees earned in 2011 related to the PGA acquisition and higher advisory fees earned by the Retirement Solutions segment on higher average separate account assets under management.

Aircraft leasing revenue increased $16 million to $607 million in 2011 from $591 million in 2010. This increase was primarily the result of an increase in operating lease revenue due to the addition of aircraft to the portfolio, partially offset by lower lease rates on certain existing aircraft and an increase in the number of aircraft in transition.

Other income was $226 million in 2011 as compared to $230 million in 2010. Other income for the Aircraft Leasing segment decreased due to higher maintenance reserve liabilities released in 2010, partially offset by higher gains from aircraft sales. Additionally, the Retirement Solutions segment had higher service and other fees. These asset-based fees are calculated on average separate account assets, which, as described above, increased in 2011 as compared to 2010.

Policy benefits paid or provided increased $600 million to $1,951 million for 2011 from $1,351 million for 2010. The increase was primarily related to $420 million of higher policy benefits in the Retirement Solutions segment, principally from higher reserves. Also contributing to the increase was an increase in policy benefits in the Reinsurance segment of $183 million, primarily due to the life retrocession business acquired from Manulife in 2011.

Interest credited to policyholder account balances was $1,318 million for 2011 compared to $1,317 million for 2010. This slight increase of $1 million was attributable to an increase in the Retirement Solutions segment's average fixed account liability balances, and an increase in the Life Insurance segment's policyholder account values, partially offset by a decrease in crediting rates and a decrease in the Corporate and Other segment's institutional investment products resulting from liability maturities.

Commission expenses for 2011 decreased $709 million to $122 million compared to $831 million in 2010. 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 related to variable annuity guaranteed living benefits and hedges, in the Retirement Solutions segment. The decrease in commission expenses in 2011, as compared to 2010, was primarily related to the Retirement Solutions segment, which allocated negative DAC amortization to commission expenses, driven by variable annuity guaranteed living benefit embedded derivative and hedge losses in 2011 and the Company's change in accounting method relating to the DAC amortization method effective October 1, 2011. Partially offsetting this decrease was a net increase for the Life Insurance segment's higher DAC amortization. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 26, 2012 for additional information on the Company's change in accounting method relating to DAC amortization.

Operating and other expenses for 2011 increased by $168 million compared to 2010, from $1,273 million to $1,441 million. Operating and other expenses include components of DAC, and the amortization of DAC is dependent on various factors that affect future gross profits by business segment, including the change in the embedded derivative related to variable annuity guaranteed living benefits and hedges, in the Retirement Solutions segment. The Retirement Solutions segment had slightly lower operating expenses of $3 million in 2011 as compared to 2010, primarily resulting from negative DAC amortization allocated to operating expenses, driven by the variable annuity guaranteed living benefit embedded derivative, hedge losses in 2011, the Company's change in accounting method relating to the DAC amortization method effective October 1, 2011. The Life Insurance segment had increases in operating and other expenses of $26 million to 2011 as compared to 2010. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 26, 2012 for additional information on the

Company's change in accounting method relating to DAC amortization and the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report with respect to the retrospective adoption of ASU 2010-26. The Aircraft Leasing segment had an increase of $69 million in operating expenses primarily due to higher aircraft maintenance expenses, aircraft depreciation, operating lease expenses and interest expense. The Reinsurance segment's operating expenses were $18 million higher due to the life retrocession business acquired from Manulife in 2011.

The provision for income taxes for 2011 amounted to $80 million compared to $60 million for 2010. The taxes in 2011 and in 2010 were lower than the statutory rate primarily due to the separate account dividends received deductions. See the Audited GAAP Financial Statements included elsewhere in the Annual Report of PLF dated April 26, 2012 for additional information on income taxes.

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

Net income attributable to the Company was $466 million for the year ended December 31, 2010 as compared to $408 million for the year ended December 31, 2009. The increase in net income was attributable to higher asset-based fees in the Retirement Solutions segment, higher realized investment gains in the Life Insurance segment and higher net income from the Aircraft Leasing segment. In addition, lower put option hedging losses and higher returns from the Corporate surplus portfolio in the Corporate and Other segment contributed to the increase in net income. Additionally, the adoption of ASU 2010-26 resulted in a $6 million decrease to net income attributable to the Company in 2011 as compared to a $28 million decrease to net income attributable to the Company in 2010. These increases were partially offset by mark-to-market losses on rider guarantees, net of hedges, in 2010 compared to a net gain in 2009, higher amortization of DAC in the Retirement Solutions segment, higher net death claims in the Life Insurance segment. See the discussion of the consolidated statement of operations line items below.

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

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

Net realized investment gain (loss) for 2010 amounted to ($94) million compared to $153 million for 2009. The increase in net realized investment loss of $247 million was primarily related to a $440 million negative change in the mark-to-market of certain embedded derivatives related to variable annuity guaranteed living benefits in the Retirement Solutions segment, net of hedges and policy fees, which decreased from a gain of $299 million in 2009 to a loss of $141 million in 2010. Partially offsetting this loss was higher realized gains from the sales of investments of $132 million and lower hedging losses in the Corporate and Other segment of $100 million in 2010 as compared to 2009. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 26, 2012 for additional information on the components of net realized investment gain (loss).

OTTI decreased to $113 million in 2010 as compared to $311 million in 2009. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 26, 2012 for additional information on the components of OTTI.

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

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

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

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

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

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

Operating and other expenses for 2010 decreased by $15 million compared to 2009, from $1,288 million to $1,273 million. Operating and other expenses include components of DAC, and the amortization of DAC is dependent on various factors that affect future gross profits by business segment, including the change in the embedded derivative, net of hedges and policy fees, related to variable annuity guaranteed living benefits in the Retirement Solutions segment. For most products, DAC amortization represents a percentage of gross profits. During 2010, the Retirement Solutions segment had higher operating expenses of $22 million primarily related to an increase in DAC amortization primarily driven by positive gross margins in 2010 than in 2009. Offsetting this increase was the Corporate and Other segment's decrease of $83 million primarily due to the termination of the employee's retirement plan in 2009. In addition, depreciation of aircraft, which is included in operating and other expenses, increased $14 million in 2010 due to the addition of aircraft in 2009 and 2010, partially offset by a reduction in aircraft resulting from aircraft sales. Also included in operating and other expenses is interest expense that increased $29 million in 2010 as compared to 2009 due to the issuance by Pacific Life of $1.0 billion of surplus notes to third-party investors in June 2009 and the issuance of a $450 million internal surplus note by Pacific Life to Pacific LifeCorp in March 2010. See **"**Liquidity and Capital Resources**"** below for further discussion of the surplus note issuance.

The provision for income taxes for 2010 amounted to $60 million compared to $30 million for 2009. The taxes in 2010 and in 2009 were lower than the statutory rate primarily due to the separate account dividends received deductions.

Assets

As of June 30, 2012, the Company had total assets of $117.4 billion as compared to $113.6 billion as of December 31, 2011. An increase in separate account assets from $51.5 billion at December 31, 2011 to $53.2 billion at June 30, 2012 contributed to the increase in total assets. In addition, investments increased by $1.5 billion, restricted cash increased by $0.4 billion, and aircraft leasing portfolio, net increased by $0.8 billion from December 31, 2011 to June 30, 2012. These increases were partially offset by a decrease of $1.0 billion in cash and cash equivalents. See the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report for additional information.

As of December 31, 2011, the Company had total assets of $113.6 billion as compared to $113.8 billion as of December 31, 2010. A decrease in separate account assets from $55.7 billion at December 31, 2010 to $51.5 billion at December 31, 2011 contributed to the decrease in total assets. Partially offsetting this decrease was an increase to total investments of $1.7 billion, an increase in cash and cash equivalents of $0.5 billion, an increase in DAC of $0.7 billion, an increase in the aircraft leasing portfolio of $0.6 billion and an increase in other assets of $0.5 billion. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 26, 2012 for additional information.

As of December 31, 2010, the Company had total assets of $113.8 billion as compared to $107.6 billion as of December 31, 2009. This increase in total assets was partially due to an increase in separate account assets from $52.6 billion at December 31, 2009 to $55.7 billion at December 31, 2010. Total investments also increased from $41.4 billion as of December 31, 2009 to $44.2 billion as of December 31, 2010, primarily due to increases in fixed maturity securities. Cash and cash equivalents also increased by $0.4 billion and other assets increased by $0.3 billion from December 31, 2009 to December 31, 2010. This increase was partially offset by a $0.3 billion decrease to DAC. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 29, 2011 for additional information.

Liabilities

As of June 30, 2012, the Company had total liabilities of $108.5 billion as compared to $105.1 billion as of December 31, 2011. This increase in total liabilities was partially a result of the increase in separate account liabilities from $51.5 billion as of December 31, 2011 to $53.2 billion as of June 30, 2012. The increase in total liabilities was also due to a net increase in long-term debt of $0.3 billion and an increase in future policy benefits of $1.0 billion.

As of December 31, 2011, the Company had total liabilities of $105.1 billion as compared to $106.4 billion as of December 31, 2010. This decrease in total liabilities was primarily a result of the decrease in separate account liabilities from $55.7 billion as of December 31, 2010 to $51.5 billion as of December 31, 2011 and a decrease in policyholder account balances of $0.7 billion. This decrease was partially offset by increases in future policy benefits of $2.4 billion, long-term debt of $0.6 billion and other liabilities of $0.5 billion. See the Audited GAAP Financial Statements included in the Annual Report of PLF dated April 26, 2012 for additional information on liabilities.

As of December 31, 2010, the Company had total liabilities of $106.4 billion as compared to $101.2 billion as of December 31, 2009. This increase in total liabilities was primarily a result of the increase in separate account liabilities from $52.6 billion as of December 31, 2009 to $55.7 billion as of December 31, 2010. Policyholder account balances also increased $1.1 billion to $35.1 billion as of December 31, 2010. Long-term debt increased $0.9 billion primarily due to the issuance of a $450 million internal surplus note by Pacific Life to Pacific LifeCorp in March 2010, a $255 million issuance by ACG of senior unsecured notes in a private placement offering in April 2010 and a $600 million senior note issuance by ACG in October 2010.

Liquidity and Capital Resources

The Company’s principal sources of funds come from new premiums, investment income, regular investment sales, maturities, and dividends or distributions from its subsidiaries. These funds are used primarily for payment of policyholder benefits, maturities of investment-type products, asset purchases, policy acquisition costs, income taxes and operating expenses. Remaining funds not used as noted above are generally used to increase the capital base, meet the need for future policy benefit payments, and write new business. The Company closely monitors its liquidity profile. The Company's principal source of liquidity to meet unexpected cash outflows is its portfolio of liquid assets, which include short-term money market investments and public bonds. These assets provide ample liquidity. As a matter of policy, the Company includes provisions in many of its products that reduce the likelihood of withdrawal. A substantial portion of its liabilities is not subject to surrender, or can be surrendered only after deduction of a charge or market value adjustment. As described below, total cash and cash equivalents decreased $974 million during the 2012 Period as compared to a decrease of $106 million during the 2011 Period and increased $559 million during 2011 as compared to an increase of $351 million during 2010. Total cash and cash equivalents decreased $1,478 million during 2009.

Net cash provided by operating activities was $1,413 million during the 2012 Period as compared to $1,529 million in the 2011 Period, and was $3,589 million during 2011 as compared to $3,024 million in 2010 and $2,410 million in 2009. 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 used in investing activities was $2,322 million during the 2012 Period as compared to $914 million in the 2011 Period, and was $1,195 million during 2011 as compared to $2,301 million during 2010 and $5,334 million in 2009. Net cash used in investing activities was higher in the 2012 Period as compared to the 2011 Period due to lower sales and higher purchases of fixed maturity and equity securities available for sale. Also contributing to the increase in net cash used in investing activities was a fluctuation in net change in cash collateral received or pledged. The higher net cash used in investing activities was partially offset by lower fundings of mortgage loans and real estate and lower repayments of mortgage loans during the 2012 Period as compared to the 2011 Period. Net cash used in investing activities was lower in 2011 as compared to 2010 due to lower fixed maturity and equity securities purchases. Net cash used in investing activities was lower in 2010 as compared to 2009 due to higher fixed maturity and equity securities sales, partially offset by an increase in purchases. In addition, net cash used in investing activities in 2009 was higher as compared to 2010 due to higher purchases of fixed maturity and equity securities in 2009. 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 and 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. Partially offsetting the decrease in net cash used in investing activities was higher fundings of mortgage loans and real estate in 2011 compared to 2010 and higher purchases of, and advance payments on, the aircraft leasing portfolio in 2011 compared to 2010. Also contributing to the lower cash outflows from 2011 as compared to 2010 and 2010 as compared to 2009 was the net change in cash collateral received or pledged. The Company also had fluctuations in payments for nonhedging derivative settlements and change in collateral received or pledged during 2011, 2010 and 2009. The Company also had fluctuations in payments for nonhedging derivative settlements in 2011 compared to 2010, primarily due to the termination of derivative instruments as a result of the discontinuance of cash flow hedge accounting in 2011. In 2010, cash payments for nonhedging derivative settlements decreased as compared to 2009 due to a decrease in settlements on total return swap derivatives used to hedge variable annuity risks. In 2009, on an aggregate basis, the Company returned cash collateral to counterparties due to a decrease in the net aggregate exposure resulting from a decrease in the derivative positions’ market value.

Net cash provided by (used in) financing activities was ($65) million during the 2012 Period as compared to ($721) million in the 2011 Period, and was ($1,835) million during 2011 as compared to ($372) million in 2010 and $1,446 million during 2009. The decrease in net cash used in financing activities in the 2012 Period as compared to the 2011 Period primarily related to higher policyholder account balance deposits and lower withdrawals, lower payments of long-term debt, partially offset by lower issuances of long-term debt and a $70 million cash dividend Pacific Life paid to Pacific LifeCorp in March 2012. The increase in net cash used in financing activities in 2011 as compared to 2010 primarily related to higher policyholder account balance withdrawals. Net cash provided by (used in) financing activities was lower in 2010 as compared to 2009 primarily as the result of lower policyholder account balance deposits and withdrawals and an increase in payments of long-term debt. Pacific Life also paid a $150 million cash dividend to Pacific LifeCorp in March 2010 and Pacific LifeCorp made a $200 million contribution to Pacific Life in 2009. Net cash provided by financing activities increased in 2009 primarily as the result of the issuance by Pacific Life of an aggregate principal amount of $1.0 billion of surplus notes in June 2009 and a $200 million contribution from Pacific LifeCorp to Pacific Life in 2009. Also, changes in universal life and investment-type product account balances and changes in short-term and long-term debt were additional drivers of the change in cash flows from financing activities.

