

CERTIFICATION

June 23, 2014

I, Bruce R. Ramage, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the

Financial Examination Report of
PACIFIC LIFE INSURANCE COMPANY

as of

December 31, 2012

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.



STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

JUN 23 2014

FILED

Bruce R. Ramage

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

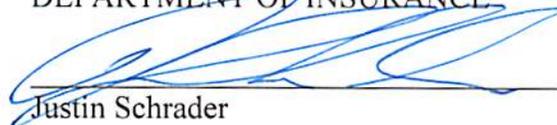
Take notice that the proposed report of the financial examination of

PACIFIC LIFE INSURANCE COMPANY

dated as of December 31, 2012, verified under oath by the examiner-in-charge on May 28, 2014, and received by the company on May 28, 2014, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3)(a).

Dated this 12 day of June, 2014.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE



Justin Schrader
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

PACIFIC LIFE INSURANCE COMPANY

as of

December 31, 2012

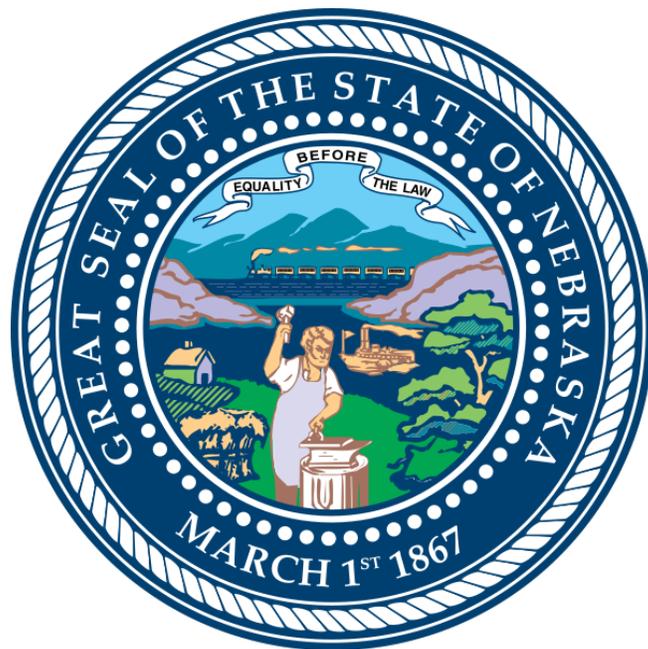


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Newport Beach, California
April 25, 2014

Honorable Joseph Torti, III
Chairman, Financial Condition (E) Committee, NAIC
Deputy Director and Superintendent of Insurance
Rhode Island Division of Insurance
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Honorable Ted Nickel
Chair, Midwestern Zone, NAIC
Commissioner of Insurance
Wisconsin Department of Insurance
125 South Webster St.
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Honorable Gordon I. Ito
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Honorable Susan L. Donegan
Commissioner of the Vermont Department of Financial Regulation
State of Vermont, Department of Financial Regulation
89 Main Street
Montpelier, Vermont 05620-3101

Honorable Bruce R. Ramge
Director of Insurance
Nebraska Department of Insurance
941 "O" Street, Suite 400
Lincoln, Nebraska 68508

Dear Madams and Sirs:

Pursuant to your instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

PACIFIC LIFE INSURANCE COMPANY

which has its Statutory Home Office located at

**1299 Farnam Street
Omaha, Nebraska 68102**

with its Principal Executive Office located at

**700 Newport Center Drive
Newport Beach, California 92660**

(hereinafter also referred to as the “Company” or “PLIC”) and the report of such examination is respectfully presented herein.

INTRODUCTION

The Company was last examined as of December 31, 2008 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2012, and includes such subsequent events and transactions as were considered pertinent to this report. The States of Nebraska, Arizona, and Vermont participated in this examination and assisted in the preparation of this report.

SCOPE OF EXAMINATION

This examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook (Handbook) and Section §44-5904(1) of the Nebraska Insurance Statutes. The Handbook requires that examiners plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining

information about the Company including, but not limited to: corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement Instructions, when applicable to domestic state regulations.

The examination was completed under coordination of the holding company group approach with the Nebraska Department of Insurance as the lead state, coordinating with the Arizona Department of Insurance and the Vermont Department of Financial Regulation, Insurance Division. The Arizona Department of Insurance examined Pacific Life & Annuity Company (PL&A) and Pacific Annuity Reinsurance Company (PARC). The Vermont Department of Financial Regulation, Insurance Division, examined Pacific Alliance Reinsurance Company of Vermont (PAR VT) and Pacific Alliance Excess Reinsurance Company (PAX Re). The companies examined under this approach benefit to a large degree from common management, systems and processes, and internal control and risk management functions that are administered at the consolidated or business unit level.