The payment of dividends by Pacific Life to Pacific LifeCorp is subject to restrictions set forth in the insurance laws of the State of Nebraska. Under these laws, Pacific Life must deliver notice to the Nebraska Department of Insurance of any dividend or distribution to Pacific LifeCorp within five business days after declaration of the dividend or distribution, and may not pay the dividend or distribution to Pacific LifeCorp within the ten business day period following delivery of such notice unless the Nebraska Department of Insurance approves payment of the dividend or distribution within such ten business day period. In addition, Pacific Life may not pay an **"**extraordinary**"** dividend or distribution to Pacific LifeCorp until the Nebraska Department of Insurance has either (i) approved the payment of the dividend or distribution or (ii) not disapproved the payment of the dividend or distribution within thirty days after receiving notice of the declaration of the dividend or distribution. For purposes of applicable State of Nebraska law, an **"**extraordinary**"** dividend or distribution is a dividend or distribution of cash or other property with a fair market value that, together with that of other dividends or distributions made by Pacific Life to Pacific LifeCorp within the preceding twelve months, exceeds the greater of either (i) 10% of Pacific Life's statutory policyholders surplus as of the preceding December 31 or (ii) Pacific Life's statutory net gain from operations for the twelve month period ending the preceding December 31. Based on its 2011 statutory results, Pacific Life could pay $199 million in ordinary dividends or distributions during 2012, subject to the ten business day notice period described above. Dividends in excess of such amount would be considered **"**extraordinary**"** dividends or distributions for purposes of State of Nebraska law and would be subject to the thirty day notice and non-disapproval requirement described above. During the 2012 Period, Pacific Life paid a cash dividend to Pacific LifeCorp of $70 million. No dividends were paid by Pacific Life during the 2011 Period or during 2009. During 2011 and 2010, Pacific Life paid cash dividends to Pacific LifeCorp of $125 million and $150 million, respectively.

Liquidity and Capital Sources and Requirements

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

The Company believes that its product mix contributes to its strong liquidity position. A primary liquidity concern for the Company is the risk of early contract owner and policyholder withdrawals. The Company closely evaluates and manages this risk. A significant portion of the Company's life insurance, institutional and annuity products contain surrender charges for varying durations or fair value adjustments, reducing the risk that customers will seek withdrawals during the periods when surrender charges or fair value adjustments are in place. Surrender charges or fair value adjustments help the Company to better plan the maturities of its invested assets by reducing the risk that future outflows will exceed anticipated levels. In addition, the Company monitors ACG's liquidity requirements for future commitments to purchase aircraft. ACG meets its liquidity needs to fund future aircraft commitments by accessing the debt and capital markets through various channels, including the domestic U.S. bank loan market, the issuance of asset-backed debt instruments, European Export Credit Agency and U.S. Export-Import Bank guaranteed loans and the issuance of various corporate debt instruments. See the discussion below for more information about ACG's sources of liquidity.

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

	June 30, 2012		**December 31, 2011**	
	Amount	**% of Total**	**Amount**	**% of Total**
	($ in millions)			
Subject to discretionary withdrawal:				
With fair value adjustment	$ 3,364	5%	$ 3,267	5%
At book value less current surrender charge of 5% or more	3,548	6%	3,511	6%
At fair value	44,664	72%	43,253	71%
Total with adjustment or at fair value	51,576	83%	50,031	82%
At book value without adjustment	1,918	3%	1,904	3%
Not subject to discretionary withdrawal	8,870	14%	9,271	15%
Total (gross)	62,364	100%	61,206	100%
Reinsurance ceded	62		–	
Total (net)	$ 62,302		$ 61,146	

As noted in the table above, as of June 30, 2012 and December 31, 2011, only 3% of these liabilities were subject to withdrawal at book value without adjustment. The other 97% of these liabilities as of June 30, 2012 and December 31, 2011 were either subject to withdrawal with an adjustment or at fair value or were not subject to discretionary withdrawal. The products are designed in this manner to discourage early withdrawals and protect Pacific Life from liquidity risks. Pacific Life believes the structuring of liabilities in this manner provides it with a stable block of liabilities that reduces its exposure to unexpected cash withdrawals and demands and the adverse financial effects that could occur as a result.

In June 2009, Pacific Life issued an aggregate principal amount of $1.0 billion of surplus notes maturing on June 15, 2039. Pacific Life is required to pay interest on these surplus notes at an annual rate of 9.25%. Pacific Life also has outstanding $150 million of surplus notes due December 30, 2023 on which Pacific Life is required to pay interest at an annual rate of 7.90%. For both of these surplus notes, all future payments of interest and principal can be made only with the prior approval of the Nebraska Director of Insurance.

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

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

Additional sources of liquidity include facilities for short-term borrowing to meet working capital requirements. Pacific Life maintains a $700 million commercial paper program. There was no commercial paper debt outstanding as of June 30, 2012 and December 31, 2011 and 2010. In addition, Pacific Life has a bank revolving credit facility of $400 million maturing in November 2016 that serves as a back-up line of credit for the commercial paper program. This facility had no debt outstanding as of June 30, 2012 and December 31, 2011 and 2010. As of June 30, 2012 and December 31, 2011 and 2010, and for the six months ended June 30, 2012 and years ended December 31, 2011 and 2010, Pacific Life was in compliance with its debt covenants related to these facilities.

PL&A maintains reverse purchase lines of credit with various financial institutions. These borrowings are at variable rates of interest based on collateral and market conditions. There was no debt outstanding in connection with these lines of credit as of June 30, 2012 and December 31, 2011 and 2010.

Pacific Life is a member of the Federal Home Loan Bank (**"FHLB"**) of Topeka. Pacific Life has approval from the FHLB of Topeka to advance amounts up to 40% of Pacific Life's statutory general account assets provided it has available collateral and is in compliance with debt covenant restrictions and insurance laws and regulations. There was no debt outstanding with the FHLB of Topeka as of June 30, 2012 and December 31, 2011 and 2010. The Company had $3 million, zero and zero additional funding capacity from eligible collateral as of June 30, 2012, December 31, 2011 and December 31, 2010, respectively.

PL&A is a member of the FHLB of San Francisco. PL&A is eligible to borrow from the FHLB of San Francisco amounts based on a percentage of statutory capital and surplus and could borrow amounts up to $128 million. Of this amount, half, or $64 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, 2012 and December 31, 2011 and 2010, PL&A had no debt outstanding with the FHLB of San Francisco.

During the second quarter of 2012, ACG increased its revolving credit agreements with banks from a $200 million borrowing capacity to a total of $650 million borrowing capacity. Interest is at variable rates with maturities ranging from October 2013 through April 2015. There was no debt outstanding in connection with these revolving credit agreements as of June 30, 2012 and December, 31, 2011 and 2010. These credit agreements are recourse only to ACG.

ACG has various facilities to finance aircraft. Additionally, some of ACG's aircraft are financed through the issuance of asset-backed securitized notes sold in the capital markets. See the Unaudited Quarterly GAAP Financial Statements included in this Semi-annual Report for additional information on ACG debt and asset-back securitizations.

Dividends and Distributions from Subsidiaries

The subsidiaries of Pacific Life can provide other sources of liquidity through the payment of distributions and dividends. Dividends received from other subsidiaries of Pacific Life have been nominal during the past few years.

The payment of dividends and other distributions by PL&A to Pacific Life is subject to restrictions set forth in the insurance laws of the State of Arizona. These laws require that PL&A notify the Arizona Department of Insurance of the declaration of any dividend or distribution to be paid by PL&A to Pacific Life. PL&A may not pay an "extraordinary" dividend or distribution to Pacific Life until the Arizona Department of Insurance has either (i) approved the payment of the dividend or distribution or (ii) not disapproved the payment of the dividend or distribution within thirty days after receiving notice of the declaration of the dividend or distribution. For purposes of applicable Arizona law, an "extraordinary" dividend or distribution is a dividend or distribution of cash or other property whose fair market value, together with that of other dividends or distributions made by PL&A to Pacific Life within the preceding twelve months, exceeds the lesser of either (i) 10% of PL&A's statutory policyholders surplus as of the preceding December 31 or (ii) PL&A's statutory net gain from operations for the twelve month period ending the preceding December 31. Based on this limitation and 2011 statutory results, PL&A could pay $30 million in dividends to Pacific Life in 2012 without prior regulatory approval. PL&A did not pay any dividends to Pacific Life during the six months ended June 30, 2012 or during the years ended December 31, 2011 or 2010.

General

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

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

Prospects for the Remainder of 2012

While results for the six months ended June 30, 2012 are in line with the Company's forecasts, there can be no assurance that these results will be indicative of the Company's performance during the remaining six months of 2012 or for the entire fiscal year of 2012 and provide no guarantee of future performance where actual results may differ materially.

Even though the Company believes its investment portfolio is diversified, future stress in the financial markets and recessionary global economic conditions could impact the Company. Debt issuances in prior years 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, financial condition, and cash flows could be materially adversely affected by future disruptions in the financial markets. Fluctuations in the fixed income or equity markets could result in investment losses that impact the Company's consolidated financial condition and results of operations through realized and unrealized losses.

State insurance regulators in the U.S. continually reexamine existing laws and regulations, and may adopt changes as a result of recent turmoil in the financial markets that would place additional regulatory burdens on the Company. The Company cannot predict whether these state-based initiatives will be proposed and promulgated, or what impact, if any, such initiatives could have on the Company's business, results of operations and financial condition.

Principal Risks and Uncertainties

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

- continued downturns and volatility in the equity and credit markets and the global economy, including the financial market distress and concern regarding the solvency of several member states of the European Union;

- suboptimal economic growth and the threat of a renewed recession in the United States and other economies of the world;

- fluctuations in reserves relating to the Company's guaranteed minimum benefit riders together with changes in the valuation of derivatives, including derivatives entered into in connection with these guaranteed minimum benefit riders;

- changes in interest rates which may reduce profitability, negatively affect liquidity and significantly affect the value of the Company's fixed maturity investment portfolio and derivatives;

- adverse capital and credit market conditions which may significantly affect the Company's access to debt and capital and affect the Company's ability to meet liquidity needs or refinancing requirements in the future;

- losses due to defaults by others, including issuers of investment securities or reinsurance and derivative counterparties;

- the ability of the U.S. government, the Federal Reserve and other governmental and regulatory bodies to maintain stability in the financial markets;

- adverse regulatory developments;

- new accounting rules or changes to existing accounting rules;

- downgrades or potential downgrades in Pacific Life's ratings;

- strong competition in the Company's business;

- the ability of ACG's airline customers to meet their obligations;

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

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

- changes in tax laws and the interpretation thereof;

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

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

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

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

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

- market capacity constraints on statutory reserve financings;

- litigation and regulatory investigations;

- lack of available, affordable or adequate reinsurance;

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

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

- the inability to attract and retain key personnel;
- the occurrence of events that would require the acceleration of the amortization of DAC;
- the impact of international tensions between the U.S. and other nations, including any terrorist attack, or on-going military and other actions, or a large-scale pandemic;
- geopolitical and other events, including war, civil disturbances, acts of terrorism, outbreaks of epidemic diseases and natural disasters;
- requirements to post collateral or make payments related to declines in the market value of specified assets;
- exposure to unidentified or unanticipated risks;
- a computer system failure or security breach; and
- adverse global climate changes.

Recently Adopted Accounting Pronouncements

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

Legal Proceedings

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

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

Ratings

An insurer's financial strength rating represents an opinion by the issuing rating agency regarding the ability of an insurance company to meet its financial obligations to its policyholders and contract holders. A rating is an opinion of the rating agency only and not a statement of fact or recommendation to purchase, sell or hold any security, policy or contract. These ratings do not imply approval of the Company's products and do not reflect any indication of their performance. There can be no assurance that Pacific Life's ratings will continue for any given period of time or that they will not be adjusted or withdrawn. Pacific Life's financial strength ratings and outlook as of the date of this Semi-annual Report are set forth in the chart below.

Rating Agency	Rating	Rating Structure	Ratings Outlook
Moody's Investors Service, Inc.	A1 (Good)	Fifth highest of 21 ratings	Stable
Standard and Poor's Rating Services	A+ (Strong)	Fifth highest of 21 ratings	Stable
Fitch Ratings	A+ (Strong)	Fifth highest of 21 ratings	Stable
A.M. Best Company, Inc.	A+ (Superior)	Second highest of 16 ratings	Stable

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

Employees

As of June 30, 2012, the Company had over 2,700 employees. None of the Company's employees are covered by a collective bargaining agreement. The Company believes that its employee relations are satisfactory.

Properties

The Company's principal administrative offices are located at 700 Newport Center Drive, Newport Beach, California, United States of America, in a 285,000 square-foot office building it owns. The Company also owns and 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. The Company believes that its facilities are adequate for its present needs in all material respects.