The coordinated examination applies procedures sufficient to comprise a full scope financial examination of each of the companies in accordance with the examination procedures and standards promulgated by the NAIC and by the respective state insurance departments where the companies are domiciled. The objective is to enable each domestic state to report on their respective companies' financial condition and to summarize key results of examination procedures.

A general review was made of the Company's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Company's history was traced and has been set out in this report under the caption "Description of Company". All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Directors (the Board) and the departmental organization of the Company. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the shareholder, Board of Directors and committees, held during the examination period, were read and noted. Attendance at meetings, proxy information, election of Directors and Officers, approval of investment transactions and authorizations of salaries were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed, as were plans for employee welfare and pension. Certificates of Authority to conduct the business of insurance in the various states were inspected and a survey was made of the Company's general plan of operation.

Data reflecting the Company's growth during the period under review, as developed from the Company's filed annual statements, is reflected in the financial section of this report under the caption "Body of Report".

The Company's reinsurance facilities were ascertained and noted, and have been commented upon in this report under the caption "Reinsurance". Accounting records and procedures were tested to the extent deemed necessary through the risk-focused examination process. The Company's method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included a review of workpapers prepared by Deloitte & Touche LLP, the Company's external auditors, during their audit of the Company's accounts for the years ended December 31, 2011 and 2012. Portions of the auditor's workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

DESCRIPTION OF COMPANY

HISTORY

The Company was originally incorporated in 1868 as a stock life insurance company under the name Pacific Mutual Life Insurance Company of California. In 1959, the Company restructured as a mutual company. Pacific Mutual Holding Company (PMHC) was formed in 1997 following a plan of conversion to a mutual holding company structure. Concurrently, the Company converted to a California domiciled stock life insurance company, issued all of its capital stock to an intermediate stock holding company named Pacific LifeCorp (PLC) and continued its corporate existence under the current name. PMHC is controlled by members who are PLIC policyholders.

Prior to October 2006, PMHC owned 98% of PLC. The remaining 2% ownership was held by an Employee Stock Ownership Plan (ESOP) within the Company's Retirement Incentive

Savings Plan. As a result of PLC's buyback of the outstanding allocated and unallocated shares from the ESOP in October 2006, PLC became a wholly owned subsidiary of PMHC.

In 1997, the Company acquired a block of corporate-owned life insurance policies from Confederation Life Insurance Company (Confederation Life), which consisted of approximately 38,000 policies with a face amount of \$8.6 billion, annual premiums of approximately \$200 million, and reserves of \$1.7 billion. In 1999, the Company acquired a payout annuity block of business from Confederation Life, which consisted of approximately 16,000 annuitants with reserves of \$2.0 billion.

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

On August 31, 2011, PLIC and Pacific Life Reinsurance (Barbados) Limited (PLRB), a newly formed insurer and wholly owned subsidiary of Pacific LifeCorp, acquired Manulife Financial Corporation's (Manulife) retrocession business. This acquisition added \$78.5 billion to life insurance in force in 2011.

MANAGEMENT AND CONTROL

Holding Company

The Company is a member of an insurance holding company system as defined by Nebraska Statute. An organizational listing flowing from the "Ultimate Controlling Person", as reported in the 2012 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations and are 100% owned):

Pacific Mutual Holding Company
 Pacific LifeCorp
 Pacific Alliance Excess Reinsurance Company
 Pacific Asset Funding LLC
 Pacific Life & Annuity Services, Inc.
 Pacific Life Insurance Company
 Aviation Capital Group Corp.
 Pacific Alliance Reinsurance Company of Vermont
 Pacific Global Advisors LLC
 Pacific Life & Annuity Company
 Pacific Select Distributors Inc.
 Pacific Services Canada Limited
 Pacific Annuity Reinsurance Company
 Pacific Life Re Holdings LLC
 Pacific Life Re Holdings Limited
 Pacific Life Re Services Limited
 Pacific Life Re Limited
 Pacific Life Reinsurance (Barbados) Limited

Shareholder

According to the Restated Articles of Incorporation, PLIC is authorized to issue six hundred thousand (600,000) shares of fifty dollars (\$50) par value common stock to PLC, all listed as outstanding as of December 31, 2012.

Cash dividends paid to PLC during the examination period were as follows:

<u>Year</u>	<u>Amount</u>
2012	\$ 70,000,000
2011	125,000,000
2010	150,000,000
2009	0
<u>Total</u>	<u>\$ 345,000,000</u>

As stated in the Company By-Laws, an annual shareholder meeting is held on or before June 30th each and every year. This meeting is held to elect the members of the Board of Directors to hold office until the next annual meeting.

Surplus Notes

The Company had two issuances of surplus notes in the years under review for the current examination period. The Company issued \$1.0 billion of surplus notes on June 15, 2009 (2009 Surplus Notes). These notes, held by bank custodians for unaffiliated investors, have a fixed interest rate of 9.25% and mature on June 15, 2039. As of December 31, 2012, the 2009 Surplus Notes had a carrying value of \$999.6 million, with interest paid on a cumulative basis of \$322.7 million, and \$92.5 million in 2012.

On March 30, 2010 the Company issued a singular, 6.00% fixed interest rate, 10-year, \$450.0 million surplus note to its parent PLC (2010 Surplus Note). As of December 31, 2012 the 2010 Surplus Note had a carrying value of \$450.0 million. Cumulative interest paid and interest paid in 2012 was \$63.0 million and \$27.0 million, respectively. Including the surplus notes issued on December 30, 1993, which have a carrying value of \$149.8 million, the statement value for all surplus notes at December 31, 2012 totaled \$1.6 billion.

Additional information regarding surplus notes is included in the “Subsequent Event” section of this report.

Board of Directors

The Company is managed by the Board. PLIC’s By-Laws (Article III, § 2) state the Board shall consist of not less than five (5) members and one shall be a resident of the State of Nebraska, pursuant to Nebraska Insurance Laws § 44-211.

The following persons were serving as Directors at December 31, 2012:

Name and Residence

Sharon A. Cheever
San Juan Capistrano, CA

Principal Occupation

Senior Vice President and General Counsel
Pacific Life Insurance Company

<u>Name and Residence (cont'd)</u>	<u>Principal Occupation (cont'd)</u>
Jane M. Guon Irvine, CA	Vice President and Secretary Pacific Life Insurance Company
Lawrence F. Harr Omaha, NE	Director/Partner Lamson, Dugan and Murray, LLC
James T. Morris San Juan Capistrano, CA	Chairman and Chief Executive Officer Pacific Life Insurance Company
Khanh T. Tran Irvine, CA	President Pacific Life Insurance Company

Officers

As stated in the By-Laws, the Officers of the Company shall consist of a Chairman of the Board, a Chief Executive Officer, President, Secretary, Treasurer, and such other Officers as may be appointed by the Board. The By-Laws also allow for a person to hold one or more offices, and perform the duties thereof. The following is a partial listing of Senior Officers elected and serving the Company at December 31, 2012:

<u>Name</u>	<u>Office</u>
James T. Morris	Chairman and Chief Executive Officer
Khanh T. Tran	President
Michael A. Bell	Executive Vice President
Dewey P. Bushaw	Executive Vice President
Mary Ann Brown	Executive Vice President
Adrian S. Griggs	Executive Vice President and Chief Financial Officer
Michael S. Robb	Executive Vice President
Edward R. Byrd	Senior Vice President and Chief Accounting Officer
Joseph E. Celentano	Senior Vice President and Chief Risk Officer
Sharon A. Cheever	Senior Vice President and General Counsel
Denis P. Kalscheur	Senior Vice President and Treasurer
Tod Nasser	Senior Vice President, Investment Management
Gary L. Falde	Vice President and Chief Actuary
Jane M. Guon	Vice President and Secretary

Committees

As of December 31, 2012 the following committees were appointed by the Board of Directors, as allowed for in the Company By-Laws. These committees have the authority of the Board, with respect to certain exceptions listed in the By-Laws.

The following persons were serving on the Audit Committee:

Mariann Byerwalter	Dwight Decker
Julia Guow	J. Fernando Niebla
Susan Westerberg Prager	Dean Yoost

The following persons were serving on the Investment, Finance and Financial Market Risk Committee:

Douglas Abbey	Julia Guow
J. Michael Shepherd	William Thompson
Dean Yoost	

The following persons were serving on the Governance and Nominating Committee:

Mariann Byerwalter	Christopher Furman
John Gottschalk	Thomas Sutton
Susan Westerberg Prager	

TRANSACTIONS WITH AFFILIATES

Administrative Services Agreements

1. Effective September 1, 1997, amended and restated April 6, 2011, PLIC provides administrative services to Pacific Mutual Holding Company (PMHC) and Pacific LifeCorp under an Administrative Services Agreement. Services provided for the year ended December 31, 2012 amounted to \$2,173,338.
2. Effective September 1, 1997, amended and restated April 6, 2011, PLIC provides administrative services for its subsidiaries and affiliates under an Administrative Services Agreement. For the year ended December 31, 2012, services provided amounted to \$53,534,813.