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

Unaudited GAAP Condensed Financial Statements of Pacific Life Funding, LLC as of June 30, 2012 and for the six months ended June 30, 2012 and 2011

Unaudited GAAP Condensed Consolidated Financial Statements of Pacific Life Insurance Company and Subsidiaries as of June 30, 2012 and December 31, 2011 and for the six months ended June 30, 2012 and 2011

Pacific Life Funding, LLC

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

(In Thousands)	June 30, 2012
ASSETS	
Cash and cash equivalents	$26
Funding Agreements	887,131
Accrued interest receivable	25,577
TOTAL ASSETS	$912,734
LIABILITIES AND MEMBER'S EQUITY	
Liabilities:	
Notes payable	$887,131
Accrued interest payable	25,577
TOTAL LIABILITIES	912,708
Member's Equity:	
Share capital	1
Retained earnings	25
TOTAL MEMBER'S EQUITY	26
TOTAL LIABILITIES AND MEMBER'S EQUITY	$912,734

See Notes to Condensed Financial Statements

Pacific Life Funding, LLC

CONDENSED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

(Expressed in United States Dollars)
(Unaudited)

(In Thousands)	Six Months Ended June 30, 2012	2011
REVENUES		
Interest on Funding Agreements	$22,626	$34,375
Foreign exchange gain on Funding Agreements	2,290	33,944
TOTAL REVENUES	24,916	68,319
EXPENSES		
Interest on notes payable	22,626	34,375
Foreign exchange loss on notes payable	2,290	33,944
TOTAL EXPENSES	24,916	68,319
NET INCOME	$0	$0
RETAINED EARNINGS, BEGINNING OF PERIOD	$25	$25
Net income	0	0
RETAINED EARNINGS, END OF PERIOD	$25	$25

See Notes to Condensed Financial Statements

Pacific Life Funding, LLC

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

(In Thousands)	Six Months Ended June 30, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$0	$0
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in accrued interest receivable	787	9,665
Change in accrued interest payable	(787)	(9,665)
NET CASH PROVIDED BY OPERATING ACTIVITIES	-	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of Funding Agreements	28,560	295,000
NET CASH PROVIDED BY INVESTING ACTIVITIES	28,560	295,000
CASH FLOWS FROM FINANCING ACTIVITIES		
Redemption of notes payable	(28,560)	(295,000)
NET CASH USED IN FINANCING ACTIVITIES	(28,560)	(295,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	-	-
Cash and cash equivalents, beginning of period	26	26
CASH AND CASH EQUIVALENTS, END OF PERIOD	$26	$26
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$23,413	$44,040

See Notes to Condensed Financial Statements

NOTES TO CONDENSED FINANCIAL STATEMENTS
(Expressed in United States Dollars)
(Unaudited)

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The information set forth in the accompanying condensed balance sheet as of June 30, 2012 and the accompanying condensed statements of operations and retained earnings and cash flows for the six months ended June 30, 2012 and 2011 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 Company’s financial statements have been prepared in accordance with accounting principles generally accepted in U.S. GAAP. According to the European Commission Decision 2006/891/ED of 4 December 2006, third country issuers may prepare their annual and semi-annual financial statements in accordance with U.S GAAP finding it equivalent to International Financial Reporting Standards (IFRS). The Company's functional currency is the dollar of the United States of America (U.S. dollar).

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, 2012 through August 23, 2012, the date the condensed financial statements were available to be issued.

3. TRANSACTIONS WITH AFFILIATES

The Funding Agreements, included on the condensed balance sheet, were purchased from Pacific Life. In addition, the Company has an agreement in which certain general operating and administrative expenses of the Company are paid directly by Pacific Life. During the six months ended June 30, 2012 and 2011, Pacific Life paid $72 thousand and $58 thousand, respectively, on behalf of the Company for general operating and administrative expenses.

4. FUNDING AGREEMENTS/NOTES PAYABLE

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

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

The Instruments may be interest bearing or non-interest bearing, and any interest may accrue at either a fixed or floating rate. The notes mature on dates ranging from February 2013 to February 2021.

The following schedule details the notes payable outstanding as of June 30, 2012. The detail schedule for the Funding Agreements is not included, but would contain similar information, except that the schedule would reflect the investments related to the Instruments.

4. FUNDING AGREEMENTS/NOTES PAYABLE (CONTINUED)

June 30, 2012:

Issue	Currency	Principal Denominated in Currency of Issuance *(In Thousands)*	Maturity	Interest Rate	Principal	Foreign Currency Gains (Losses) *($ In Thousands)*	Carrying Value
Series 11 Tranche 1	EUR	36,500	3/12/2019	4.70 %	$40,880	$5,440	$46,320
Series 36 Tranche 1	EUR	29,000	9/29/2020	3 mth EURIBOR + .37%	25,418	11,384	36,802
Series 39 Tranche 1	GBP	25,000	12/7/2015	5.81 %	35,500	3,711	39,211
Series 40 Tranche 1	EUR	27,000	2/5/2021	3 mth EURIBOR + .43%	25,313	8,953	34,266
Series 47 Tranche 1	GBP	150,000	8/16/2013	6.00 %	214,000	21,268	235,268
Series 47 Tranche 2	GBP	50,000	8/16/2013	6.00 %	72,900	5,523	78,423
Series 66 Tranche 1	HKD	160,000	7/31/2014	5.00 %	20,600	27	20,627
Series 67 Tranche 1	GBP	200,000	1/20/2015	5.13 %	375,000	(61,309)	313,691
Series 68 Tranche 1	HKD	200,000	1/26/2015	4.28 %	25,664	119	25,783
Series PLF003 Tranche 1	EUR	25,358	2/15/2014	4.00 %	33,219	(1,038)	32,181
Series PLF007 Tranche 1	GBP	1,010	2/15/2013	5.00 %	1,906	(322)	1,584
Series PLF012 Tranche 1	EUR	10,000	3/15/2015	3.80 %	12,860	(170)	12,690
Series PLF014 Tranche 1	GBP	256	3/15/2013	4.80 %	484	(83)	401
Series PLF015 Tranche 1	GBP	500	5/15/2013	5.00 %	959	(174)	785
Series PLF019 Tranche 1	EUR	5,016	6/15/2017	4.00 %	6,340	25	6,365
Series PLF029 Tranche 1	GBP	650	11/15/2013	4.65 %	1,159	(139)	1,020
Series PLF031 Tranche 1	EUR	1,350	12/15/2015	3.80 %	1,580	134	1,714
TOTAL					$893,782	($6,651)	$887,131

5. SHARE CAPITAL

Authorized:
50 thousand ordinary shares of U.S. $1 par value each

Issued and fully paid:
One thousand ordinary shares of U.S. $1 par value each

As of June 30, 2012, one thousand ordinary shares had been issued at par to QSPV Limited.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

(In Millions)	June 30, 2012	December 31, 2011
ASSETS		
Investments:		
Fixed maturity securities available for sale, at estimated fair value	$30,312	$28,853
Equity securities available for sale, at estimated fair value	283	301
Mortgage loans	7,581	7,599
Policy loans	6,762	6,812
Other investments (includes VIE assets of $379 and $351)	2,470	2,319
TOTAL INVESTMENTS	47,408	45,884
Cash and cash equivalents (includes VIE assets of $11 and $26)	1,855	2,829
Restricted cash (includes VIE assets of $192 and $200)	705	280
Deferred policy acquisition costs	4,541	4,264
Aircraft leasing portfolio, net (includes VIE assets of $1,695 and $1,838)	6,598	5,845
Other assets (includes VIE assets of $30 and $32)	3,155	3,069
Separate account assets	53,187	51,450
TOTAL ASSETS	$117,449	$113,621
LIABILITIES AND EQUITY		
Liabilities:		
Policyholder account balances	$34,713	$34,392
Future policy benefits	10,426	9,467
Long-term debt (includes VIE debt of $996 and $1,150)	7,444	7,152
Other liabilities (includes VIE liabilities of $301 and $338)	2,756	2,633
Separate account liabilities	53,187	51,450
TOTAL LIABILITIES	108,526	105,094
Commitments and contingencies (Note 17)		
Stockholder's Equity:		
Common stock - $50 par value; 600,000 shares authorized, issued and outstanding	30	30
Paid-in capital	982	982
Retained earnings	6,184	6,177
Accumulated other comprehensive income	1,380	1,004
Total Stockholder's Equity	8,576	8,193
Noncontrolling interest	347	334
TOTAL EQUITY	8,923	8,527
TOTAL LIABILITIES AND EQUITY	$117,449	$113,621

The abbreviation VIE above means variable interest entity.

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Six Months Ended June 30,	
(In Millions)	2012	2011
REVENUES		
Policy fees and insurance premiums	$1,755	$1,494
Net investment income	1,112	1,139
Net realized investment loss	(641)	(34)
OTTIs, consisting of $140 and $183 in total, net of $96 and $141 recognized in OCI	(44)	(42)
Investment advisory fees	144	132
Aircraft leasing revenue	317	297
Other income	99	112
TOTAL REVENUES	2,742	3,098
BENEFITS AND EXPENSES		
Policy benefits paid or provided	1,202	944
Interest credited to policyholder account balances	620	665
Commission expenses	140	360
Operating and other expenses	760	670
TOTAL BENEFITS AND EXPENSES	2,722	2,639
INCOME FROM CONTINUING OPERATIONS BEFORE PROVISION (BENEFIT) FOR INCOME TAXES	20	459
Provision (benefit) for income taxes	(72)	75
INCOME FROM CONTINUING OPERATIONS	92	384
Discontinued operations, net of taxes		(6)
Net income	92	378
Less: net income attributable to the noncontrolling interest from continuing operations	(15)	(45)
NET INCOME ATTRIBUTABLE TO THE COMPANY	$77	$333

The abbreviation OTTIs above means other than temporary impairment losses.

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

See Notes to Condensed Consolidated Financial Statements

Pacific Life Insurance Company and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)

(In Millions)	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income: Unrealized Gain On Derivatives and Securities Available for Sale, Net	Accumulated Other Comprehensive Income: Other, Net	Total Stockholder's Equity	Noncontrolling Interest	Total Equity
BALANCES, JANUARY 1, 2011	$30	$982	$5,761	$363	($2)	$7,134	$251	$7,385
Comprehensive income:								
Net income			333			333	45	378
Other comprehensive income (loss)				254	(7)	247	1	248
Total comprehensive income						580		626
Change in equity of noncontrolling interest							15	15
BALANCES, JUNE 30, 2011	$30	$982	$6,094	$617	($9)	$7,714	$312	$8,026
BALANCES, JANUARY 1, 2012	$30	$982	$6,177	$1,018	($14)	$8,193	$334	$8,527
Comprehensive income:								
Net income			77			77	15	92
Other comprehensive income				376		376	1	377
Total comprehensive income						453		469
Dividend to parent			(70)			(70)		(70)
Change in equity of noncontrolling interest							(3)	(3)
BALANCES, JUNE 30, 2012	$30	$982	$6,184	$1,394	($14)	$8,576	$347	$8,923

See Notes to Condensed Consolidated Financial Statements

Pacific Life Insurance Company and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In Millions)	Six Months Ended June 30, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income from continuing operations	$92	$384
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Net accretion on fixed maturity securities	(53)	(60)
Depreciation and amortization	176	153
Deferred income taxes	(72)	78
Net realized investment loss	641	34
Other than temporary impairments	44	42
Net change in deferred policy acquisition costs	(280)	(34)
Interest credited to policyholder account balances	620	665
Net change in future policy benefits and other insurance liabilities	673	578
Other operating activities, net	(426)	(311)
NET CASH PROVIDED BY OPERATING ACTIVITIES BEFORE DISCONTINUED OPERATIONS	1,415	1,529
Net cash used in operating activities of discontinued operations	(2)	
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,413	1,529
CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed maturity and equity securities available for sale:		
Purchases	(2,841)	(2,212)
Sales	1,190	1,960
Maturities and repayments	965	1,090
Repayments of mortgage loans	128	609
Fundings of mortgage loans and real estate	(488)	(1,079)
Net change in policy loans	50	2
Change in restricted cash	(425)	(731)
Terminations of derivative instruments, net	180	(137)
Proceeds from nonhedging derivative settlements	103	5
Payments for nonhedging derivative settlements	(358)	(193)
Net change in cash collateral received or pledged	(329)	292
Purchases of and advance payments on aircraft leasing portfolio	(772)	(717)
Other investing activities, net	275	197
NET CASH USED IN INVESTING ACTIVITIES	(2,322)	(914)

(Continued)

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,	
(In Millions)	2012	2011
(Continued)		
CASH FLOWS FROM FINANCING ACTIVITIES		
Policyholder account balances:		
Deposits	$2,466	$2,101
Withdrawals	(2,767)	(3,208)
Issuances of long-term debt	600	861
Payments of long-term debt	(292)	(491)
Dividend to parent	(70)	
Other financing activities, net	(2)	16
NET CASH USED IN FINANCING ACTIVITIES	(65)	(721)
Net change in cash and cash equivalents	(974)	(106)
Cash and cash equivalents, beginning of period	2,829	2,270
CASH AND CASH EQUIVALENTS, END OF PERIOD	$1,855	$2,164
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Income taxes paid, net	$23	$37
Interest paid	$72	$101

See Notes to Condensed Consolidated Financial Statements

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Pacific Life Insurance Company (Pacific Life) was established in 1868 and is domiciled in the State of Nebraska as a stock life insurance company. Pacific Life is an indirect subsidiary of Pacific Mutual Holding Company (PMHC), a Nebraska mutual holding company, and a wholly owned subsidiary of Pacific LifeCorp, an intermediate Delaware stock holding company. Pacific Life and its subsidiaries and affiliates have primary business operations consisting of life insurance, annuities, mutual funds, and aircraft leasing.

2. BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The information set forth in the accompanying condensed consolidated statement of financial condition as of June 30, 2012 and the accompanying condensed consolidated statements of operations, equity and cash flows for the six months ended June 30, 2012 and 2011 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, 2011 was derived from the audited consolidated financial statements as of and for the year ended December 31, 2011. 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, 2011.

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 accompanying condensed consolidated financial statements and respective notes reflect the retrospective adoption of Accounting Standards Update (ASU) 2010-26 (Note 3).

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

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

- The fair value of financial instruments in the absence of quoted market values
- Other than temporary impairment losses (OTTI) of investments
- Application of consolidation rules to certain investments
- The fair value of and accounting for derivatives
- Aircraft valuation and impairment
- The capitalization and amortization of deferred policy acquisition costs (DAC)
- The liability for future policy benefits
- Accounting for income taxes
- Accounting for business combinations
- Accounting for reinsurance transactions
- Litigation and other contingencies

Certain reclassifications have been made to the 2011 condensed consolidated financial statements to conform to the 2012 financial statement presentation.

The Company has evaluated events subsequent to June 30, 2012 through August 23, 2012, the date the condensed consolidated financial statements were available to be issued.