3. PLIC provides administrative services for Pacific Life & Annuity (PL&A) for certain individual life, individual annuity, and institutional product contracts under a Services Agreement, effective July 8, 1999. For the year ended December 31, 2012, services provided amounted to \$15,395,029.
4. Under an Administration and Shareholder Services Agreement, effective June 13, 2001 and amended April 6, 2011, PLIC provides administrative and support services for Pacific Life Fund. The net administration fees earned amounted to \$9,967,064, and the support services provided amounted to \$742,856 for the year ended December 31, 2012. Under a separate Expense Limitation Agreement, effective May 1, 2007, the amount for the net administration fees earned is net of \$95,039, waived by PLIC.
5. PLIC provides administrative and support services for Pacific Select Funds under an Administration and Support Services agreement, effective October 1, 1995 and amended April 6, 2011. For the year ended December 31, 2012, services provided amounted to \$2,346,886.
6. PLIC provides administrative services for Pacific Life Re Limited under a Support Services Agreement, effective January 1, 2009, and as amended December 16, 2009 and November 10, 2010. For the year ended December 31, 2012 services provided amounted to \$1,927,646.
7. Effective May 18, 2011, PLIC provides certain services and facilities relating to the business and operations of Pacific Global Advisors (PGA) under an Administrative Services Agreement. As of December 31, 2012, amounts paid were \$351,620.
8. Effective May 18, 2011, PLIC entered into a Secondment Agreement with PGA, as amended and restated whereby PGA has the ability to borrow and PLIC can second to

PGA certain employees for work to be performed by such employees on behalf of PGA. Amounts paid for these services for the year ended December 31, 2012 were \$185,063.

9. PLIC, Pacific Services Canada Limited (PSCL), and Pacific Life Re (Barbados) (PLRB) entered into a Support Services Agreement, whereby PSCL would provide support services to PLIC and PLRB. For year ended December 31, 2012, services provided to PLIC amounted to \$11,418,536.

Dividend Reinvestment Agreement

10. Effective September 1, 1997, through a Dividend Reinvestment Agreement, PMHC, upon delivering a written notice, has the right to reinvest all or a portion of dividends payable on shares of common stock held by PMHC, or to purchase other equity or debt securities of PLC.

Mortgage Loan – Services and Administration

11. Effective February 1, 1989 and amended and restated August 31, 2008, PLIC and PL&A entered into an agreement whereby PLIC transferred an undivided percentage interest in specified commercial and residential mortgage loans and real estate interests. PLIC services and administers each mortgage loan and collects, when due, all installments of principal and interest under each mortgage loan. For the year ended December 31, 2012, fees incurred were \$1,191,803.

Distribution Agreement

12. PLIC, PL&A and Pacific Select Distributors, Inc. (PSD) entered into a Distribution Agreement, effective April 28, 2000, amended October 17, 2003, and amended and restated August 22, 2011, whereby PLIC and PL&A on behalf of the segregated asset

accounts (referred to as Separate Accounts) of PLIC and PL&A retains PSD as the distributor and principal underwriter to provide for the contracts to be sold by Broker/Dealers. PLIC and PL&A also appoint PSD as its independent General Agent, as may be required by state law, for distribution of such other contracts. There are no fees incurred for this service.

Structured Settlement Agreement

13. Pacific Life & Annuity Services, Inc. (PLASI) and PLIC entered into a Structured Settlement Assignment Agreement, effective December 5, 2011, whereby PLIC intends to sell structured settlement annuities to PLASI. PLIC intends to make payments to annuitants on behalf of PLASI. For the year ended December 31, 2012, fees incurred for this service amounted to \$689,000.

Investment Management Services Agreement

14. PLIC and PL&A entered into an agreement, effective January 1, 1989 and amended January 1, 1990, whereby PLIC renders investment management services for PL&A for those assets which PL&A designates in writing. For the year ended December 31, 2012, fees incurred were \$64,997.

15. Effective May 19, 2011, PLIC and PGA entered into an Investment Management Agreement, as amended and restated whereby PGA provides investment management services to PLIC. For the year ended December 31, 2012, services provided amounted to \$2,811,343.

16. Effective December 1, 2012, PLIC and Pacific Annuity Reinsurance Company (PARC) entered into an Investment Management Agreement, whereby PLIC provides investment

management services to PARC. For the year ended December 31, 2012, no fees were incurred for this service.

Services Agreement

17. PLIC and PSD entered into an agreement, effective May 1, 2007, whereby PLIC provides service activities in connection with services rendered or procured to or for shareholders of the Pacific Select Fund or their variable contract owners to be paid for by PSD. For year ended December 31, 2012, no fees were incurred.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in all states, with the exception of the state of New York. PLIC conducts its insurance operations within three primary operating segments. The three segments are identified as the Life Insurance Division (Life), the Retirement Solutions Division (RSD) and Reinsurance. Each segment operates independently of the other, although certain common functional business needs (legal, finance, audit, human resources, etc.) are supplied by the Corporate and Other segment (Corporate). Corporate also manages investments and entity level hedging, and includes institutional investment products, primary funding agreements, and guaranteed interest contracts.