3. NEW ACCOUNTING PRONOUNCEMENTS AND CHANGE IN ACCOUNTING METHOD

CHANGE IN ACCOUNTING METHOD

Effective October 1, 2011, the Company changed its DAC amortization method for universal life-type contracts. Management determined it was preferable to provide a more constant rate of positive or negative amortization in relation to the emergence of gross profits over the lives of the contracts. During reporting periods in which actual gross profits (AGPs) are negative, DAC amortization may be negative, which would result in an increase of the DAC asset balance. The facts and circumstances surrounding potential negative amortization are considered to determine whether it is appropriate for recognition in the consolidated financial statements. Additionally, negative amortization is only recorded when the increased DAC asset balance is determined to be recoverable and is also limited to amounts originally deferred plus interest. The Company's previous accounting method eliminated to zero DAC amortization in reporting periods in which the AGPs were negative.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2012, the Company retrospectively adopted ASU 2010-26, which amended guidance to the Financial Accounting Standards Board (FASB) Accounting Standards Codification's (Codification) Financial Services – Insurance Topic. ASU 2010-26 significantly amends the guidance applicable to accounting for costs associated with acquiring or renewing insurance contracts. This revised standard specifies the following costs incurred in the acquisition of new and renewal contracts should be capitalized: 1) incremental direct costs of contract acquisition and 2) certain costs related directly to underwriting, policy issuance and processing, medical and inspecting, and sales force contract selling activities. This amendment also specifies that costs may only be capitalized based on successful contract acquisition efforts.

Prior period financial information presented in the accompanying condensed consolidated financial statements has been adjusted to reflect the retrospective adoption of this guidance. As a result of this accounting change, total equity as of January 1, 2011 decreased by $545 million, after tax, due to the reduction of the Company’s DAC asset for deferred costs that did not meet the provisions of the revised standard. The impact of the retrospective adoption on previously reported December 31, 2011 balances was a reduction in the DAC asset of $1.0 billion and a reduction in total equity of $649 million, after tax. The impact of the retrospective adoption on previously reported net income amounts for the six months ended June 30, 2011 was a decrease of $11 million.

The following tables present the effects of the retrospective adoption of the revised standard to the Company's previously reported condensed consolidated financial statements.

	Condensed Consolidated Statements of Financial Position		
	As Previously Reported	Effect of Change	As Currently Reported
December 31, 2011:		(In Millions)	
Assets:			
DAC	$5,263	($999)	$4,264
Liabilities:			
Other liabilities (Deferred income taxes, net)	2,983	(350)	2,633
Equity:			
Retained earnings	6,896	(719)	6,177
Accumulated other comprehensive income	934	70	1,004
Total Stockholder's Equity	8,842	(649)	8,193
Total Equity	9,176	(649)	8,527

	Condensed Consolidated Statements of Operations		
	As Previously Reported	Effect of Change	As Currently Reported
For the six months ended June 30, 2011:		(In Millions)	
Expenses:			
Commission expenses	$356	$4	$360
Operating and other expenses	657	13	670
Income from continuing operations before provision (benefit) for income taxes	476	(17)	459
Provision (benefit) for income taxes	81	(6)	75
Income from continuing operations	395	(11)	384
Net income	389	(11)	378
Net income attributable to the Company	344	(11)	333

	Condensed Consolidated Statements of Equity		
	As Previously Reported	Effect of Change	As Currently Reported
Balances, January 1, 2011:		(In Millions)	
Retained earnings	$6,359	($598)	$5,761
Accumulated other comprehensive income	308	53	361
Total Stockholder's Equity	7,679	(545)	7,134
Total Equity	7,930	(545)	7,385

Effective January 1, 2012, the Company adopted ASU 2011-08, which provides new guidance on goodwill impairment testing that simplifies how an entity tests goodwill for impairment. This new guidance allows a company to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value as a basis for determining whether it needs to perform the quantitative two-step goodwill impairment test. Only if the company determines, based on qualitative assessment, that it is more likely than not that a reporting unit's fair value is less than its carrying value will it be required to calculate the fair value of the reporting unit. The adoption had no impact on the Company's condensed consolidated financial statements.

FUTURE ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

In May 2011, the FASB issued ASU 2011-04 which modifies the Codification's Fair Value Measurements and Disclosures Topic. This new guidance clarifies existing guidance related to the application of fair value measurements and requires expanded disclosures. The Company will adopt this new guidance in the fourth quarter of 2012 and will apply it prospectively. The Company expects this guidance to have an impact on its financial statement disclosures and no impact on the Company's condensed consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, which provides new guidance to the Codification’s Comprehensive Income Topic. The new guidance requires that all nonowner changes in stockholder's equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income (loss) (OCI), the components of other comprehensive income, and the total of comprehensive income. The Company will adopt this amendment in the fourth quarter of 2012. Adoption will not have an impact on the Company's financial position, results of operations or cash flows, however, adoption will result in the presentation of a new statement of consolidated comprehensive income immediately following the condensed consolidated statement of operations.

4. STATUTORY FINANCIAL INFORMATION AND DIVIDEND RESTRICTIONS

STATUTORY ACCOUNTING PRACTICES

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

As of June 30, 2012, the Company had two permitted practices. Under the first permitted practice, the Company utilizes book value accounting for certain guaranteed separate account funding agreements. The underlying separate account assets are recorded at book value instead of at fair value as required by National Association of Insurance Commissioners (NAIC) *Accounting Practices and Procedures Manual* (NAIC SAP). As of June 30, 2012 and December 31, 2011, the underlying separate account assets had unrealized losses of $17 million and $25 million, respectively. Under the second permitted practice, investments in Working Capital Finance Notes (WCFN), an investment being considered for admissibility by the NAIC, are recorded as admitted assets provided they are rated by the NAIC Securities Valuation Office as an NAIC 1 or 2 investment. As of June 30, 2012 and December 31, 2011, admitted WCFN investments totaled $38 million and $29 million, respectively.

The NE DOI has a prescribed accounting practice for certain synthetic guaranteed interest contract (GIC) reserves that differs from NAIC SAP. The NE DOI reserve method is based on an annual accumulation of 30% of the contract fees on synthetic GICs and is subject to a maximum of 150% of the annualized contract fees. This reserve amounted to $38 million and $36 million as of June 30, 2012 and December 31, 2011, respectively, and has been recorded by the Company. The NAIC SAP basis for this reserve equals the excess, if any, of the value of guaranteed contract liabilities over the market value of the assets in the segregated portfolio less deductions based on asset valuation reserve factors. As of June 30, 2012 and December 31, 2011, the reserve for synthetic GICs using the NAIC SAP basis was zero.

STATUTORY NET INCOME AND SURPLUS

Statutory net income of Pacific Life was $705 million and $335 million for the six months ended June 30, 2012 and 2011, respectively. Statutory capital and surplus of Pacific Life was $5,963 million and $5,577 million as of June 30, 2012 and December 31, 2011, 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, 2012 and December 31, 2011, 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. Substantially all statutory reserves relating to NLGRs issued after June 30, 2005 through March 31, 2010 are ceded from Pacific Life to PAR Vermont under a reinsurance agreement. In August 2011, PAR Vermont was accredited as an authorized reinsurer in Nebraska. Funded economic reserves and a letter of credit approved as an admitted asset for PAR Vermont for statutory accounting was issued and will continue to be held in a trust with Pacific Life as beneficiary. See Note 17.

DIVIDEND RESTRICTIONS

The payment of dividends by Pacific Life to Pacific LifeCorp is subject to restrictions set forth in the State of Nebraska insurance laws. These laws require (i) notification to the NE DOI for the declaration and payment of any dividend and (ii) approval by the NE DOI for accumulated dividends within the preceding twelve months that exceed the greater of 10% of statutory policyholder surplus as of the preceding December 31 or statutory net gain from operations for the preceding twelve months ended December 31. Generally, these restrictions pose no short-term liquidity concerns for Pacific LifeCorp. Based on these restrictions and 2011 statutory results, Pacific Life could pay $199 million in dividends in 2012 to Pacific LifeCorp without prior approval from the NE DOI, subject to the notification requirement. During the six months ended June 30, 2012, Pacific Life paid a cash dividend to Pacific LifeCorp of $70 million. No dividends were paid during the six months ended June 30, 2011.

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 2011 statutory results, PL&A could pay $30 million in dividends to Pacific Life in 2012 without prior regulatory approval. No dividends were paid during the six months ended June 30, 2012 and 2011.

5. VARIABLE INTEREST ENTITIES

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

The following table presents, as of June 30, 2012 and December 31, 2011, the consolidated assets, consolidated liabilities and maximum exposure to loss relating to VIEs, which the Company (i) has consolidated because it is the primary beneficiary or (ii) carrying amount of and maximum exposure to loss relating to VIEs in which the Company holds a significant variable interest, but has not consolidated because it is not the primary beneficiary *(In Millions)*:

	Primary Beneficiary			Not Primary Beneficiary	
June 30, 2012:	Consolidated Assets	Consolidated Liabilities	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Aircraft securitizations	$1,917	$1,277	$661		
Private equity funds	390	20	53		
Asset-backed securities				$106	$106
Total	$2,307	$1,297	$714	$106	$106
December 31, 2011:					
Aircraft securitizations	$2,070	$1,466	$604		
Private equity funds	377	22	50		
Asset-backed securities				$105	$105
Total	$2,447	$1,488	$654	$105	$105

AIRCRAFT SECURITIZATIONS

Aviation Capital Group Corp. (ACG), a wholly owned subsidiary of Pacific Life engaged in the acquisition and leasing of commercial aircraft, has sponsored three financial asset securitizations secured by interests in aircraft. ACG serves as the remarketing agent and provides various aircraft related services in all three securitizations for a fee. This fee is eliminated for the two consolidated securitizations and is included in other income as earned for the unconsolidated securitization.

In 2005, ACG sponsored a securitization transaction whereby Aviation Capital Group Trust III (ACG Trust III) acquired 74 of ACG's aircraft through a private placement note offering in the amount of $1,860 million. ACG owns 100% of the equity and has a controlling financial interest in this VIE. Therefore, ACG was determined to be the primary beneficiary of this VIE and ACG Trust III is consolidated into the condensed consolidated financial statements of the Company. These private placement notes are the obligation of ACG Trust III and represent debt that is non-recourse to the Company (Note 11). VIE non-recourse debt consolidated from ACG Trust III was $704 million and $795 million as of June 30, 2012 and December 31, 2011, respectively. As of June 30, 2012 and December 31, 2011, the maximum exposure to loss, based on the Company's interest in ACG Trust III, was $410 million and $397 million, respectively.

In 2003, ACG sponsored a securitization transaction whereby Aviation Capital Group Trust II (ACG Trust II) acquired 37 of ACG's aircraft through a private placement note offering in the amount of $1,027 million. ACG owns 100% of the equity and has a controlling financial interest in this VIE. Therefore, ACG was determined to be the primary beneficiary of this VIE and ACG Trust II is consolidated into the condensed consolidated financial statements of the Company. These private placement notes are the obligation of ACG Trust II and represent debt that is non-recourse to the Company (Note 11). VIE non-recourse debt consolidated from ACG Trust II was $272 million and $335 million as of June 30, 2012 and December 31, 2011, respectively. As of June 30, 2012 and December 31, 2011, the maximum exposure to loss was $251 million and $207 million, respectively.

In 2000, ACG sponsored a financial asset securitization of aircraft to Aviation Capital Group Trust (Aviation Trust). ACG and Pacific Life are beneficial interest holders in Aviation Trust. Aviation Trust is not consolidated as the Company is not the primary beneficiary as ACG does not have the obligation to absorb losses of Aviation Trust that could potentially be significant to Aviation Trust or the right to receive benefits from Aviation Trust that could potentially be significant to it. The carrying value is comprised of beneficial interests issued by Aviation Trust. As of June 30, 2012 and December 31, 2011, the maximum exposure to loss, based on carrying value, was zero.

PRIVATE EQUITY FUNDS

Private equity funds (the Funds) are limited partnerships that invest in private equity investments for outside investors, where the Company is the general partner. The Company provides investment management services to the Funds for a fee and receives carried interest based upon the performance of the Funds. The Funds are a VIE due to the purpose and design of the Funds and the lack of control by the other equity investors. The Company has determined itself to be the primary beneficiary since it has a controlling financial interest in the Funds and the Funds are consolidated into the condensed consolidated financial statements of the Company. The Company has not guaranteed the performance, liquidity or obligations of the Funds, and the Company's maximum exposure to loss is equal to the carrying amounts of its retained interests. VIE non-recourse debt consolidated from the Funds was $20 million as of June 30, 2012 and December 31, 2011 (Note 11).

ASSET-BACKED SECURITIES

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

OTHER NON-CONSOLIDATED VIEs

As part of normal investment activities, the Company will make passive investments in structured securities for which it is not the sponsor. These structured securities include residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), collateralized debt obligations, and other asset-backed securities which are reported in fixed maturities securities available for sale. For these investments, the Company determined it is not the primary beneficiary due to the relative size of the Company's investment in comparison to the original amount issued by the VIEs. In addition, the Company does not have the authority to direct the activities of these VIEs that most significantly impact the VIEs economic performance. The Company's maximum exposure to loss is limited to the amount of its investment. See Note 8 for the net carrying amount and estimated fair value of these investments.

6. BUSINESS ACQUISITIONS

On August 31, 2011, Pacific Life and Pacific Life Reinsurance (Barbados) Limited (PLRB), a wholly owned subsidiary of Pacific LifeCorp, acquired Manulife Financial Corporation's life retrocession business. The acquisition was structured utilizing five coinsurance transactions in which Pacific Life entered into three contracts covering the lives of U.S. persons and PLRB entered into two contracts covering non-U.S. persons. By operation of the five reinsurance transactions, Pacific Life and PLRB each obtained control of a business requiring the application of the acquisition accounting provisions of the Codification's Business Combinations Topic.

The acquisition allows Pacific Life to gain access to a large block of mortality-based business without adding significant concentration risk. The addition of this mortality risk helps the Company diversify its overall risk profile. The expectation is that the acquired retrocession business will also provide a platform to generate new business. For financial reporting purposes, the retrocession business is a component of the Company's reinsurance segment.

Ceding commissions in the form of non-cash consideration in connection with the acquisition of the U.S. life business by Pacific Life and the non-U.S. life business by PLRB was $198 million and $39 million, respectively. In anticipation of the acquisition transaction, Pacific LifeCorp invested $120 million of capital in PLRB. The Company incurred acquisition-related costs of $6 million, which is included in operating and other expenses and capitalized $5 million of debt issuance cost, which is included in other assets.

Pacific Life and PLRB are in the process of finalizing the fair value of the assets acquired and the liabilities assumed and therefore have not finalized the acquisition accounting required by U.S. GAAP. The valuation of the insurance reserves acquired and the identification and valuation of intangible assets are the most significant items requiring additional data and analysis before the valuation process is complete. Pacific Life and PLRB expect to finalize the acquisition accounting no later than the third quarter of 2012.

The following table presents the estimated fair value of assets acquired and liabilities assumed on August 31, 2011:

	Pacific Life	PLRB	Combined
Assets acquired:		*(In Millions)*	
Cash	$192	$520	$712
Value of business acquired [1]	72	12	84
Software computer applications [2]	4		4
Other assets	4	70	74
Goodwill [2]	20	5	25
Total assets	$292	$607	$899
Liabilities assumed:			
Reserves [3]	$137	$572	$709
Other liabilities	155	35	190
Total liabilities	$292	$607	$899

[1] Included in DAC [2] Included in other assets [3] Included in future policy benefits

On July 29, 2011, Pacific Global Advisors LLC (PGA), a wholly owned subsidiary of Pacific Life, acquired JP Morgan Chase's Pension Advisory Group. PGA's target market is businesses and plan trustees managing employee defined benefit retirement plans. PGA's expertise is in the delivery of advisory services concentrated in the areas of liability-driven investing, hedging, risk management, and actuarial services. This acquisition allows Pacific Life to strengthen its ability to deliver financial security solutions to retirement plans sponsors and trustees. PGA will also provide additional diversification to Pacific Life's business mix.

PGA paid approximately $45 million to acquire the pension advisory business. In anticipation of the acquisition, Pacific Life invested $48 million of capital in PGA. The Company incurred acquisition-related expense of $5 million, which is included in operating and other expenses. The Company has obtained all the necessary information to establish the fair value of the assets acquired and the liabilities assumed as required by U.S. GAAP. The Company finalized the acquisition accounting in the first quarter of 2012.

The following table presents the estimated fair value of assets acquired and liabilities assumed on July 29, 2011 *(In Millions)*:

Assets acquired:	
Intangibles [1]	$7
Goodwill [1]	38
Total assets	$45
Liabilities assumed:	
Other liabilities	-
Total liabilities	-

[1] Included in other assets

7. DEFERRED POLICY ACQUISITION COSTS

Components of the DAC asset are as follows:

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(In Millions)	
Balance, January 1	$4,264	$3,606
Additions:		
Capitalized during the period	237	215
Amortization:		
Allocated to commission expenses	52	(177)
Allocated to operating expenses	(9)	(4)
Total amortization	43	(181)
Allocated to OCI	(3)	(6)
Balance, June 30	$4,541	$3,634

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

A change in the assumptions utilized to develop EGPs results in a change to amounts expensed in the reporting period in which the change was made by adjusting the DAC balance to the level DAC would have been had the EGPs been calculated using the new assumptions over the entire amortization period. In general, favorable experience variances result in increased expected future profitability and may lower the rate of DAC amortization, whereas unfavorable experience variances result in decreased expected future profitability and may increase the rate of DAC amortization. All critical assumptions utilized to develop EGPs are evaluated at least annually and necessary revisions are made to certain assumptions to the extent that actual or anticipated experience necessitates such a prospective change. During the six months ended June 30, 2012 and 2011, the Company revised certain assumptions to develop EGPs for its products subject to DAC amortization. This resulted in an increase of $11 million and a decrease of $113 million in DAC amortization expense for the six months ended June 30, 2012 and 2011, respectively.

The Company defers sales inducements and amortizes them over the life of the policy using the same methodology and assumptions used to amortize DAC. The capitalized sales inducement balance included in the DAC asset was $681 million and $538 million as of June 30, 2012 and 2011, respectively.

8. INVESTMENTS

The net carrying amount, gross unrealized gains and losses, and estimated fair value of fixed maturity and equity securities available for sale are shown below. The net carrying amount of fixed maturity securities represents amortized cost adjusted for OTTIs recognized in earnings and terminated fair value hedges. The net carrying amount of equity securities represents cost adjusted for OTTIs. See Note 12 for information on the Company's estimated fair value measurements and disclosure.

	Net Carrying Amount	Gross Unrealized		Estimated Fair Value
		Gains	Losses	
	(In Millions)			
June 30, 2012:				
U.S. Treasury securities	$27	$8		$35
Obligations of states and political subdivisions	974	157		1,131
Foreign governments	628	78		706
Corporate securities	20,257	2,545	$126	22,676
RMBS	4,360	207	338	4,229
CMBS	707	41	1	747
Collateralized debt obligations	111	3	8	106
Other asset-backed securities	611	73	2	682
Total fixed maturity securities	$27,675	$3,112	$475	$30,312
Perpetual preferred securities	$224	$8	$31	$201
Other equity securities	75	7		82
Total equity securities	$299	$15	$31	$283

	Net Carrying Amount	Gross Unrealized		Estimated Fair Value
		Gains	Losses	
	(In Millions)			
December 31, 2011:				
U.S. Treasury securities	$27	$8		$35
Obligations of states and political subdivisions	1,064	117	$2	1,179
Foreign governments	456	51	4	503
Corporate securities	19,468	2,210	186	21,492
RMBS	4,475	189	491	4,173
CMBS	740	37	6	771
Collateralized debt obligations	115	17	17	115
Other asset-backed securities	523	69	7	585
Total fixed maturity securities	$26,868	$2,698	$713	$28,853
Perpetual preferred securities	$283	$5	$60	$228
Other equity securities	74		1	73
Total equity securities	$357	$5	$61	$301

The Company has investments in perpetual preferred securities that are issued primarily by European banks. The net carrying amount and estimated fair value of the available for sale perpetual preferred securities was $317 million and $266 million, respectively, as of June 30, 2012. Included in these amounts are perpetual preferred securities carried in trusts with a net carrying amount and estimated fair value of $93 million and $65 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, 2012, by contractual repayment date of principal, are shown below. Expected maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Net Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In Millions)			
Due in one year or less	$1,067	$30	$1	$1,096
Due after one year through five years	5,853	490	25	6,318
Due after five years through ten years	8,706	1,055	63	9,698
Due after ten years	6,260	1,213	37	7,436
	21,886	2,788	126	24,548
Mortgage-backed and asset-backed securities	5,789	324	349	5,764
Total fixed maturity securities	$27,675	$3,112	$475	$30,312

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 and cost method investments.

	Total		
	Number	Estimated Fair Value	Gross Unrealized Losses
		(In Millions)	
June 30, 2012:			
Corporate securities	208	$1,741	$126
RMBS	180	2,264	338
CMBS	3	12	1
Collateralized debt obligations	3	99	8
Other asset-backed securities	3	47	2
Total fixed maturity securities	397	4,163	475
Perpetual preferred securities	10	86	31
Other securities	3	18	2
Total other securities	13	104	33
Total	410	$4,267	$508

	Less Than 12 Months			12 Months or Greater		
	Number	Estimated Fair Value	Gross Unrealized Losses	Number	Estimated Fair Value	Gross Unrealized Losses
		(In Millions)			(In Millions)	
June 30, 2012:						
Corporate securities	117	$781	$28	91	$960	$98
RMBS	32	255	4	148	2,009	334
CMBS	3	12	1			
Collateralized debt obligations				3	99	8
Other asset-backed securities	3	47	2			
Total fixed maturity securities	155	1,095	35	242	3,068	440
Perpetual preferred securities				10	86	31
Other securities				3	18	2
Total other securities	-	-	-	13	104	33
Total	155	$1,095	$35	255	$3,172	$473

	Total		
	Number	Estimated Fair Value	Gross Unrealized Losses
		(In Millions)	
December 31, 2011:			
Obligations of states and political subdivisions	4	$71	$2
Foreign governments	11	73	4
Corporate securities	314	2,183	186
RMBS	207	2,624	491
CMBS	10	77	6
Collateralized debt obligations	3	91	17
Other asset-backed securities	13	101	7
Total fixed maturity securities	562	5,220	713
Perpetual preferred securities	19	177	60
Other securities	12	89	5
Total other securities	31	266	65
Total	593	$5,486	$778

	Less than 12 Months			12 Months or Greater		
	Number	Estimated Fair Value	Gross Unrealized Losses	Number	Estimated Fair Value	Gross Unrealized Losses
		(In Millions)			(In Millions)	
December 31, 2011:						
Obligations of states and political subdivisions				4	$71	$2
Foreign governments	11	$73	$4			
Corporate securities	217	1,159	49	97	1,024	137
RMBS	49	401	14	158	2,223	477
CMBS	7	37	2	3	40	4
Collateralized debt obligations				3	91	17
Other asset-backed securities	8	89	6	5	12	1
Total fixed maturity securities	292	1,759	75	270	3,461	638
Perpetual preferred securities	8	57	6	11	120	54
Other securities	6	42	2	6	47	3
Total other securities	14	99	8	17	167	57
Total	306	$1,858	$83	287	$3,628	$695

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

The table below presents non-agency RMBS and CMBS by investment rating from independent rating agencies and vintage year of the underlying collateral as of June 30, 2012.

Rating	Net Carrying Amount	Estimated Fair Value	Rating as % of Net Carrying Amount	Vintage Breakdown 2004 and Prior	2005	2006	2007	2008 and Thereafter
	($ In Millions)							
Prime RMBS:								
AAA	$192	$199	8%	7%				1%
AA	80	83	3%	3%				
A	66	68	3%	2%	1%			
BAA	151	152	6%	5%	1%			
BA and below	1,986	1,848	80%	8%	28%	32%	12%	
Total	$2,475	$2,350	100%	25%	30%	32%	12%	1%
Alt-A RMBS:								
AAA	$10	$10	1%	1%				
AA	40	36	6%	4%	1%	1%		
A	5	5	1%	1%				
BAA	16	17	2%	2%				
BA and below	625	495	90%	3%	12%	27%	48%	
Total	$696	$563	100%	11%	13%	28%	48%	0%
Sub-prime RMBS:								
AAA	$17	$16	5%	5%				
A	34	34	10%	10%				
BAA	42	39	12%	12%				
BA and below	252	210	73%	55%	16%	1%	1%	
Total	$345	$299	100%	82%	16%	1%	1%	0%
CMBS:								
AAA	$417	$436	61%	21%	1%	1%	18%	20%
AA	168	187	24%	10%				14%
A	69	70	10%					10%
BAA	6	6	1%					1%
BA and below	28	29	4%				4%	
Total	$688	$728	100%	31%	1%	1%	22%	45%

Prime mortgages are loans made to borrowers with strong credit histories, whereas sub-prime mortgage lending is the origination of residential mortgage loans to customers with weak credit profiles. Alt-A mortgage lending is the origination of residential mortgage loans to customers who have good credit ratings, but have limited documentation for their source of income or some other standard input used to underwrite the mortgage loan. The slowing U.S. housing market, greater use of affordability mortgage products and relaxed underwriting standards by some originators for these loans has led to higher delinquency and loss rates, especially within the 2007 and 2006 vintage years.

Pacific Life is a member of the Federal Home Loan Bank (FHLB) of Topeka. As of June 30, 2012, the Company has received advances of $1.0 billion from the FHLB of Topeka and has issued funding agreements to the FHLB of Topeka. The funding agreement liabilities are included in policyholder account balances. As of June 30, 2012, fixed maturity securities with an estimated fair value of $626 million and cash of $420 million are in a custodial account pledged as collateral for the funding agreements. As of June 30, 2012, the cash is classified as restricted cash and is not available for general use. The Company is required to purchase stock in the FHLB of Topeka each time it receives an advance. As of June 30, 2012, the Company holds $51 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, 2012, no assets are pledged as collateral. As of June 30, 2012, the Company holds FHLB of San Francisco stock with an estimated fair value of $5 million, which has been restricted for sale and is recorded in other investments.

In connection with the acquired life retrocession business (Note 6), as of June 30, 2012, fixed maturity securities and cash and cash equivalents of $423 million and $45 million, respectively, have been pledged as collateral in reinsurance trusts.

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

	Six Months Ended June 30,	
	2012	2011
	(In Millions)	
Fixed maturity securities	$746	$752
Equity securities	8	7
Mortgage loans	212	181
Real estate	61	57
Policy loans	102	101
Partnerships and joint ventures	56	120
Other	8	3
Gross investment income	1,193	1,221
Investment expense	81	82
Net investment income	$1,112	$1,139

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

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(In Millions)	
Fixed maturity securities:		
Gross gains on sales	$60	$48
Gross losses on sales	(4)	(10)
Total fixed maturity securities	56	38
Equity securities:		
Gross gains on sales		9
Gross losses on sales	(5)	
Total equity securities	(5)	9
Trading securities	7	3
Real estate	32	5
Non-marketable securities		31
Variable annuity guaranteed living benefit embedded derivatives	(260)	28
Variable annuity guaranteed living benefit policy fees	111	100
Variable annuity derivatives - total return swaps	(352)	(200)
Variable annuity derivatives - equity put options	(36)	
Equity put options	(207)	(99)
Foreign currency and interest rate swaps	64	
Forward starting interest rate swaps	(77)	
Synthetic GIC policy fees	21	20
Other	5	31
Total	($641)	($34)

The table below summarizes the OTTIs by investment type:

	Recognized in Earnings	Included in OCI	Total
		(In Millions)	
Six months ended June 30, 2012:			
Corporate securities	$5		$5
RMBS	25	$96	121
Equity securities	9		9
OTTIs - fixed maturity and equity securities	39	96	135
Mortgage loans	5		5
Total OTTIs	$44	$96	$140
Six months ended June 30, 2011:			
Corporate securities	$2		$2
RMBS	34	$141	175
OTTIs - fixed maturity securities	36	141	177
Mortgage loans	3		3
Other investments	3		3
Total OTTIs	$42	$141	$183

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

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(In Millions)	
Cumulative credit loss, January 1	$268	$245
Additions for credit impairments recognized on:		
Securities not previously other than temporarily impaired	9	7
Securities previously other than temporarily impaired	16	27
Total additions	25	34
Reductions for credit impairments previously recognized on:		
Securities due to an increase in expected cash flows and time value of cash flows	(1)	(5)
Securities sold	(19)	(58)
Total subtractions	(20)	(63)
Cumulative credit loss, June 30	$273	$216

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

	Gross Unrealized Losses		
	OTTI Investments	Non-OTTI Investments	Total
		(In Millions)	
June 30, 2012:			
Corporate securities		$126	$126
RMBS	$242	96	338
CMBS		1	1
Collateralized debt obligations	8		8
Other asset-backed securities		2	2
Total fixed maturity securities	$250	$225	$475
Perpetual preferred securities		$31	$31
Total equity securities	-	$31	$31
December 31, 2011:			
Obligations of states and political subdivisions		$2	$2
Foreign governments		4	4
Corporate securities		186	186
RMBS	$301	190	491
CMBS		6	6
Collateralized debt obligations	17		17
Other asset-backed securities		7	7
Total fixed maturity securities	$318	$395	$713
Perpetual preferred securities		$60	$60
Other equity securities		1	1
Total equity securities	-	$61	$61

Trading securities, included in other investments, totaled $236 million and $215 million as of June 30, 2012 and December 31, 2011, respectively. The cumulative net unrealized gains on trading securities held as of June 30, 2012 and December 31, 2011 were $14 million and $9 million, respectively.