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

RSD's principal products include variable and fixed annuity products, mutual funds, structured settlement and group retirement annuities, which are offered through multiple distribution channels. Distribution channels include independent planners, financial institutions and national/regional wire-houses, and a nationwide network of structured settlement brokers. In January 2012, RSD began selling non-New York related structured settlements, which had previously been sold through PLIC's subsidiary, PL&A.

The Reinsurance segment consists primarily of the domestic retrocession business resulting from the Manulife transaction. Also included in the Reinsurance segment is international reinsurance, which PLIC has assumed from Pacific Life Re Limited, an affiliate of PLIC and a wholly owned subsidiary of PLC.

REINSURANCE

Assumed

With the 2011 acquisition of the Manulife retrocession business, the Company agreed to assume and reinsure 100% of the reinsured liabilities under a co-insurance basis adding a total of \$78.5 billion in life insurance in force. The business was written through John Hancock Life Insurance Company and John Hancock Life and Health Insurance Company. Concurrent to this transaction, PLIC signed a treaty with PLRB to retrocede reserves related to U.S. business from the acquisition. Non-U.S. business from Manulife was directly assumed by PLRB. An administrative services company, PSCL, was created to employ the staff transferring from Manulife.

Ceded

The Company maintains a modified coinsurance (mod-co) relationship with M-Life

Insurance Company (MLIC) that dates back to 1984. PLIC cedes approximately 50% of the business produced by MLIC agents to MLIC on a mod-co basis to enable MLIC to share in the profitability of the business that was produced by their agents. This agreement was amended January 1, 2012, and accounted for ceded premiums of \$251.0 million and modified co-insurance reserves of \$5.4 billion.

Upon acquiring the Manulife block of business on August 31, 2011, the Company retroceded the U.S. portion of the Manulife assumed business written on a YRT basis to its affiliate, PLRB. At December 31, 2012, reserves ceded to PLRB under this arrangement totaled \$529.8 million. As PLRB is domiciled outside the U.S. and is therefore an unauthorized reinsurer, the Company held collateral in a funds withheld account of \$68.0 million, a reinsurance trust account valued at \$31.3 million and a letter of credit of \$430.0 million to secure the total ceded reserves.

The Company entered into a 100% coinsurance agreement with accredited affiliate PAR VT to reinsure certain Flexible Duration No-Lapse Guarantee Riders (FDNLGR) issued on life insurance products written and issued. The transaction was structured to reinsure economic and excess reserves arising from secondary guarantees associated with the Company's FDNLGR life business. In 2012, the reinsurance placed with PAR VT accounted for ceded reserves of \$825.8 million in the Company's general account.

In late 2005, the Company experienced a significant growth in the sale of its variable annuity (VA) products. As a result, a portion of the new VA business was reinsured through a series of mod-co, quota share arrangements. The table below illustrates the percentages of VA business ceded:

<u>Year of VA Business</u>	<u>Percent Ceded</u>
2006	12%
2007	29%
2008	45%
2009*	15%

**The Company ceded VA business produced in the first quarter 2009.*

This reinsurance is placed with three reinsurers: RGA Reinsurance Company, Union Hamilton Reinsurance Ltd., and Swiss Re Life & Health America, Inc. In 2012, the Company ceded premiums totaling \$75.0 million and \$8.8 billion in modified coinsurance reserves in its Separate Accounts to these reinsurers.

Effective December 31, 2012, the Company entered into a mod-co arrangement with PARC, an Arizona domiciled affiliate to cede a 5% share of its net annuity business. This arrangement accounted for an additional cession of \$145.0 million in premiums and mod-co reserves of \$2.0 billion in Separate Accounts at year end.

General

All contracts reviewed contained standard insolvency, arbitration, errors and omissions, and termination clauses where applicable. All contracts contained the clauses necessary to assure reinsurance credits could be taken.

BODY OF REPORT

GROWTH

The following comparative data reflects the growth of the Company during the period covered by this examination:

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Bonds	\$ 24,752,972,410	\$ 25,312,358,615	\$ 24,127,203,214	\$ 25,711,426,926
Separate Accounts	51,226,558,785	54,151,710,397	49,901,961,786	53,467,594,204
Admitted assets	94,738,486,862	98,780,897,669	95,724,385,487	101,000,915,366
Aggregate reserves for life contracts	33,388,516,304	33,662,184,737	35,562,680,066	37,209,317,918
Liability for deposit-type contracts	5,365,627,747	4,772,081,901	3,392,275,923	2,440,683,110
Total liabilities	89,732,544,621	92,914,208,696	90,147,404,063	94,825,814,119
Capital and surplus	5,005,942,242	5,866,688,974	5,576,981,424	6,175,101,247
Premiums earned	8,579,268,858	5,238,664,637	5,911,231,860	7,606,724,948
Net investment income	674,413,472	1,681,209,967	1,798,787,095	1,575,520,482
Death benefits	474,494,608	321,433,949	506,906,084	412,912,923
Annuity benefits	662,041,955	409,655,990	430,768,825	463,553,454
Net income	651,829,307	741,368,875	(735,483,773)	961,792,253

FINANCIAL STATEMENTS

The following statements of admitted assets and liabilities surplus and other funds, together with the accompanying summary of operations, reflects the financial condition of the Company at December 31, 2012 and its transactions during the year 2012 as determined through this examination. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT
December 31, 2012

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 25,711,426,926	\$ -	\$ 25,711,426,926
Preferred stocks	35,957,511	-	35,957,511
Common stocks	2,003,248,330	85,144,213	1,918,104,117
Mortgage loans on real estate	7,241,693,659	-	7,241,693,659
Real estate property held by the company	167,756,425	-	167,756,425
Real estate property held for the production of income	53,618,727	-	53,618,727
Cash, cash equivalents, short term invest.	1,904,067,937	-	1,904,067,937
Contract loans	6,992,977,664	599,212	6,992,378,452
Derivatives (Schedule DB)	83,157,480	-	83,157,480
Other invested assets	1,485,496,890	746,786	1,484,750,104
Receivables for securities	8,226,548	-	8,226,548
Subtotals, cash and invested assets	\$ 45,687,628,097	\$ 86,490,211	\$ 45,601,137,886
Investment income due and accrued	360,503,736	-	360,503,736
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	6,186,382	-	6,186,382
Deferred prems. & agents' bals. & installments booked but deferred and not yet due	267,737,870	-	267,737,870
Amounts recoverable from reinsurers	44,685,861	-	44,685,861
Other amts. receivable under reinsurance contracts	(43,848,845)	-	(43,848,845)
Current federal and foreign income tax recoverable and interest thereon	456,324,116	-	456,324,116
Net deferred tax asset	1,029,067,000	329,561,000	699,506,000
Guaranty funds receivable or on deposit	6,469,187	-	6,469,187
Electronic data process. equip. & software	96,502,111	87,011,067	9,491,044
Furniture & equip. including health care assets	13,319,130	13,319,130	-
Receivables from parent, subsidiaries and affiliates	20,282,923	-	20,282,923
Health care and other amounts receivable	21,502,073	11,564,317	9,937,756
Write-ins for other than invested assets:			
Prepaid pension costs	2,660,183	2,660,183	-
Cash value of life insurance policies	82,605,031	-	82,605,031
Accounts and notes receivable	605,898	-	605,898
Other assets	11,696,317	-	11,696,317
Prepaid expenses	9,757,160	9,757,160	-
Leasehold improvements	386,320	386,320	-
Total write-ins for other than invest. assets	107,710,909	12,803,663	94,907,246
Total assets excluding Separate Accounts	\$ 48,074,070,551	\$ 540,749,389	\$ 47,533,321,162
From Separate Accounts	\$ 53,467,594,204	\$ -	\$ 53,467,594,204
Total assets	<u>\$ 101,541,664,755</u>	<u>\$ 540,749,389</u>	<u>\$ 101,000,915,366</u>

Liabilities, Surplus, and Other Funds

Aggregate reserves for life contracts	\$ 37,209,317,918
Aggregate reserves for accident and health contracts	23,312,562
Liability for deposit-type contracts	2,440,683,110
Life contract claims	436,753,665
Accident and health contract claims	3,982,091
Policyholders' dividends due and unpaid	235,386
Policyholders' dividends apportioned for payment	20,622,376
Policyholders' dividends not yet apportioned	1,794,824
Premiums and annuity considerations received in advance	1,203,321
Other amounts payable on reinsurance	23,329,047
Interest maintenance reserve	237,393,801
Commissions to agents due or accrued	25,739,856
Commissions and expense allowances payable on reinsurance assumed	5,961,338
General expenses due or accrued	149,618,193
Transfers to Separate Accounts due or accrued	(1,096,164,815)
Taxes, licenses and fees due or accrued	19,229,456
Unearned investment income	249,223,461
Amounts withheld or retained by company as agent or trustee	40,090,276
Remittances and items not allocated	35,527,615
Liability for benefits for employees and agents if not included above	146,647,567
Asset valuation reserve	725,866,262
Reinsurance in unauthorized companies	483,833
Funds held under reinsurance treaties with unauthorized reinsurers	128,318,027
Payable to parent, subsidiaries, and affiliates	1,569,982
Funds held under coinsurance	426,509,332
Derivatives	58,397,391
Payable for securities	16,945,419
Write-ins for liabilities:	
Unclaimed accounts and uncashed checks	14,247,638
Other liabilities	2,576,047
Disbursements payable	5,814,961
Contingency reserves	2,989,976
Total write-ins for liabilities	25,628,621
Total liabilities excluding Separate Accounts business	\$ 41,358,219,915
From Separate Accounts	53,467,594,204
Total liabilities	\$ 94,825,814,119
Common capital stock	\$ 30,000,000
Other surplus adjustments – derivatives	398,154,041
Surplus notes	1,599,425,789
Gross paid in and contributed surplus	1,185,438,610
Unassigned funds (surplus)	2,962,082,808
Surplus	\$ 6,145,101,247
Capital and surplus	\$ 6,175,101,247
Total liabilities, capital and surplus	\$ 101,000,915,366