Mortgage loans totaled $7,581 million and $7,599 million as of June 30, 2012 and December 31, 2011, respectively. Mortgage loans are collateralized by commercial properties primarily located throughout the U.S. As of June 30, 2012, $1,419 million, $1,191 million, $868 million, $855 million and $706 million were located in Washington, California, Texas, District of Columbia and Florida, respectively. As of June 30, 2012, $377 million was located in Canada.

The Company did not have mortgage loans with accrued interest more than 180 days past due as of June 30, 2012 or December 31, 2011. As of June 30, 2012, there was one loan in the amount of $66 million that was considered impaired. Since the estimated fair value of the collateral on this loan was greater than the carrying amount of the loan, no impairment loss was recorded. During the six months ended June 30, 2012, three loans totaling $288 million were foreclosed upon and became real estate owned investments. An impairment loss totaling $5 million was recorded on one of these loans during the foreclosure process as the estimated value of the underlying collateral was lower than the carrying amount. As of June 30, 2011, there were two loans totaling $4 million that were in the process of foreclosure and were considered impaired. An impairment loss of $3 million was recorded as the underlying collateral of these two loans was lower than the carrying amount. As of June 30, 2012, there was no single mortgage loan investment that exceeded 10% of stockholder's equity.

Real estate investments totaled $824 million and $534 million as of June 30, 2012 and December 31, 2011, respectively, and are included in other investments. There were no real estate write-downs during the six months ended June 30, 2012 and 2011. As of June 30, 2012, four properties with a carrying amount of $236 million were held for sale and all are expected to be sold for an amount equal to or greater than the current carrying amount so no impairment loss has been recorded.

9. AIRCRAFT LEASING PORTFOLIO, NET

Aircraft leasing portfolio, net, consists of the following:

	June 30, 2012	December 31, 2011
	(In Millions)	
Aircraft	$5,561	$4,569
Aircraft consolidated from VIEs	2,479	2,613
	8,040	7,182
Accumulated depreciation	1,442	1,337
Aircraft leasing portfolio, net	$6,598	$5,845

As of June 30, 2012 and December 31, 2011, aircraft with a carrying amount of $4,391 million and $4,317 million, respectively, were assigned as collateral to secure debt (Notes 5 and 11).

There were no impairments recognized during the six months ended June 30, 2012 and 2011.

During the six months ended June 30, 2012 and 2011, ACG recognized pre-tax gains on the sale of aircraft of $7 million and $15 million, respectively, which are included in other income. Aircraft held for sale totaled $16 million and $6 million as of June 30, 2012 and December 31, 2011, respectively, and are included in aircraft leasing portfolio, net.

See Note 17 for future aircraft commitments.

10. DERIVATIVES AND HEDGING ACTIVITIES

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

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

The Company developed a pattern of forecasted transactions that did not occur as originally forecasted, and as a result, derivative instruments in the Company's insurance operations previously designated as cash flow hedges should have been reported as derivatives not designated as hedging instruments during 2010. The impact of the discontinuance of cash flow hedge accounting was insignificant to the condensed consolidated financial statements for the six months ended June 30, 2011, and therefore, the condensed consolidated financial statements and footnote disclosures for the six months ended June 30, 2011 were not revised.

Effective June 29, 2012, the insurance operations reestablished its ability to utilize cash flow hedge accounting. The insurance operations did not designate any derivatives as cash flow hedges during the six months ended June 30, 2012.

DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS

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

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

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

The Company employs hedging strategies (variable annuity derivatives) to mitigate equity risk associated with the GLBs not covered by reinsurance. The Company primarily utilizes total return swaps and equity put options based upon the S&P 500 Index (S&P 500) to economically hedge the equity risk of the mortality and expense fees in its variable annuity products. The total return swaps provide periodic payments to the Company in exchange for the total return and changes in fair value of the S&P 500 in the form of a payment or receipt, depending on whether the return relative to the index on trade date is positive or negative, respectively. The equity put options involve the exchange of an upfront payment for the return, at the end of the option agreement, of the equity index below a specified strike price. Payments, amortization of upfront premiums and receipts are recognized in net realized investment gain (loss).

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

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

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

Interest rate swaps are used by the Company primarily to reduce market risk from changes in interest rates and other interest rate exposure arising from duration mismatches between assets and liabilities. These agreements involve the exchange, at specified intervals, of interest payments resulting from the difference between fixed rate and floating rate interest amounts calculated by reference to an underlying notional amount. Generally, no cash is exchanged at the outset of the contract and no principal payments are made by either party.

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

Financial futures contracts obligate the holder to buy or sell the underlying financial instrument at a specified future date for a set price and may be settled in cash or by delivery of the financial instrument. Price changes on futures are settled daily through the required margin cash flows. As part of its asset/liability management, the Company generally utilizes futures contracts to manage its interest rate and market risk related to bonds. Future contracts have limited off-balance sheet credit risk as they are executed on organized exchanges and require security deposits, as well as daily cash settlement of margins.

The Company offers indexed universal life insurance products, which credit the price return of an underlying index to the policy cash value. A policyholder may allocate the policy's net accumulated value to one or a combination of the following: fixed return account, one year S&P 500 indexed account, two year S&P 500 index account, five year S&P 500 indexed account, or one year global index account. The indexed products contain embedded derivatives and are recorded in policyholder account balances.

The Company utilizes call options to hedge the credit paid to the policy on the underlying index. These options are contracts to buy the index at a predetermined time at a contracted price. The contracts will be net settled in cash based on differentials in the index at the time of exercise and the strike price and the settlements will be recognized in net realized investment gain (loss).

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

	Notional Amount	
	June 30, 2012	December 31, 2011
	(In Millions)	
Variable annuity GLB embedded derivatives	$37,765	$38,960
Variable annuity GLB reinsurance contracts	14,512	14,744
Variable annuity derivatives - total return swaps	2,853	3,666
Variable annuity derivatives - equity put options	998	998
Equity put options	5,135	5,135
Synthetic GICs	20,287	21,593
Foreign currency and interest rate swaps	6,877	8,020
Forward starting interest rate swaps	50	1,140
Futures		1,400
Other	2,266	2,084

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 in 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.

The following table summarizes amounts recognized in net realized investment gain (loss) for derivatives not designated as hedging instruments. Gains and losses include the changes in estimated fair value of the derivatives and amounts realized on terminations. The amounts presented do not include the periodic net payments and amortization of $320 million and $222 million for the six months ended June 30, 2012 and 2011, respectively, which are recognized in net realized investment gain (loss).

	Amount of Gain (Loss) Recognized in Net Income on Derivatives	
	Six Months Ended June 30,	
	2012	2011
	(In Millions)	
Derivatives not designated as hedging instruments:		
Variable annuity derivatives - total return swaps	($126)	($54)
Equity put options	(153)	(44)
Foreign currency and interest rate swaps (1)	(55)	
Forward starting interest rate swaps	(77)	
Other	48	48
Embedded derivatives:		
Variable annuity GLB embedded derivatives (including reinsurance contracts)	(260)	28
Other	(16)	
Total	($639)	($22)

(1) Includes foreign currency transaction gains and (losses) for foreign currency interest rate swaps.

DERIVATIVES DESIGNATED AS CASH FLOW HEDGES

The Company primarily uses foreign currency interest rate swaps, forward starting interest rate swaps and interest rate swaps to manage its exposure to variability in cash flows due to changes in foreign currencies and the benchmark interest rate. These cash flows include those associated with existing assets and liabilities, as well as the forecasted interest cash flows related to anticipated investment purchases and liability issuances. The maximum length of time over which the Company was hedging its exposure to variability in future cash flow in the non-insurance company operations for forecasted transactions did not exceed 21 years.

When a derivative is designated as a cash flow hedge, the effective portion of changes in the estimated fair value of the derivative is recognized in OCI and reclassified to earnings when the hedged item affects earnings, and the ineffective portion of changes in the estimated fair value of the derivative is recognized in net realized investment gain (loss). For the six months ended June 30, 2012 and 2011, hedge ineffectiveness related to designated cash flow hedges reflected in net realized investment gain (loss) was zero and ($9) million, respectively.

Amounts reclassified from accumulated OCI (AOCI) to earnings resulting from the discontinuance of cash flow hedges due to forecasted cash flows that were no longer probable of occurring for the six months ended June 30, 2012 and 2011 were ($5) million and zero, respectively. Over the next twelve months, the Company anticipates that $13 million of deferred losses on derivative instruments in AOCI will be reclassified to earnings consistent with when the hedged forecasted transaction affects earnings. For the six months ended June 30, 2012, all of the non-insurance company operation's hedged forecasted transactions for outstanding cash flow hedges were determined to be probable of occurring.

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

	Notional Amount	
	June 30, 2012	December 31, 2011
	(In Millions)	
Foreign currency and interest rate swaps	$1,268	$1,531

The following table summarizes amounts recognized in OCI for changes in estimated fair value for derivatives designated as cash flow hedges. The amounts presented do not include the periodic net settlements of the derivatives.

	Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	
	Six Months Ended June 30,	
	2012	2011
	(In Millions)	
Derivatives in cash flow hedges:		
Foreign currency and interest rate swaps	$10	$25
Forward starting interest rate swaps		(2)
Total	$10	$23

DERIVATIVES DESIGNATED AS FAIR VALUE HEDGES

Interest rate swap agreements are used to convert a U.S. dollar denominated fixed rate asset or liability to a floating U.S. dollar denominated rate to hedge the changes in estimated fair value of the hedged asset or liability due to changes in benchmark interest rates. These derivatives are used primarily to closely match the duration of the assets supporting specific liabilities. Pacific Life also used interest rate swaps to convert fixed rate surplus notes to variable notes (Note 11). The Company had no outstanding derivatives designated as fair value hedges as of June 30, 2012 and December 31, 2011.

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

	Gain (Loss) Recognized in Net Income on Derivatives		Gain (Loss) Recognized in Net Income on Hedged Items	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In Millions)		*(In Millions)*	
Derivatives in fair value hedges:				
Interest rate swaps		$9		($3)
Total	-	$9	-	($3)

For the six months ended June 30, 2012 and 2011, hedge ineffectiveness related to designated fair value hedges reflected in net realized investment gain (loss) was zero and $6 million, respectively. No component of the hedging instrument's estimated fair value is excluded from the determination of effectiveness.

CONDENSED CONSOLIDATED FINANCIAL STATEMENT IMPACT

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

The following table summarizes the gross asset or liability derivative estimated fair value and excludes the impact of offsetting asset and liability positions held with the same counterparty, cash collateral payables and receivables and income accruals. See Note 12.

	Asset Derivatives Estimated Fair Value			Liability Derivatives Estimated Fair Value		
	June 30, 2012	December 31, 2011		June 30, 2012	December 31, 2011	
	(In Millions)			*(In Millions)*		
Derivatives designated as hedging instruments:						
Foreign currency and interest rate swaps				$100	$111	[5]
Total derivatives designated as hedging instruments	-	-		100	111	
Derivatives not designated as hedging instruments:						
Variable annuity derivatives - total return swaps		$1	[1]		63	[1]
				100	2	[5]
Variable annuity derivatives - equity put options		45	[1]			
	$10		[5]			
Equity put options	76	498	[1]		2	[1]
	263		[5]	13		[5]
Foreign currency and interest rate swaps	40	332	[1]	17	242	[1]
	183	8	[5]	303	104	[5]
Forward starting interest rate swaps		293	[1]			
	19	29	[5]			
Other	14	35	[1]		29	[1]
	47	2	[5]	25		[5]
Embedded derivatives:						
Variable annuity GLB embedded derivatives (including reinsurance contracts)	303	230	[2]	2,271	1,938	[3]
Other				106	67	[4]
Total derivatives not designated as hedging instruments	955	1,473		2,835	2,447	
Total derivatives	$955	$1,473		$2,935	$2,558	

Location on the condensed consolidated statements of financial condition:

[1] Other investments [2] Other assets [3] Future policy benefits [4] Policyholder account balances [5] Other liabilities

Cash collateral received from counterparties was $389 million and $658 million as of June 30, 2012 and December 31, 2011, respectively. This unrestricted cash collateral is included in cash and cash equivalents and the obligation to return it is netted against the estimated fair value of derivatives in other investments or other liabilities. Cash collateral pledged to counterparties was $96 million and $36 million as of June 30, 2012 and December 31, 2011, respectively. A receivable representing the right to call this collateral back from the counterparty is netted against the estimated fair value of derivatives in other investments or other liabilities. If the net estimated fair value of the exposure to the counterparty is positive, the amount is reflected in other investments, whereas, if the net estimated fair value of the exposure to the counterparty is negative, the estimated fair value is included in other liabilities.

As of June 30, 2012 and December 31, 2011, the Company had also accepted collateral consisting of various securities with an estimated fair value of $67 million and $77 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, 2012 and December 31, 2011, none of the collateral had been repledged. As of June 30, 2012 and December 31, 2011, the Company provided collateral in the form of various securities with an estimated fair value of zero and $1 million, respectively, which are included in fixed maturity securities. The counterparties are permitted by contract to sell or repledge this collateral.

CREDIT EXPOSURE AND CREDIT RISK RELATED CONTINGENT FEATURES

Credit exposure is measured on a counterparty basis as the net positive aggregate estimated fair value, net of collateral received, if any. The credit exposure for over the counter derivatives as of June 30, 2012 was $1 million. The maximum exposure to any single counterparty was $1 million at June 30, 2012.

For all derivative contracts, excluding embedded derivative contracts such as variable annuity GLBs and synthetic GICs, the Company enters into master agreements that may include a termination event clause associated with financial strength ratings assigned by certain independent rating agencies. If these financial strength ratings were to fall below a specified level, as defined within each counterparty master agreement or, in most cases, if one of the rating agencies ceased to provide a financial strength rating, the counterparty could terminate the master agreement with payment due based on the estimated fair value of the underlying derivatives. As of June 30, 2012, the Company's financial strength ratings were above the specified level.

The Company enters into collateral arrangements with derivative counterparties, which require both the pledge and acceptance of collateral when the net estimated fair value of the underlying derivatives reaches a pre-determined threshold. Certain of these arrangements include credit-contingent provisions that provide for a reduction of these thresholds in the event of downgrades in the credit ratings of the Company and/or the counterparty. If these financial strength ratings were to fall below a specific investment grade credit rating, the counterparties to the derivative instruments could request immediate and ongoing full collateralization on derivative instruments in net liability positions. The aggregate estimated fair value of all derivative instruments with credit risk related contingent features that are in a liability position on June 30, 2012, is $159 million for which the Company has posted collateral of $95 million in the normal course of business. If certain of the Company's financial strength ratings were to fall one notch as of June 30, 2012, the Company would have been required to post an additional $11 million of collateral to its counterparties.

The Company attempts to limit its credit exposure by dealing with creditworthy counterparties, establishing risk control limits, executing legally enforceable master netting agreements, and obtaining collateral where appropriate. In addition, each counterparty is reviewed to evaluate its financial stability before entering into each agreement and throughout the period that the financial instrument is owned. All of the Company's credit exposure from derivative contracts is with investment grade counterparties.

11. DEBT

Debt consists of the following:

	June 30, 2012	December 31, 2011
	(In Millions)	
Long-term debt:		
Surplus notes	$1,600	$1,600
Deferred gains from derivative hedging activities	413	417
Non-recourse long-term debt:		
Debt recourse only to ACG	3,751	3,332
ACG non-recourse debt	527	550
Other non-recourse debt	157	103
ACG VIE debt (Note 5)	976	1,130
Other VIE debt (Note 5)	20	20
Total long-term debt	$7,444	$7,152

SHORT-TERM DEBT

Pacific Life maintains a $700 million commercial paper program. There was no commercial paper debt outstanding as of June 30, 2012 and December 31, 2011. In addition, Pacific Life has a bank revolving credit facility of $400 million maturing in November 2016 that serves as a back-up line of credit for the commercial paper program. This facility had no debt outstanding as of June 30, 2012 and December 31, 2011. As of and during the six months ended June 30, 2012, Pacific Life was in compliance with the debt covenants related to this facility.

PL&A maintains reverse repurchase lines of credit with various financial institutions. These borrowings are at variable rates of interest based on collateral and market conditions. There was no debt outstanding in connection with these lines of credit as of June 30, 2012 and December 31, 2011.

Pacific Life has approval from the FHLB of Topeka to receive advances up to 40% of Pacific Life's statutory general account assets provided it has available collateral and is in compliance with debt covenant restrictions and insurance laws and regulations. There was no debt outstanding with the FHLB of Topeka as of June 30, 2012 and December 31, 2011. The Company had $3 million and zero of additional funding capacity from eligible collateral as of June 30, 2012 and December 31, 2011, respectively.

PL&A is eligible to borrow from the FHLB of San Francisco amounts based on a percentage of statutory capital and surplus and could borrow up to amounts of $128 million. Of this amount, half, or $64 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, 2012 and December 31, 2011, PL&A had no debt outstanding with the FHLB of San Francisco.

During the second quarter of 2012, ACG increased its revolving credit agreements with banks from a $200 million borrowing capacity to a $650 million borrowing capacity. Interest is at variable rates with maturities ranging from October 2013 through April 2015. There was no debt outstanding in connection with these revolving credit agreements as of June 30, 2012 and December 31, 2011. These credit agreements are recourse only to ACG.

LONG-TERM DEBT

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

9.25% surplus notes can be made only with the prior approval of the Nebraska Director of Insurance. The Company entered into interest rate swaps converting the 9.25% surplus notes to variable rate notes based upon the London InterBank Offered Rate (LIBOR). The interest rate swaps were designated as fair value hedges of these surplus notes and the changes in estimated fair value of the hedged surplus notes associated with changes in interest rates were reflected as an adjustment to their carrying amount. During the year ended December 31, 2011, the interest rate swaps were terminated and deferred gains as of the termination date, which increased the carrying value by $364 million, will be amortized over the remaining life of the surplus notes using the effective interest method. Total unamortized deferred gains were $359 million and $362 million as of June 30, 2012 and December 31, 2011, respectively.

Pacific Life has $150 million of surplus notes outstanding at a fixed interest rate of 7.9%, maturing on December 30, 2023. Interest is payable semiannually on June 30 and December 30. The 7.9% surplus notes may not be redeemed at the option of Pacific Life or any holder of the surplus notes. The 7.9% surplus notes are unsecured and subordinated to all present and future senior indebtedness and policy claims of Pacific Life. All future payments of interest and principal on the 7.9% surplus notes can be made only with the prior approval of the Nebraska Director of Insurance. The Company entered into interest rate swaps converting these surplus notes to variable rate notes based upon the LIBOR. The interest rate swaps were designated as fair value hedges of these surplus notes and the changes in estimated fair value of the hedged surplus notes associated with changes in interest rates were reflected as an adjustment to their carrying amount. During the year ended December 31, 2011, the interest rate swaps were terminated and deferred gains as of the termination date, which increased the carrying value by $56 million, will be amortized over the remaining life of the surplus notes using the effective interest method. Total unamortized deferred gains are $54 million and $55 million as of June 30, 2012 and December 31, 2011, respectively.

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

ACG enters into various secured loans that are guaranteed by the U.S. Export-Import bank or by the European Export Credit Agencies. Interest on these loans is payable quarterly and ranged from 0.6% to 4.4% as of June 30, 2012 and 0.7% and 4.4% as of December 31, 2011. As of June 30, 2012, $1,518 million was outstanding on these loans with maturities ranging from 2014 to 2024. Principal payments due over the next twelve months are $132 million. As of December 31, 2011, $1,455 million was outstanding on these loans. These loans are recourse only to ACG.

ACG enters into various senior unsecured loans with third-parties. Interest on these loans is payable quarterly or semi-annually and ranged from 2.0% to 7.2% as of June 30, 2012 and December 31, 2011. As of June 30, 2012, $2,169 million was outstanding on these loans with maturities ranging from 2012 to 2023. Principal payments over the next twelve months are $120 million. As of December 31, 2011, $1,813 million was outstanding on these loans. These loans are recourse only to ACG.

ACG enters into various secured bank loans to finance aircraft orders and deposits. Interest on these loans is payable monthly and was 2.0% as of June 30, 2012 and December 31, 2011. As of June 30, 2012, $64 million was outstanding on these loans with maturities ranging from 2012 to 2013. Principal payments due over the next twelve months are $64 million. As of December 31, 2011, $64 million was outstanding on these loans. These loans are recourse only to ACG.

ACG enters into various acquisition facilities and bank loans to acquire aircraft. Interest on these facilities and loans accrues at variable rates, is payable monthly and ranged from 2.7% to 3.3% as of June 30, 2012 and 2.8% and 3.3% as of December 31, 2011. As of June 30, 2012, $527 million was outstanding on these facilities and loans with maturities ranging from 2013 to 2014. As of December 31, 2011, $550 million was outstanding on these facilities and loans. These facilities and loans are non-recourse to the Company.

Certain subsidiaries of Pacific Asset Holding LLC (PAH), a wholly owned subsidiary of Pacific Life, entered into various real estate property related loans with various third-parties. Interest on these loans accrues at fixed and variable rates and is payable monthly. Fixed rates ranged from 3.6% to 5.4% as of June 30, 2012 and December 31, 2011. Variable rates ranged from 1.4% to 2.5% as of June 30, 2012 and 1.5% to 4.0% as of December 31, 2011. As of June 30, 2012, there was $157 million outstanding on these loans with maturities during 2012 and 2019. Principal payments due over the next twelve months are $32 million. As of December 31, 2011, there was $103 million outstanding on these loans. During the year ended December 31, 2011, one of these loans totaling $32 million was returned in foreclosure. All of these loans are secured by real estate properties and are non-recourse to the Company.

12. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

The following tables present, by fair value hierarchy level, the Company's financial assets and liabilities that are carried at estimated fair value as of June 30, 2012 and December 31, 2011.

	Level 1	Level 2	Level 3	Gross Derivatives Estimated Fair Value	Netting Adjustments [1]	Total
				(In Millions)		
June 30, 2012:						
Assets:						
U.S. Treasury securities		$35				$35
Obligations of states and political subdivisions		1,131				1,131
Foreign governments		604	$102			706
Corporate securities		21,004	1,672			22,676
RMBS		3,444	785			4,229
CMBS		722	25			747
Collateralized debt obligations		2	104			106
Other asset-backed securities		367	315			682
Total fixed maturity securities		27,309	3,003			30,312
Perpetual preferred securities		190	11			201
Other equity securities	$77		5			82
Total equity securities	77	190	16			283
Trading securities	95	98	43			236
Other investments			56			56
Derivatives:						
Foreign currency and interest rate swaps		223		$223	($200)	23
Forward starting interest rate swaps		19		19	(19)	-
Equity derivatives			349	349	(273)	76
Embedded derivatives			303	303		303
Other		3	58	61	(47)	14
Total derivatives		245	710	955	(539)	416
Separate account assets [2]	52,903	136	116			53,155
Total	$53,075	$27,978	$3,944	$955	($539)	$84,458
Liabilities:						
Derivatives:						
Foreign currency and interest rate swaps		$420		$420	($200)	$220
Forward starting interest rate swaps					(19)	(19)
Equity derivatives			$113	113	(273)	(160)
Embedded derivatives			2,377	2,377		2,377
Other		1	24	25	(47)	(22)
Total	-	$421	$2,514	$2,935	($539)	$2,396

	Level 1	Level 2	Level 3	Gross Derivatives Estimated Fair Value	Netting Adjustments [1]	Total
				(In Millions)		
December 31, 2011:						
Assets:						
U.S. Treasury securities		$35				$35
Obligations of states and political subdivisions		1,170	$9			1,179
Foreign governments		422	81			503
Corporate securities		19,875	1,617			21,492
RMBS		3,137	1,036			4,173
CMBS		520	251			771
Collateralized debt obligations		4	111			115
Other asset-backed securities		289	296			585
Total fixed maturity securities		25,452	3,401			28,853
Perpetual preferred securities		202	26			228
Other equity securities	$73					73
Total equity securities	73	202	26			301
Trading securities	89	91	35			215
Other investments			54			54
Derivatives:						
Foreign currency and interest rate swaps		340		$340	($250)	90
Forward starting interest rate swaps		322		322	(29)	293
Equity derivatives			544	544	(65)	479
Embedded derivatives			230	230		230
Other		4	33	37	(31)	6
Total derivatives		666	807	1,473	(375)	1,098
Separate account assets [2]	51,184	128	113			51,425
Total	$51,346	$26,539	$4,436	$1,473	($375)	$81,946
Liabilities:						
Derivatives:						
Foreign currency and interest rate swaps		$457		$457	($250)	$207
Forward starting interest rate swaps					(29)	(29)
Equity derivatives			$67	67	(65)	2
Embedded derivatives			2,005	2,005		2,005
Other		1	28	29	(31)	(2)
Total	-	$458	$2,100	$2,558	($375)	$2,183

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

[2] Separate account assets are measured at estimated fair value. Investment performance related to separate account assets is offset by corresponding amounts to contract holders whose liability is reflected in the separate account liabilities. Separate

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

LEVEL 3 RECONCILIATION

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

	January 1, 2012	Total Gains or Losses: Included in Earnings (2)	Total Gains or Losses: Included in OCI	Transfers In and/or Out of Level 3 (1)	Purchases	Sales	Settlements	June 30, 2012
				(In Millions)				
Obligations of states and political subdivisions	$9			($9)				-
Foreign governments	81		$6	17			($2)	$102
Corporate securities	1,617	$10	32	51	$92	($82)	(48)	1,672
RMBS	1,036	(21)	81	(243)	6	(2)	(72)	785
CMBS	251	1	9	(189)	4	(10)	(41)	25
Collateralized debt obligations	111	13	(5)			(15)		104
Other asset-backed securities	296	1	8	(25)	66		(31)	315
Total fixed maturity securities	3,401	4	131	(398)	168	(109)	(194)	3,003
Perpetual preferred securities	26	(4)	9	(4)		(16)		11
Other equity securities			5					5
Total equity securities	26	(4)	14	(4)	-	(16)	-	16
Trading securities	35				18		(10)	43
Other investments	54	1			1			56
Derivatives, net:								
Equity derivatives	477	(331)					90	236
Embedded derivatives	(1,775)	(277)			(30)		8	(2,074)
Other	5	39					(10)	34
Total derivatives	(1,293)	(569)	-	-	(30)	-	88	(1,804)
Separate account assets (3)	113	5			10	(12)		116
Total	$2,336	($563)	$145	($402)	$167	($137)	($116)	$1,430

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

(1) Transfers in and/or out are recognized at the end of each quarterly reporting period.
(2) Amounts included in earnings are recognized in net investment income, net realized investment gain (loss) and OTTIs.
(3) Included in earnings of separate account assets are realized/unrealized gains (losses) that are offset by corresponding amounts in separate account liabilities, which results in a net zero impact on earnings for the Company.