SUMMARY OF OPERATIONS – 2012

Premiums and annuity considerations for life and accident and health contracts	\$ 7,606,724,948
Considerations for supplementary contracts with life contingencies	321,097
Net investment income	1,575,520,482
Amortization of interest maintenance reserve	29,783,794
Commissions and expense allowances on reinsurance ceded	225,896,955
Reserve adjustments on reinsurance ceded	(1,189,351,132)
Income from fees associate with investment management, administration and contract guarantees from Separate Accounts	1,225,105,825
Charges and fees for deposit-type contracts	10,824,696
Write-ins for miscellaneous income:	
Fee income	64,676,129
Miscellaneous income	35,811,639
Administrative expenses reimbursed	67
Total write-ins for miscellaneous income	<u>100,487,835</u>
 Total	 <u>\$ 9,585,314,499</u>
 Death benefits	 \$ 412,912,923
Matured endowments	1,068,575
Annuity benefits	463,553,454
Disability benefits under accident and health contracts	4,420,771
Surrender benefits and withdrawals for life contracts	6,149,731,784
Interest and adjustments on contract or deposit-type contract funds	141,567,088
Payments on supplementary contracts with life contingencies	437,764
Increase in aggregate reserves for life and accident and health contracts	<u>1,647,897,284</u>
 Total	 <u>\$ 8,821,589,643</u>
 Commissions on premiums, annuity considerations, and deposit-type contract funds	 \$ 751,367,079
Commissions and expense allowances on reinsurance assumed	14,254,977
General insurance expenses	555,760,129
Insurance taxes, licenses and fees, excluding federal income taxes	76,679,756
Increase in loading on deferred and uncollected premiums	(158,603)
Net transfers to or (from) Separate Accounts net of reinsurance	(1,432,299,154)
Write-ins for deductions:	
Net periodic benefit cost	4,820,301
Miscellaneous disbursements	(1,191,678)
Fines and penalties of regulatory authorities	30,349
Contingency expense	1,123,633
Aggregate write-ins for deductions	<u>4,782,605</u>
 Total	 <u>\$ 8,791,976,430</u>
 Net gain from operations before dividends to policyholders and federal income taxes	 \$ 793,338,069
Dividends to policyholders	18,704,102
Federal and foreign income taxes incurred	<u>212,611</u>
 Net gain from operations after dividends to policyholders and federal income taxes	 774,421,356
Net realized capital gains	187,370,896
Net income	<u><u>\$ 961,792,253</u></u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Capital and surplus, beginning	\$ 3,135,787,268	\$ 5,005,942,242	\$ 5,866,688,974	\$ 5,576,981,424
Net income	651,829,307	\$ 741,368,875	\$ (735,483,773)	\$ 961,792,253
Change in net unrealized capital gains (losses)	(1,111,702,007)	(47,838,697)	600,600,648	(105,095,245)
Change in net unrealized foreign exchange capital gain (loss)	2,210,534	(7,155,826)	(5,233,380)	4,065,397
Change in net deferred income tax	295,338,692	(10,872,597)	215,335,000	(125,619,000)
Change in nonadmitted assets	(390,215,525)	71,667,230	(124,961,432)	87,721,176
Change in liability for reinsurance in unauthorized and certified companies	-	-	-	(483,833)
Change in reserve on account of change in valuation basis (increase) or decrease	-	-	(177,597,819)	-
Change in asset valuation reserve	288,477,161	(136,182,409)	(417,514,076)	(65,076,188)
Change in surplus notes	999,528,489	450,016,000	29,700	29,700
Cumulative effect of changes in accounting principles	(63,388,813)	-	-	-
Surplus adjustment: paid in	789,233,348	-	-	-
Change in surplus as a result of reinsurance	74,427,053	(12,212,392)	(14,806,928)	(14,374,098)
Dividends to stockholders	-	(150,000,000)	(125,000,000)	(133,406,168)
Write-ins for gains and losses in surplus:				
Amortization of contribution certificates	13,700	13,700	-	-
Adjustments to retirement plans	(3,715,965)	(4,671,520)	815,125	(2,964,737)
Change in SSAP 10R admitted deferred tax asset	338,119,000	(36,991,000)	67,356,000	-
Correction of prior year errors	-	3,605,368	20,129,912	-
Other surplus adjustments – derivatives	-	-	406,623,474	(8,469,433)
Aggregate write-ins for gains and losses in surplus	<u>334,416,735</u>	<u>(38,043,452)</u>	<u>494,924,511</u>	<u>(11,434,170)</u>
Net change in capital and surplus for the year	<u>\$ 1,870,154,974</u>	<u>\$ 860,746,732</u>	<u>\$ (289,707,549)</u>	<u>\$ 598,119,823</u>
Capital and surplus, ending	<u>\$ 5,005,942,242</u>	<u>\$ 5,866,688,974</u>	<u>\$ 5,576,981,424</u>	<u>\$ 6,175,101,247</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$2,962,082,808, as reported in the Company's 2012 Annual Statement, has been accepted for examination purposes. Examination findings, in the aggregate, were considered to have no material effect on the Company's financial condition.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