During the six months ended June 30, 2012, the Company transferred $350 million of fixed maturity securities out of Level 2 and into Level 3, and transferred $748 million of fixed maturity securities out of Level 3 and into Level 2. The net transfers into Level 2 were primarily attributable to the increased availability and use of market observable inputs to estimate fair value. During the six months ended June 30, 2012, the Company did not have any significant transfers between Levels 1 and 2.

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

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

	Six Months Ended June 30,	
	2012	2011
	(In Millions)	
Derivatives, net: [1]		
Equity derivatives	($231)	($79)
Embedded derivatives	(274)	33
Other	37	29
Total derivatives	(468)	(17)
Separate account assets [2]	4	6
Total	($464)	($11)

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

(2) Included in earnings of separate account assets are realized/unrealized gains (losses) that are offset by corresponding amounts in separate account liabilities, which results in a net zero impact on earnings for the Company.

The Company did not have any material nonfinancial assets or liabilities measured at fair value on a nonrecurring basis resulting from impairments as of June 30, 2012 and 2011. The Company has not made any changes in the valuation methodologies for nonfinancial assets and liabilities.

13. INCOME TAXES

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

	Six Months Ended June 30,	
	2012	2011
	(In Millions)	
Current		($3)
Deferred	($72)	78
Provision (benefit) for income taxes from continuing operations	(72)	75
Benefit from income taxes from discontinued operations		(3)
Total	($72)	$72

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

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(In Millions)	
Provision for income taxes at the statutory rate	$7	$161
Separate account dividends received deduction	(42)	(52)
Singapore Transfer	(18)	
Low income housing and foreign tax credits	(12)	(10)
Internal Revenue Service settlement		(7)
Other	(7)	(17)
Provision (benefit) for income taxes from continuing operations	($72)	$75

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

Balance at January 1, 2011	$14
Additions and deletions	(14)
Balance at December 31, 2011	-
Additions and deletions	
Balance at June 30, 2012	-

During 2010, 2011 and 2012, ACG transferred aircraft assets and related liabilities to foreign subsidiaries and affiliates in Singapore (collectively referred to as the Singapore Transfer). The Singapore Transfer reduced the provision for income taxes for the six months ended June 30, 2012 by $18 million primarily due to the reversal of deferred taxes related to bases differences in the interest transferred. U.S. income taxes have not been recognized on the excess of the amount for financial reporting over the tax basis of investments in foreign subsidiaries that are essentially permanent in duration. This amount becomes taxable upon a repatriation of assets from the subsidiary or a sale or liquidation of the subsidiary.

During the year ended December 31, 2011, the Company effectively settled $14 million of the gross uncertain tax position related to separate account Dividends Received Deductions (DRD), which resulted in the realization of $7 million of tax benefits. All realized tax benefits and related interest are recognized as a discrete item that will impact the effective tax rate in the accounting period in which the uncertain tax position is ultimately settled.

The Company files income tax returns in U.S. Federal and various state jurisdictions. The Company is under continuous audit by the Internal Revenue Service (IRS) and is audited periodically by some state taxing authorities. The IRS has completed audits of the Company's tax returns through the tax year ended December 31, 2008, and is auditing the Company's tax returns for the tax years ended December 31, 2009 and 2010. The Company does not expect the Federal audits to result in any material assessments. The State of California concluded audits for tax years 2003 and 2004 without material assessment.

14. SEGMENT INFORMATION

The Company has four operating segments: Life Insurance, Retirement Solutions, Aircraft Leasing and Reinsurance, a new segment formed as a result of the acquisition of the retrocession business disclosed in Note 6. These segments are managed separately and have been identified based on differences in products and services offered. All other activity is included in the Corporate and Other segment.

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

The Retirement Solutions segment's principal products include variable and fixed annuity products, mutual funds, and structured settlement and group retirement annuities, which are offered through multiple distribution channels. Distribution channels include independent planners, financial institutions and national/regional wirehouses.

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

The Reinsurance segment primarily includes the domestic life retrocession business, which was acquired in August 2011 (Note 6). Also included in the Reinsurance segment is international reinsurance the Company has assumed from Pacific Life Re Limited (PLR), an affiliate of the Company and wholly owned subsidiary of Pacific LifeCorp. PLR is incorporated in the United Kingdom (UK) and provides reinsurance to insurance and annuity providers in the UK, Ireland and to insurers in selected markets in Asia.

The Corporate and Other segment consists of assets and activities, which support the Company's operating segments. Included in these support activities is the management of investments, certain entity level hedging activities and other expenses and other assets not directly attributable to the operating segments. The Corporate and Other segment also includes several operations that do not qualify as operating segments and the elimination of intersegment transactions. Discontinued operations (Note 15) are also included in the Corporate and Other segment.

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

Certain 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 the majority of its revenues and net income from customers located in the U.S. As of June 30, 2012 and December 31, 2011, the Company had foreign investments with an estimated fair value of $8.9 billion and $8.2 billion, respectively. The book value of aircraft leased to foreign customers was $5.7 billion and $5.3 billion as of June 30, 2012 and December 31, 2011, respectively. Revenues derived from any customer did not exceed 10% of consolidated total revenues for the six months ended June 30, 2012 and 2011.

The following is segment information as of and for the six months ended June 30, 2012:

	Life Insurance	Retirement Solutions	Aircraft Leasing	Reinsurance	Corporate and Other	Total
			(In Millions)			
REVENUES						
Policy fees and insurance premiums	$554	$958		$243		$1,755
Net investment income	502	442		7	$161	1,112
Net realized investment gain (loss)	19	(600)	($3)		(57)	(641)
OTTIs	(12)	(9)			(23)	(44)
Investment advisory fees	11	117			16	144
Aircraft leasing revenue			317			317
Other income	6	80	10	2	1	99
Total revenues	1,080	988	324	252	98	2,742
BENEFITS AND EXPENSES						
Policy benefits	201	769		232		1,202
Interest credited	379	149			92	620
Commission expenses	193	(63)		10		140
Operating expenses	159	192	44	12	45	452
Depreciation of aircraft			146			146
Interest expense			97		65	162
Total benefits and expenses	932	1,047	287	254	202	2,722
Income (loss) before provision (benefit) for income taxes	148	(59)	37	(2)	(104)	20
Provision (benefit) for income taxes	44	(69)	(7)		(40)	(72)
Net income (loss)	104	10	44	(2)	(64)	92
Less: net income attributable to the noncontrolling interest			(2)		(13)	(15)
Net income (loss) attributable to the Company	$104	$10	$42	($2)	($77)	$77
Total assets	$32,041	$70,171	$7,683	$597	$6,957	$117,449
DAC	958	3,515		68		4,541
Separate account assets	5,956	47,231				53,187
Policyholder and contract liabilities	22,902	18,376		248	3,613	45,139
Separate account liabilities	5,956	47,231				53,187

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

	Life Insurance	Retirement Solutions	Aircraft Leasing	Reinsurance	Corporate and Other	Total
Open		*Open*	*(In Millions)*			
REVENUES						
Policy fees and insurance premiums	$550	$939		$5		$1,494
Net investment income	478	401			$260	1,139
Net realized investment gain (loss)	26	(60)	($1)		1	(34)
OTTIs	(8)	(9)			(25)	(42)
Investment advisory fees	11	121				132
Aircraft leasing revenue			297			297
Other income	6	84	20	1	1	112
Total revenues	1,063	1,476	316	6	237	3,098
BENEFITS AND EXPENSES						
Policy benefits	226	719		(1)		944
Interest credited	364	144			157	665
Commission expenses	179	179			2	360
Operating expenses	149	194	40		33	416
Depreciation of aircraft			124			124
Interest expense			87		43	130
Total benefits and expenses	918	1,236	251	(1)	235	2,639
Income from continuing operations before provision (benefit) for income taxes	145	240	65	7	2	459
Provision (benefit) for income taxes	44	23	21	2	(15)	75
Income from continuing operations	101	217	44	5	17	384
Discontinued operations, net of taxes					(6)	(6)
Net income	101	217	44	5	11	378
Less: net income attributable to the noncontrolling interest from continuing operations			(3)		(42)	(45)
Net income (loss) attributable to the Company	$101	$217	$41	$5	($31)	$333
The following is segment information as of December 31, 2011:						
Total assets	$30,975	$66,124	$7,389	$568	$8,565	$113,621
DAC	991	3,204		69		4,264
Separate account assets	5,698	45,752				51,450
Policyholder and contract liabilities	22,400	16,926		244	4,289	43,859
Separate account liabilities	5,698	45,752				51,450

15. DISCONTINUED OPERATIONS

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

Operating results from discontinued operations were as follows:

	Six Months Ended June 30, 2012	2011
	(In Millions)	
Benefits and expenses		$9
Loss from discontinued operations	-	(9)
Benefit from income taxes		(3)
Discontinued operations, net of taxes	-	($6)

16. TRANSACTIONS WITH AFFILIATES

Pacific Life Fund Advisors LLC, a wholly owned subsidiary of Pacific Life, serves as the investment adviser for the Pacific Select Fund, an investment vehicle provided to the Company's variable life insurance policyholders and variable annuity contract owners, and the Pacific Life Funds, the investment vehicle for the Company's mutual fund products. Investment advisory and other fees are based primarily upon the net asset value of the underlying portfolios. These fees, included in investment advisory fees and other income, amounted to $148 million and $159 million for the six months ended June 30, 2012 and 2011, respectively.

Additionally, the Pacific Select Fund and Pacific Life Funds have service and other plans whereby the funds pay 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 annuity and life insurance 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, 2012 and 2011, PSD received $58 million and $52 million, respectively, in service fees from the Pacific Select Fund and Pacific Life Funds, which are recorded in other income.

ACG has derivative swap contracts with Pacific LifeCorp as the counterparty. The notional amounts total $1.3 billion as of June 30, 2012 and December 31, 2011. The estimated fair values of the derivatives were net liabilities of $82 million and $78 million as of June 30, 2012 and December 31, 2011, respectively.

17. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

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

Twelve Months Ending June 30:	
2013	$589
2014 through 2017	889
2018 and thereafter	67
Total	$1,545

The Company leases office facilities under various operating leases, which in most, but not all cases, are noncancelable. In connection with the sale of a block of business in 2005, PL&A is contingently liable until March 31, 2013 for certain future rent and expense obligations, not to exceed $4 million, related to an office lease that has been assigned to the buyer.

As of June 30, 2012, ACG has commitments with major aircraft manufacturers and other third-parties to purchase aircraft at an estimated delivery price of $6,621 million with delivery from 2012 through 2020. These purchase commitments may be funded:

- up to $1,150 million in less than one year,
- an additional $2,201 million in one to three years,
- an additional $1,338 million in three to five years, and
- an additional $1,445 million thereafter.

As of June 30, 2012, deposits related to these agreements totaled $487 million and are included in other assets.

In connection with the acquisition of the life retrocession business as discussed in Note 6, Pacific Life entered into agreements to reinsure a block of U.S. life reinsurance business on a 100% coinsurance basis. The underlying reinsurance is comprised of coinsurance and yearly renewable term (YRT) treaties. Upon closing the transaction in August 2011, Pacific Life retroceded the majority of the underlying YRT treaties on a 100% modified coinsurance basis to PLRB effective July 1, 2011 (PLRB Agreement). The PLRB Agreement is accounted for under deposit accounting under U.S. GAAP and as reinsurance under statutory accounting practices. The statutory accounting reserve credit is afforded by virtue of collateral posted by PLRB for the benefit of Pacific Life by a $430 million letter of credit issued to PLRB by third-party banks. In connection with the letter of credit agreement, Pacific LifeCorp entered into a capital maintenance agreement to ensure PLRB will have sufficient capital to meet its obligations. Additionally, certain assets related to the life retrocession business have been pledged and placed in reinsurance trusts (Note 8). If the estimated fair market value of the pledged assets in these trusts fall below a minimum value, as defined in the transaction agreements, the Company is required to promptly deposit additional funds into the trusts to account for any shortfall.

The Company entered into an agreement with PLR to guarantee the performance of unaffiliated reinsurance obligations of PLR. This guarantee is secondary to a guarantee provided by Pacific LifeCorp and would only be triggered in the event of nonperformance by both PLR and Pacific LifeCorp. Management believes that any additional obligations, if any, related to the guarantee agreement are not likely to have a material adverse effect on the Company's condensed consolidated financial statements. For the six months ended June 30, 2012, Pacific Life earned $2 million under the agreement for its guarantee.

In connection with the reinsurance of NLGR benefits ceded from Pacific Life to PAR Vermont (Note 4), PAR Vermont has a credit agreement with a maximum commitment amount of $843 million and a 20 year term expiring October 2031. As of June 30, 2012, the letter of credit amounted to $460 million. The new agreement is non-recourse to Pacific LifeCorp or any of its affiliates, other than PAR Vermont.

In connection with an acquisition in 2005, ACG assumed residual value support agreements with expiration dates ranging from 2013 to 2015. The gross remaining residual value exposure under these agreements was $89 million as of June 30, 2012 and December 31, 2011. As of June 30, 2012, the Company has estimated that it has no measurable liability under the remaining residual value guarantee agreements.

CONTINGENCIES - LITIGATION

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

CONTINGENCIES - IRS REVENUE RULING

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

CONTINGENCIES - OTHER

In connection with the sale of certain broker-dealer subsidiaries (Note 15), certain indemnifications triggered by breaches of representations, warranties or covenants were provided by the Company. Also, included in the indemnifications is indemnification for certain third-party claims arising from the normal operation of these broker-dealers prior to the closing and within the nine month period following the sale. Management believes that claims, if any, against the Company related to such indemnification matters are not likely to have a material adverse effect on the Company's condensed consolidated financial statements.

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

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

The Asset Purchase Agreements of Aviation Trust, ACG Trust II and ACG Trust III (Note 5) provide that Pacific LifeCorp will guarantee the performance of certain obligations of ACG, as well as provide certain indemnifications, and that Pacific Life will assume certain obligations of ACG arising from the breach of certain representations and warranties under the Asset Purchase Agreements. Management believes that obligations, if any, related to these guarantees are not likely to have a material adverse effect on the Company's condensed consolidated financial statements. The financial debt obligations of Aviation Trust, ACG Trust II and ACG Trust III are non-recourse to the Company and are not guaranteed by the Company.

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

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

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