There were no recommendations in the previous examination.

SUBSEQUENT EVENTS

Surplus Note Issued

In January 2013, PLIC repurchased and retired \$323.0 million of the 2009 Surplus Note through a tender offer. The principal, premium and accrued interest paid in connection with the repurchase of the 2009 Surplus Note amounted to \$480.0 million. Also, in January 2013 PLIC issued a \$500.0 million internal surplus note to PLC. The internal surplus note bears a 5.125% fixed rate of interest with semi-annual payments due. This note matures on January 25, 2043.

Pacific Baleine Reinsurance Company

Incorporated in August 2013 and domiciled in Vermont, Pacific Baleine Reinsurance Company (PBRC) is a new captive reinsurance company established by the Company to provide reinsurance on the secondary guarantee rider for new and in-force Universal Life and Indexed Universal Life (AXXX) business (not currently reinsured with PAR VT) and for certain term level life insurance. PBRC has been approved by the Nebraska Department of Insurance as an accredited authorized reinsurer. Reserves in excess of the economic reserves will be funded at PBRC by a new 20 year note facility backstopped by Canada Life Assurance Company with a

maximum commitment amount of \$400.0 million. The facility has no recourse to, or guarantee by, the Company.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

There are no comments or recommendations that have been made as a result of this examination.

ACKNOWLEDGEMENT

The courteous cooperation extended by the Officers and employees of the Company during this examination is hereby acknowledged.

In addition to the undersigned, Randolph Lamberjack, CFE, CPA, Robert Panah, CFE, CPA, CISA, Marc Moyer, CFE, Terrance Corbett and Monica Edwards, Financial Examiners; Floyd Meeks, CFE, CPA, CISA, AES, Information Systems Specialist; Jim Ryan, CFE, CPA, ARA, Reinsurance Specialist, all with Noble Consulting Services, Inc. and contracted by the Nebraska Department of Insurance; James Merwald, Jr. FSA, MAAA and David Ramsey, FSA, MAAA with Actuarial Resources Corporation; and Joseph Prakash, CFA, Investment Specialist, of JP Consulting in coordination with Noble Consulting Services; Jerry Kennedy, CFE, CPA of Kennedy Consulting; Alice Fontaine, FSA, FCIA, MAAA, FCA of Fontaine Consulting, LLC; Cathie Stewart, CFE, CPA, MS, CGMA, and LeeAnne Creevy, CPA, CISA, CITP, MCM, CRMA, Financial Examiners; Adam Sarote, CISA, CGEIT, CRISC, AES, Information Systems Specialist; and Todd Sauer, Investment Specialist, all with Risk and Regulatory Consulting, LLC and contracted by the Arizona Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



Lisa Warrum, CFE, CPA
Examiner-in-Charge
Noble Consulting Services, Inc.
Representing the Department of Insurance
State of Nebraska

State of Nebraska,

County of Lancaster,

Lisa A. Warrum, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Pacific Life Insurance Company. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Pacific Life Insurance Company was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

The affiant says nothing further.

Lisa A. Warrum

Examiner-in-Charge's Signature

Subscribed and sworn before me by Sara Dougherty on this 28 day of May, 2014.

(SEAL)

[Signature]
Notary Public

My commission expires [date].

